Sustaining Ownership: The Promise of Employee Ownership Trusts — Transcript

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Description

Employee ownership can take many forms: employee stock ownership plans, worker cooperatives, broad-based equity sharing plans, and more. A less common approach in the US, but one that is gaining attention, is employee ownership trusts (EOTs). While research has demonstrated the benefits of employee ownership for business performance, business resilience, and job quality, the growth in the number of employee-owners has plateaued. The leveling off is not because fewer businesses are choosing employee ownership as a succession plan, but rather due to valuable employee-owned companies being sold. EOTs, a type of perpetual purpose trust, have the potential to sustain employee ownership over time, often while serving other purposes.

EOTs can provide profit-sharing, support democratic workplace practices, and, like other forms of employee ownership, are associated with improved productivity. While uncommon in the US, EOTs are the primary form of employee ownership in the UK. The model's successes have been such that the government of Canada recently took steps to facilitate EOT transitions, and there are indications that the approach is gaining ground in the US, as well.

In this conversation — the third and final conversation in our series, "Employee Ownership's Moment: Discussions on Advancing Policy and Practice" — our expert discusses the current state of research into trusts, the benefits EOTs provide, how EOTs compare to other forms of employee ownership, the experiences of business owners and workers in trusts, and what the future holds for this model in the US.

For more information about this event — including video, audio, transcript, speaker bios, and additional resources — visit our website:
https://www.aspeninstitute.org/events/sustaining-ownership-the-promise-of-employee-ownership-trusts/

Speakers

Leah Hamilton

Leah Hamilton wholeheartedly believes in community building, collaboration, and courageously breaking down barriers to success. Formerly a public library director working to bridge the technical skills gap by partnering industry, educators, and community organizations in innovative ways, Leah joined Optimax Systems, a precision optics manufacturer in Ontario, New York, in 2019.

As the manager of culture and organizational effectiveness, Leah is passionate about assessing and incorporating employee experience, practices, and behaviors into cultural and organizational development initiatives. She strives to build employee engagement through community-minded practices and create transformational leadership and learning strategies that support individual, team, and organizational success.

Chris Michael

Chris Michael is a financial advisor, economist, author, founder of EOT Advisors, and professor at Rutgers University. He founded the first financial services firm in the country dedicated to assisting business owners sell their company to an Employee Ownership Trust (EOT). Chris is responsible for developing the EOT as a new financial and legal mechanism in the United States and has published articles introducing the concept in leading peer-reviewed journals, including Tax Notes and Probate & Property.

He is also a professor at Rutgers University, where he is a director of the Institute for the Study of Employee Ownership and Profit Sharing. Chris holds a BA from Columbia University and a JD/PhD from the City University of New York. His doctoral dissertation, the result of a decade researching the economics and history of employee ownership, is forthcoming as a book.

Melinda Paras

Melinda Paras was the founder and owner of Paras and Associates (PAA), a California based corporation, leading the implementation of new language access solutions using video call center technologies. Paras sold the company to its employees in an Employee Owned Trust in 2021. The Paras and Associates team manages the Health Care Interpreter Network (HCIN), a cooperative of more than 50 hospitals and clinics sharing interpreter services. Ms. Paras is a former President of the Alameda County Medical Center Board of Trustees and a former San Francisco Health Commissioner.

Rick Plympton

Rick Plympton is the CEO of Optimax, a precision optics manufacturer in Ontario, NY. He has provided leadership and vision since 1995 to help grow Optimax from a small start-up to America's largest precision optics manufacturer. He is actively involved in supporting regional workforce development and the optics industry.

He also serves as Trustee (Optimax Perpetual Purpose Trust), Director (Canandaigua National Bank), Director, (Optica Foundation), Treasurer, (OEOSC), Director, (AmeriCOM), Executive Committee, (Business Leaders United), Member, (New York State Workforce Investment Board). Other recent honors and participation include: 2018 Aspen Institute Fellowship for Job Quality; 2018 inducted into the Rochester Business Hall of Fame. Rick holds degrees in business administration, computer science, and engineering science from Finger Lakes Community College. He furthered his education at the University of Rochester with a Bachelor of Science.

Kristin Toussaint (Moderator)

Kristin Toussaint is a staff editor for the Impact section at Fast Company, where she covers climate change, labor, shareholder capitalism, and all sorts of innovations meant to improve the world.

Transcript

Maureen Conway (00:00:03)

Good afternoon and welcome. I'm Maureen Conway, a vice president at the Aspen Institute and executive director of the Institute's Economic Opportunities Program. It's my pleasure to welcome you to today's panel discussion, Sustaining Ownership: The Promise of Employee Ownership Trusts. This is part of the Economic Opportunities Program, ongoing Opportunity in America, discussion series in which we discuss the events of the changing economy, how things are playing out for workers, businesses, families, and communities, and ideas for change.

Over the last year, we've held a number of events and conversations on employee ownership and the promise it holds for improving jobs and wealth building opportunities for workers. This last June, we co-hosted the Employee Ownership Ideas Forum with our colleagues at the Rutgers Institute for the Study of Employee Ownership and Profit Sharing. It was a tremendous success thanks to those of you who joined us for that. We had a day at the Capitol. We had a day here in our DC offices, and we had senators, congresspeople, folks from government agencies, investors, business leaders, academics, practitioners, and a wide range of perspectives that were brought together. I'm very pleased to say that we will be hosting this again in 2024. The dates are April 9th and 10th, so mark your calendars and stay tuned for updates on that.

Our conversation today is about employee ownership trusts. As I mentioned, it's the third in our miniseries on this. We've talked again with practitioners, companies, researchers, and other experts. It's employee ownership month, but it's also just otherwise a really exciting time to be talking about employee ownership. We now have a solid body of evidence, I would say, that really shows the benefits of employee ownership, both for good, sound business operations and for high quality jobs. I think there's a really strong evidence base, and now people are really thinking about, well, what do we do to sort of spread employee ownership more and think about what are innovations? What are ways we can do more with this approach to building an economy that really does work for everybody?

We're very excited about this, but as with so many things, there is a kind of devil in the details and there's a lot of complexity. We have a great set of folks today who are going to dive into that complexity in a very conversational and engaging way.

First, I just have a couple of things to say about our technology. All the attendees are muted. We very much welcome your questions. Please use the Q&A button at the bottom of your screen to submit and upvote questions. We also encourage you to share your perspective. We know a lot of you, in the audience, also have a lot of expertise on this topic, so please share your comments and resources in the chat. We always appreciate getting your perspective on the discussion and your perspective on the issues. We also appreciate your feedback. There'll be a feedback survey at the end. Please just take a moment, before you leave, to respond to our feedback survey. It helps us just continue to improve these events. We encourage you to tweet about this event. Our hashtag is #TalkOpportunity. If you have any technical issues, you can put a note in the chat or you can email us at eop.program@aspeninstitute.org. The event is being recorded and will be shared via email and posted on our website. Close captions are available. Please click the CC button at the bottom of your screen to activate them.

A quick note, just to say that, unfortunately, Mark Hand from the University of Texas, Arlington was unable to join us today. We'll be sharing some of his work in the chat, but also, he has a great weekly newsletter on employee ownership and workplace democracy at EOWD@substack.com, if you're interested in that. Okay.

Now it is my great pleasure to introduce our panel for today's discussion. Joining us today, we have Rick Plympton, CEO of Optimax Systems and also an alumnus of our job quality fellowship. Thanks for joining us, Rick. Leah Hamilton, manager of Culture and Organizational Effectiveness at Optimax Systems. Thanks for joining us. Chris Michael, founder and managing director, EOT Advisors. Well labeled there. Thanks, Chris. Melinda Paras, founder and former owner Paras and Associates. Finally, we're very grateful to have Kristin Toussaint here today to moderate today's discussion. Kristin is the staff editor of the Impact Section at Fast Company where she covers; climate change, labor, shareholder capitalism, and all sorts of innovations meant to improve the world, which sounds like a lot of fun. Kristin, let me turn it over to you.

Kristin Toussaint (00:05:03)

Thank you so much for having me. I'm so excited to be here and to hear from our panelists about employee ownership trusts. Like you said, Maureen, it's such an interesting time to talk about employee ownership, in general. There's this impending silver tsunami, this growing population of aging Americans that are approaching retirement. These Americans own 2.9 million businesses, which employ more than 32 million people. That's something sort of happening in the background. Then in the foreground, we have all the issues of rising inequality, stagnating wages, workforce participation that's still slightly lower than it was pre-pandemic, and this perpetual quest for good jobs - people want good jobs with dignity, safety, and a living wage.

Employee ownership can be a really unique way to address all of these things. But one of the biggest challenges, I hear, when reporting on this solution about what holds employee ownership back is just the knowledge gap or the misconceptions about [00:06:00] what employee ownership actually is and the different forms it can take. I'm really excited to dig into one of those specific forms, employee ownership trusts, today.

To start off, Chris, I'm going to start with you. You're an expert on employee ownership trusts. Can you just sort of quickly explain what these trusts are and tell us a little bit about how you got into this space and what your work at EOT Advisors entails?

Chris Michael (00:06:27)

Thank you so much, Kristin. Thank you, Maureen. I'm so glad to be here with Leah and Rick and Melinda. Rick and Melinda, I know pretty well. That's fair to say. I think maybe a starting point here is to note that there are already three to 4,000 majority employee owned businesses in the United States with possibly up to 1% of the private sector workforce working at these majority employee owned businesses. The main way that these businesses have become employee owned, over the last 50 years, has been through an ESOP, which is, somewhat confusingly, for the purposes of today's talk, an employee trust. It's an employee stock ownership trust. What we're talking about today I think is a relatively simpler, easier to understand, possibly more sustainable, lower cost alternative to employee ownership that I think is much more accessible for the vast majority of small business owners across the United States.

Our entry point into this field, I've been working in the employee ownership space for about 15 years now. It was like yesterday that I said it was 10 years, but it's now about 15 years. My concerns early on were, one, was to sort of identify and approach employee ownership that would be more sustainable or perpetual. The other was to make this transaction easier for business owners. Business owners are the deciders. They're the ones who get to say whether or not a business becomes employee owned or not. Let's roll out the red carpet and make this as simple, cozy, comfortable as possible for business owners.

Somewhere, about a decade ago, I was just doing research and trying to figure this all out and did what I thought was carving a new approach to employee ownership, and I published an article on tax notes on this. Within the next couple of months, I realized that this new approach that I thought that I had invented has actually been the main form of employee ownership in the United Kingdom for a hundred years. As I started to work with companies to use this employee ownership trust, or EOT structure, I also learned that actually we had this approach in the United States a hundred years ago as well. Really my firm's work has been to kind of reintroduce, if anything, the employee ownership trust into the United States

Kristin Toussaint (00:08:57)

You mentioned ESOPs as well, but are there any sort of top three differentiating points, or what really differentiates employee ownership trust?

Chris Michael (00:09:04)

I think the two or three differentiating points, one, is that the ESOP is a federally regulated retirement plan. It's employee ownership, but it functions as, it is, a retirement program. There's a lot of federal regulation that comes with that. The way that ESOP works is this company's sliced up and shares go into employee accounts, and those shares are repurchased when an employee exits. With an employee ownership trust, the default structure, and I would emphasize that word default, is that the shares are held as a group for the benefit of all of the employees. You can make it more complicated than that. You can create employee equity accounts if you want to, but the default simple, easy to understand, easy to administer approach is simply to put those shares into a bucket and use them for the benefit of all the employees.

Kristin Toussaint (00:10:00)

Great. Melinda, I'm going to go over to you. You are one of those business owners who transitioned to an employee ownership trust. Tell us a little bit about yourself and your company and why you went down that path.

Melinda Paras (00:10:13)

Well, my company and I designed the first video conferencing medical interpretation system. I know today Zoom looks like a really easy process, but 15, 20 years ago, having a video conference meeting was very complicated and very difficult, and we created a system by which doctors and nurses in hospitals could press a button on their screen and reach a qualified medical interpreter. That's what our company did. I have to say, myself and my team really came at it, not from the point of view of let's create a company and figure out how to make money, we were actually trying to solve a social problem, which is that patients going into hospitals, who didn't speak English, were unable to communicate with their providers, and that's actually quite dangerous in terms of medical outcomes. That's how we went into the business. I am part of that, what did you call it, the silver ...

Kristin Toussaint (00:11:23)

Tsunami. Yes.

Melinda Paras (00:11:23)

Tsunami. Somebody who wanted to retire and myself and some of the others who helped create the company reached retirement age and wanted to figure out how to leave. We looked at the idea of selling ... What people do is sell the company, usually to a competitor. That seemed like a terrible idea to us because we thought it would cut up the company, lay off all the employees and just want our accounts. We heard about ESOPs, and that was, at the beginning, what I understood to be the only way to sell your company to your employees. That seemed like a very good, kind of moral and ethical road to take. I went down the ESOP road and tried to figure out if our company could do that, but first we were too small.

Secondly, the idea of creating a retirement fund - we're like a 10 employee company. We didn't want to create a whole retirement plan. It's a very complex and expensive process, elaborate, and we were a small, streamlined company, and that just wasn't of interest. When we heard about EOTs, we were really excited about the opportunity it gave us to sell the company fairly quickly. The employees were very happy that they didn't have to put any money in and suddenly became owners of the company. Our senior team and I were able to work out a retirement plan where the notes for the sale of the company would be paid to us over 10 years, which was a doable thing for the company. It was a big win-win. Honestly, I know that there's an ESOP industry now, many advisors and companies that help people with ESOPs, because they're so complicated. If people saw the option of an EOT head-to-head with an ESOP, I don't know why people would pick an ESOP, honestly.

Kristin Toussaint (00:13:33)

Interesting. Well, Rick, I'm going to pose that same general question to you. I know Optimax Systems is a bigger company. Tell us a little bit about that and also why you picked this same format.

Rick Plympton (00:13:43)

Yeah. Thanks, Kristin. I want to thank Aspen Institute for shining light on EOTs. I spent five years looking for a solution for our succession planning. Finally, toward the end of it I had the privilege of meeting Chris Michael and learning about EOTs through him. Optimax is a manufacturer of precision optics. To give you an idea, we make lenses for NASA. We have lenses on each of the Mars Rovers, New Horizons going out to Pluto. That's the type of thing that we do, very high precision optics for research and industry. Optimax currently has just under 500 employees. We converted to an EOT in 2020. We're still fairly new in this journey, just a few years in. The primary objectives that my business partner and I had when we were looking at succession planning, we wanted to make sure that the company would never be sold, that the company would always share at least 25% of the profits with the employees, and that we set a stage for decades of prosperity and growth, so that we could continue to create jobs here in our community. In a nutshell, that's where we're at and why we chose this as our journey forward.

Kristin Toussaint (00:15:08)

I can't wait to hear more specifics. Leah, I'm going to go over to you. You're at Optimax as well. Tell me about your role there, and did switching to an EOT sort of change that role at all for you or change your relationship with the company?

Leah Hamilton (00:15:20)

When I first crossed paths with Optimax, I was a public library director, fostering strategic and sustainable community partnerships with community organizations and the needs of the community. I joined Optimax in 2019 as the workforce development coordinator, building those internal and external relationships. I've since transitioned to the culture and organizational effectiveness where I lead those culture initiatives, leadership development, and work directly with the team leaders and the team members to co-create solutions to foster that sense of belonging.

When I joined in 2019, the first meeting that I attended was the announcement of the employee ownership trust, so I don't have a personal experience of what it was like beforehand, but because of the planning that went into this there wasn't any shock and awe effect of the implementation. It was well planned. There were no new policies, there were [00:16:30] no significant changes. No one was hired because of it. So because of that transition, it was just the new normal.

Kristin Toussaint (00:16:40)

That's so interesting. Had you ever been involved in a company with employee ownership before?

Leah Hamilton (00:16:44)

I have not, no.

Kristin Toussaint (00:16:46)

What a sort of good first introduction to it, I'm sure.

Leah Hamilton (00:16:50)

Definitely.

Kristin Toussaint (00:16:51)

It's so interesting to me that we have these two different companies, different in size, different in purpose and scope, that both followed the same path. Chris, I'm going to go back to you for sort of a zoom out about what are the benefits of an employee ownership trust and are there sort of specific companies that really fit for this or can it really be generally applied to any company?

Chris Michael (00:17:16)

Well, great question. I mean employee ownership, whatever type of structure you use, boils down to three things; sharing the financial rewards with the team, that you have a governance of the company that's directed to the best interests of the employees, and then you've got a great culture, a great place to work, a place where employees are treated with dignity and respect. You get all of those things with an employee ownership trust.

One of the main differences here, when thinking about this as opposed to an ESOP, in terms of the employee benefits side, is that instead of getting lump sum payout at retirement, which you then roll over tax-free into your 401(k) and get paid out over the next hopefully decades, you're getting paid profit sharing in the current year. Again, that's the default approach to an EOT. There are other ways to do it, but the other aspects of employee ownership remain the same. Governance of the company directs the best interests of the employees, the employee owners, and you hopefully create a great culture, a great place to work.

In terms of the companies, again, I think at the end of the day, I think the typical median, this might surprise some people to hear, but the typical median EOT company, I think over time is going to look a lot like the typical, median ESOP company. We hear about the large ESOP transactions, but the median ESOP transaction is, I believe, a 50 to a hundred employee firm. My typical client is about 50 to a hundred employees, 10 to $20 million in enterprise value. There's a good reason for that, which is if that's what the typical small business, that's large enough to turn them into employee ownership, looks like in this country. That's the largest volume in that company size. I think that hits most of your questions.

Kristin Toussaint (00:19:28)

Yeah. We'll hear more from Melinda and Rick about this too, but of the companies you've worked with, Chris, is there sort of a story that sticks out about a company where that just made so much sense and really brought specific benefits?

Chris Michael (00:19:41)

I'm only going to point to Melinda and Rick for this.

Kristin Toussaint (00:19:46)

Yeah. Well, Rick, Chris just brought up the profit-sharing aspect of EOTs and you brought that up as well. Tell me why that was so important for you and for your company to start.

Rick Plympton (00:19:57)

Yeah. So in our region we're near Rochester, New York, the home of Kodak and Xerox. We have a lot of families in our region where the family retirement was in company stock and a lot of ESOPs work out great, but sometimes having all your eggs in that one basket can be a little risky. At Optimax, when we ask our employees, do you want stock, do you want shares of the company or would you prefer cash, share profit, our employees have always chosen to share the cash with us. We've been doing that for years. We share 25% of our profit every month. We run the company open book, so our employees know what our revenues are, they know our expenses and how much money we make. It's kind of funny, when you look at small businesses, a lot of times the employees think that the owners are making out like bandits, but oftentimes the owners are just trying to keep it going, stay in the game.

Yeah. In addition to the profit sharing that we do, we have a 401(k) program where we've set it up so that anyone that's with us for their career, for 30 to 40 years, they have a path to be a millionaire. That's just with Optimax. Mike and I, my business partner and I, started our careers on the production floor, we grew up blue collar, and so we wanted to create a world where every one of our employees has a path to a comfortable retirement.

Kristin Toussaint (00:21:30)

Melinda, I saw you nodding a lot through what Rick was saying about hearing from employees and things like that. Tell me about how that resonates even with a company that is smaller, like yours.

Melinda Paras (00:21:44)

Well, I think what you'll find with businesses that are considering employee ownership is that there's a strong kind of ethical and moral element to who these companies are, that just making profits for the owners, not the driving force and who the company is. Consequently, looking at employee ownership is a very important piece to that. I do want to say that the National Center for Employee Ownership is how we found out about EOTs. I really want to encourage any business owner who's thinking about employee ownership to go to their conferences, to see all of the different types of employee ownership that are there and be part of a community, because there really is now a community of employee ownership companies.

This issue about whether or not you get compensated at the time you're leaving the company or you get compensated every year, based on what the profits of the company are, I think is a big consideration for employees. Similarly, our employees wanted to be compensated every year. I've spoken with HR managers at the NCEO conferences who have said to me, "I feel really bad that the people we're paying out are the people leaving. I wish that we could be giving those benefits to people who stay, that staying should be the biggest incentive." How you build a company is that you have employee loyalty.

We also created a 501, I'm sorry, 401(k), a retirement plan and did the highest employer or match we could. We built that from the beginning of the company. We gave the most expensive health insurance we could to our employees just because those were our ethics. It really is different now that the employees own the company. In our company, they meet at the end of the fiscal year and say, what portion of the profits will go to be distributed to the employees and what portion will be reinvested in the company? I think that's a great way to build employee loyalty and keep the company operating for years to come.

Kristin Toussaint (00:24:07)

Yeah. Especially when so many companies are thinking about retention and thinking about how to keep their employees engaged. A far off benefit, it can be a little less tangible to some people. Leah, I mean, you're one of these employees. Tell me about what it's like to work at a company that thinks like this and that includes their employees about that and what those changes say about your long-term view of the company and your role in it.

Leah Hamilton (00:24:31)

Well, the profit sharing happens on a monthly basis, so you can see everyone rallying together to make sure that by the end of the month that we are working together to have the biggest profit sharing that we can. Knowing that the company won't be sold, it creates this sense of psychological safety and the opportunity to continuously improve ourselves, our teams, and our overall organization. We're working together toward that success and rewarded each month, also knowing we're part of something that's bigger for ourselves and for the world.

Kristin Toussaint (00:25:11)

I think that touches a lot on that long-term outlook that Rick you brought up as well. I guess tell me a little bit about just how that differs from other companies that only have these short-term goals or how you balance the short-term goals with that long-term view, especially in an employee ownership trust structure.

Rick Plympton (00:25:30)

Is that to me?

Kristin Toussaint (00:25:34)

Yes. Sorry.

Rick Plympton (00:25:36)

All right. I want to build a little bit on what Leah said. We've talked about our profit sharing and I just want to point out that, here at Optimax, we share 25% of the profit, but we do it equally across the company. The janitor gets the same monthly bonus check that the president gets. We did it intentionally that way where everybody gets the same amount so that it reinforces team performance, working together as a team, lifting each other up, helping each other grow and become a stronger team and stay focused on creating value for our customers.

One of the other things that's really unique about forming an EOT, with Optimax, we created a perpetual purpose trust where the wishes of the owners, or the founders, could be specified in that perpetual purpose document. Once we did that and we put a block of equity into the trust so that going forward, Optimax operates as a for-profit C corporation, wholly owned by the trust. It was interesting that many of our key accounts, many of our largest customers, kind of breathed a sigh of relief when we shared with them what we were doing with the ownership of the company, because at over 400 employees they were kind of waiting for Optimax to be acquired by a bigger organization or conglomerate and that could compromise their supply chain. For many of our customers, the lenses and the optics that we make are critical items for their success. As they learned about our succession plan and that we would be owned by a trust and we would never be acquired by anybody, many of our key accounts have doubled down with us and reinvested more in their relationship with us, which is a beautiful thing.

Kristin Toussaint (00:27:30)

That's so interesting that the long-term guarantee helps, even in the short term, it seems like.

Rick Plympton (00:27:36)

Yeah.

Kristin Toussaint (00:27:37)

Yeah. Now I think it might be worth breaking down those perpetual purpose trusts. Chris, do you just want to touch on, I guess, how that fits in with an EOT or how the two coexist?

Chris Michael (00:27:50)

Thanks for the tee up on that question, Kristin. There is a little bit of talk about perpetual purpose trusts as well, and there was a Patagonia transaction recently. Really, aside from reintroducing the employee ownership trust into the United States, I think our only minor contribution here was to identify that we have this thing that's quite unique in US trust law, called a non-charitable purpose trust with or without ascertainable beneficiaries. This is something I recognized in 2015. The credit really goes to Alexander Bove, who's an attorney who was promoting this stuff back in the early 2000s and has a great article about it in Probate & Property. When he was promoting the concept, originally, back in the early 2000s, there wasn't any talk about using a purpose trust for social purposes. I think our minor contribution here has been to identify that the purpose trust is a great vehicle for preserving businesses and dedicating their operations and the financial proceeds to social purposes. One of those social purposes might be benefiting the employees who work at the company. Whether you call it a perpetual purpose trust or an employee ownership trust doesn't really matter so much. An employee ownership trust, I would say, speaking quite generally at a high level is really a purpose trust that is dedicated to the best interest of the employees. That's to kind of avoid any confusion around that point. Hopefully that helps to clarify.

Kristin Toussaint (00:29:24)

Yeah. I want to get a little bit into how these EOTs specifically are [00:29:30] structured. I don't know if Rick or Melinda, you want to start just telling us how you specifically structured your EOT and what that looks like for the executives, the managers and things like that.

Melinda Paras (00:29:44)

Well, when we started this process, there weren't actually very radical changes in the way the company was organized. We had a management team, we had CEO and COO positions. There wasn't really a need to make a big change. Now, I know a worker's cooperative is an alternate mechanism for an employee owned situation, but I am kind of a believer in the role and importance of a management team, that helps to guide the company day to day. Now, in a smaller company, you don't need as big or as complicated a management team, but certainly if you've got a company the size of Optimax, you need to have a group of people who are leading the company in terms of its day-to-day operations. So really the employee-owned trust didn't make any changes in that.

Now, our new leadership, since I am no longer the owner, decided since we're such a small company to put all of the employees on the board of directors, which was not true initially, but now it's such a small group, and so the vote, at the end of the fiscal year, about what portion of the profit is divided among the employees is done by that board of directors. Honestly, it hasn't made that much of a change in the operations of the company except, as Leah mentioned, when it's time to know what the size of the profit is and how it'll be divided, there's a lot of interest among all the employees and paying close attention at that moment. Honestly, it doesn't really change your operations. It doesn't have to.

Kristin Toussaint (00:31:49)

Yeah. Rick, do you find that that's true as well, even with a company of your size?

Rick Plympton (00:31:56)

Yeah. That was one of the objectives, as Leah mentioned, was as we transitioned to an EOT, we were really hopeful that we could preserve our culture with as little disruption as possible. In our situation, just like Melinda, we chose leaders inside the company and elevated them as we transitioned to the EOT. With respect to ownership, what we did is I gifted a block of equity to the trust and then sold the rest of my equity back to Optimax. The equity that's sold back to Optimax gets shredded so that, going forward, the only voting shares are those shares owned by the trust. That's how we gave the trust total control of the company.

Now, this is like peeling an onion. One of the really cool things about EOTs is there's a ton of flexibility. There are a couple other vehicles or tools that we developed to provide longer term incentives for our leadership team members. One of them is phantom stock options that vest over a five-year period. Select individuals are offered a block of phantom stock options, and it's to get them thinking not just about making profit this month or next month, but to think about workforce development needs, about equipment needs, that sort of thing, on a longer timescale.

Then those individuals that were elevated to the new board of directors, and there happened to be seven in our situation. We went from an executive team of four to a younger board of directors of seven. They were given the opportunity to buy class B shares. Class B shares don't have any voting rights, but down the road they will have dividend rights. We've never paid a dividend, but that's something that's in the parking lot for them to consider in the future. A dividend might be an annual incentive for those board members, in addition to the monthly bonus plan that we have. You can see how that just gets them thinking a little bit longer term than the monthly bonus.

Melinda Paras (00:34:22)

We did something similar to what Rick did, not as complicated with shares, but we did create a process for the division of the profits, which was proportional to salaries. What that meant is that the management team, who had slightly higher salaries, got a larger portion of the profits each year, but it meant that at the end of the fiscal year, there was no dispute about how the profits would be divided. Once there was a set amount that was going to be divided, there's a process for how that gets done. Our company, the differentiation between the lowest paid employee and the highest paid employee is not very big, so this is not a huge difference. I think the point that you might want to incentivize the management of your company, in some way, because of the contributions they're making, is reasonable.

There was a question that was posed about what happens after the notes are paid off and the owners have been paid off by the company, for us, because we had a 10-year payment plan. The answer is that the proportion of profits is higher because a portion of the profits each year has to go to pay the notes to the owners. Once those notes are paid off, then the profits are higher and the employees will get more, at the end of the fiscal year. So there is an incentive for people to stick around for that higher payoff moment.

Rick Plympton (00:35:59)

Yeah, I want to jump on that too. When I sold my shares back to Optimax, we came up with a 15-year payback period, because we wanted to make sure we could do it without third party money. While my shares are being bought out, the way a profit dollar looks, 25 cents goes to the employees, roughly 25 cents goes to pay down the equity. Another 25 cents or so goes to Uncle Sam, taxes, state and federal. Then it leaves a quarter, 25 cents, for growth of the business. Once my shares are paid off, there's going to be about 50 cents left over for growth of the business. It's a super robust business model. Even though we're sharing 25% of profit with the employees, we give some to taxes, but it leaves 50% of each profit dollar to grow the business.

Kristin Toussaint (00:36:59)

That's so interesting. I think that can also get into a little bit about the different ways that even trust can be right about what percentage of the company is controlled this way. Chris, do you want to talk a little bit about the different, just forms this can take, in that sense?

Chris Michael (00:37:14)

Sure. I think that's ultimately a question more to kind of navigate with an advisor, but sure. Melinda mentioned the National Center for Employee Ownership. I would point everybody in that direction. It's just the most fantastic, nonprofit, educational organization. Go to their conferences, visit their website, call them. They're a fantastic source of information. I always give the definition they give of employee ownership, or at least it was on their website at one point in the last few years; employee ownership is ownership of some or all of a company, by most or all of the employees. Employees share ownership could mean 1% or 5% of the company is broadly held by most or all of the employees of the company. It could mean 30%, 51% majority employee-owned, up to a hundred percent.

Another thing I just want to make sure I say out loud here, before our time runs out today, is that none of this should be viewed ultimately as a kind of contest between Employee Initiative Trust or ESOPs. EOTs are kind of the new kid on the block. Again, maybe in the US, ESOPs have had such a fantastic track record. I spent a few years of my life writing a 300 plus page book arguing that ESOPs are the best thing since sliced bread when it comes to employee ownership. This is really about the fact that we now have this alternative, which is a little simpler and maybe more to some people's liking or some people's preference.I should also add here, and maybe I'm jumping ahead of your questions here, Kristin, but this is an alternative available in every state in the country. No new laws have to get passed, no new policy has to get changed, no policy has to get adopted. Any small business in any part of the country can do an employee ownership trust.

Kristin Toussaint (00:39:05)

Oh, that's so interesting. Is there something there about why they haven't been so popular before, especially compared to the UK or why they're getting more attention now?

Chris Michael (00:39:13)

Yeah. We always talk about this by giving public talks. What I think is the right answer to this question, also as a kind of, I guess, an academic and another part of my life and my dissertation was historical in nature.

In this particular case, I think Louis Kelso and Patricia Header were a wonderful tag team, proselytizing ESOPs, what were known as Kelso Plans from the fifties on. Ultimately the Kelso Plan was introduced into federal law with the ESOP. Even the Kelso Plan was based on federal [00:40:00] law from the twenties. We just had this kind of tax loophole available that Louis Kelso leveraged, and then the whole cottage industry grew up around the ESOP in the seventies and eighties and on. At that point, there was kind of no looking back at that point. Sometimes I say maybe it's kind of my vantage point, generationally, as a kind of in-between Gen X and [00:40:30] Millennial where I was looking for the simpler option. There's so much complexity as it is in life so ... I had no professional attachments towards the ESOP vehicle, and so it was just kind of looking at the whole scope of how employee ownership has developed in this country over the last 50 years with fresh eyes, maybe, and identifying an alternative.

Kristin Toussaint (00:41:00)

We talked about culture a little bit, that came up in some answers, but I want to hear more about, I guess, what that culture actually feels like. Leah, this sounds like something you could sort of weigh in on about what does this employee ownership trust bring to Optimax culture? How does that sort of play out or how does that reinforce the things that were already present in the business?

Leah Hamilton (00:41:24)

Well, first and foremost, culture is dynamic. It's driven by values. We do talk about profit sharing during the company meeting, but it isn't something that's talked about on the floor. That's how you know that it's working well, because it's not something that everyone is discussing. Looking at culture from the perspective of our values, so our values are; trust, integrity, grit, unity and respect. Now, those are very nebulous terms. We all have our own definitions of them, based on our experiences, but just looking at the culture as a whole, we invited our employees because ultimately if we're talking ownership, it's about employee voice. We asked them, what do these values mean to you? There was a common thread throughout each of them. We created culture videos that you can find on our Optimax YouTube channel, because I think it's so important to incorporate your values within these discussions to make sure that there are aligned behaviors and philosophies.

I can tell you a story about how that plays out, how you continue to build the culture. There was this time when, one of our employees, he had some physical limitations because of an accident and some employee went out and brushed the snow off of his car. Now, we never would've known that this had happened if this employee hadn't sent an email to the company saying thank you to whoever helped us. When we're looking at specific ways to drive this employee ownership culture, we now have shout-outs to show appreciation that are aligned with those values. We have social events throughout the year where people can come together and talk about their experiences. We have organizational development opportunities where we're calling upon our employees to, again, co-create those solutions that I mentioned earlier. Then, training, I know that was something that was of interest, is we talk about culture in our onboarding. We do talk about the profit sharing within that culture training and what that looks like and how you can use, again, those values to help sustain this ownership culture.

Kristin Toussaint (00:44:00)

You brought up the worker voice a lot. I think that it's sort of important to address, maybe a misconception with employee ownership, that workers are driving all of the decisions or having the dominant voice. I'm interested in hearing from Melinda and Rick about how your structures sort of balance that employee voice with the other needs of the business.

Melinda Paras (00:44:25)

Well, I want to say, if you have a small company, and I really think EOTs are a great way to go if you're a small company, because they're just so much less complex to set up and to manage. Our culture has really been engendered by the employees themselves in that the culture of the company attracted certain types of people who believed in social good and what the company was trying to create other than making money. When you have an employee base who embodies that culture, you can create a succession process by which those employees get to stay and continue the work of the owners. If an owner has a vision and the employees engender that vision, then having the employees become the owners and the future is absolutely the way to go. We don't have as complex a process. If you have 400 employees, you need a much bigger process to do that.

All of these employee ownership cottage industry that's arisen. People contact me and say, "Do you need help with the communications plan to explain your employee-owned trust to the employees?" I say, "Well, you know what? There's 10 people and we have a meeting, and we explain it." You don't need a communications plan if you have a small company. I really believe that the culture is embodied in the employees and the leadership that you help build within your company so that you, as an owner and a founder, can retire with some confidence that those values will continue.

Rick Plympton (00:46:15)

Yeah. I'll just build on that for ... At Optimax, we have a fundamental belief that most people wake up in the morning and they want to create value, they want to earn respect with their peers. We try to create an environment where we give them that opportunity. We provide them with the training, the tooling, and the information that they need to make good decisions every day. We've made a lot of efforts to get away from a pyramid structure where it's top-down leadership. We try to have organic leadership and provide opportunity for anybody in the company to come up with good ideas for improvement, because the reality is that the people doing the work in the offices and out on the production floor, they're the ones that are going to find the best way to drive cost out or to be more efficient. We want everyone in the building to be engaged in looking for opportunities for improvement, which kind of goes back to our profit sharing. Our people know that if they can save a dollar, 25 cents is going to end up in that bonus pool.

Now, with regard to worker voice, one of the things that we've made an effort to do is to have small group meetings, frequently, throughout the company where people can express themself and share their ideas. In addition to what happens every day, here at Optimax, we have what we call Read To Lead, which is usually a group of eight to 12 people that are getting together weekly and kind of reading through a book, chapter by chapter. The book doesn't give the answers to what we should be doing, but it tees up conversation and we can talk about what was said in the book and then what's happening at Optimax in real-time and talk about maybe things that we could be doing differently to make our world better.

Kristin Toussaint (00:48:07)

We've talked about a lot of the benefits and as we sort of get close to the end, I want to also just touch on some of the challenges of making this conversion. Melinda and Rick, I don't know if you can share sort of how long it took or if there were roadblocks you faced when making this transition for your company.

Melinda Paras (00:48:25)

Our biggest roadblock, initially, was that we were trying to go down an ESOP path that wasn't going to work for us. Once we realized that an EOT was possible, I believe, we completed the transaction in under four months. It cost us under a hundred thousand dollars. I don't think it was a challenge, but there was just some anxiety about feeling like we were very early in the EOT process, like I hope this is real. It seemed a little too good to be true. So just a little bit of anxiety that way.

That also has faced us in some of our relations, which is actually our biggest challenge was with our bank. We had a robust line of credit, which, in our industry, was very important because of transition between when our costs are expended and when we get paid by our clients. A lot of our clients are hospitals, they're not notoriously good payers or fast payers. Our line of credit was very important, in terms of the cash flow process. Our bank did not understand what an EOT was. The vice president that we worked with, at the local bank, was supporting us, was trying to get us through, but ultimately the higher ups in the bank said, "Well, we don't know what an EOT is and it's not supported by anyone's personal collateral," so we lost our line of credit. Gratefully, in the employee owned trust community, we found another company that had found a more community-oriented bank in California, and we were able to move our banking there and get our line of credit reestablished.

Also, we were a minority owned business and a women's owned business. The associations that give certifications for minority and women's own business did not know what an EOT was. We actually lost our certifications for both of those, because even though the majority of owners were women and the majority of owners were people of color, they didn't understand what it was. The people they send out to investigate your company and see if you're really minority owned, didn't know what an EOT was and consequently lost ... The good news is at the end of the day, the minority and women's own business certifications, frankly, in our industry did not particularly help us. We didn't actually lose anything material, but it was frustrating that the EOT concept is not well understood, broadly. I think it's our challenge to try and change that and encourage others in the employer community to understand the EOT concept and make it more accepted in the US.

Rick Plympton (00:51:24)

I share what happened with Melinda, with respect to the banks. I don't care where you are, bankers don't understand what an EOT is. For us, we wanted one of the tenants of our perpetual purpose to never sell the company. When we told the bankers that, they're like, "Oh, no, no. The trustees have to have the option to sell the company if things become insolvent," and so we did. We put a clause in the very back of the document where if, for some reason, Optimax leadership doesn't pivot with the market and it becomes a company that's just loaded with debt and no path forward, the company could be sold, debtors paid off. Any proceeds that are left over would be shared with nonprofits in our community, where no nonprofit can get more than 10%. We created that clause so that no individual could ever profit from the sale of the company, so that's how we dealt with that issue.

But to go back to one of the other problems that we had, when you look at succession planning, the easiest thing for a business owner to do, a small business owner, is clean up your financials, sell it to the highest bidder. We didn't want to do that, because we know with this unique culture we've created here, any conglomerate or bigger company that bought Optimax would just crush our corporate culture and what we've built. I was actually looking at creating a nonprofit parent company and having Optimax owned by a nonprofit until I was giving a presentation at the National Conference for Employee Ownership about our corporate culture, and Chris came up to me after the presentation, said, "Hey, I think I've got an idea for you," and started telling me about EOT. I was like, "Oh my goodness." We went out to dinner. I was like, "This hits on all cylinders. This is really awesome." So that was really great.

Kristin Toussaint (00:53:17)

Yeah. Chris, is there more you want to add on there about the potential roadblocks a company could face and how to be prepared for this?

Chris Michael (00:53:30)

Not particularly. It's actually fairly straightforward. I mean, Rick and Melinda had those experiences with the banks. That hasn't been the case with all of my clients, by any stretch. We can close an EOT transaction in two months. I mean, it can be pretty straightforward actually. For those who don't know, employee ownership, broadly speaking, works in all kinds of industries. You hear Melinda here with 10 employees, Rick with close to 500. It's a robust approach to selling your business. It's a fantastic succession strategy. Yeah.

Kristin Toussaint (00:54:25)

If there's not those, like you said earlier, policy challenges to making this more widespread, is it really just about education with owners, letting them know that this is a thing?

Chris Michael (00:54:36)

I think it absolutely is. Again, we only kind of reintroduced this to the US about a decade ago. The first couple of years we're off testing out the concept with a few companies. We're just starting to now, about 10 years in, get traction to the point where we're having a forum like this to discuss employee ownership trust and NCEO so graciously updated all of their website materials about two years ago to include employee ownership trust as a major approach to employee ownership for a major option for employee ownership in the United States. I think it really is about building awareness, and I think that there's a great growth period ahead for us in the United States. I think it's also important to note that we're not starting from scratch here. We've got 50 years of successful employee ownership successions through the ESOP, and so we're really building on a fantastic foundation with the ESOP.

Melinda Paras (00:55:35)

I do want to distinguish that I don't think succession planning is the same as the employee ownership issue. I think succession planning is really a question of leadership. In my past organizational lives, I've often had a deputy director or a chief operating officer and they kind of can move into the position of CEO easily, but that's not always the case. I really want to encourage any business owners, who are thinking about selling their company, to think about succession planning in its own right, about if you plan to retire as an owner, who will be leading and how they will be leading the company.

The second thing I wanted to mention is about the financing, because our original owners, that's what we call them, the original shareholders, were not interested in a big check immediately, because a lot of theories are when you sell your company, suddenly you're sitting on top of a big check and then you, I don't know, buy a new house, do something. We had built the company over many years and were very interested in it continuing. We wanted the employees to be able to own the company without having to put money in. I think that is a huge element to this because when you say, "Well, the employees own the company now," people say, "Well, how much did they have to pay?" The answer is, it can be nothing if the owners are willing to be paid off over time. Now, this presumes you have enough profit to pay off the owners and still be a successful company.

If the owners are willing to take a note for whatever the value of the company is, and I'm not talking about a real value, it doesn't have to be hugely discounted, it can be an industry standard value. If you're willing to be paid out over 10 years, 15 years, the employees can own the company without having to put money in. They have built the company with their labor, so I don't view it as a fake transaction. I think they helped create our company, and so I don't feel like, oh, I feel bad they didn't have to pay. I am glad that they could own the company and just own it with the work they've already provided and the work they're going to provide in the future. I really think the transaction, financially, does not have to be complicated.

Kristin Toussaint (00:58:00)

Rick, I don't know if you wanted a chance to sort of respond to that, especially the idea about succession is interesting because Melinda, Rick, you stayed on.

Rick Plympton (00:58:13)

Yeah. That's a good point, Melinda.

Melinda Paras (00:58:15)

Rick's not as silver as I am.

Rick Plympton (00:58:19)

Yeah. One comment I was going to make is we found this as part of our succession planning, but we were already close to 400 employees. I wish we had found this when we were 20 or 30 employees, because the EOT is so simple and it's not very costly. The annual maintenance is ... I like to think in a log scale. It's more than a thousand dollars, but it's not a hundred thousand a year, in expenses. It's on the order of five to 10K for the annual expense to maintain the EOT, where if you're doing a co-op or an ESOP, I think the annual expenses can be a little bit higher than that. Let me share with you a soundbite that I like to share with our local politicians. Optimax was founded in 1991, so we just celebrated 30 years in business. In the first 30 years of Optimax, we did $500 million in business. Roughly half of that, $250 million, was shared with our workforce through payroll benefits and bonuses. They go out and they spend it at the auto dealership or the supermarket or whatever. Save a little bit for retirement. In the next 30 years, with our current growth plan, Optimax will do over $5 billion in revenue, and roughly half of that will be shared with our workforce. If we can get another 10 or 20 companies in our region, in our community, that convert to EOT, we've already got one more that's done it and a couple more looking at it, but if we can get 10 or 20 doing it, we can really strengthen the entire economy here in our region and create financial security for many, many families. That's really what it's all about.

Melinda Paras (01:00:00)

That's what it's all about.

Kristin Toussaint (01:00:03)

I love that zoom out. I think that's a great place to pause for our talk. I'm going to switch to some questions from the listeners. I know that a lot are coming in. We've got about 15 minutes left. This first one, Chris, is just to ask a little bit about some of the deciding factors to determine whether an EOT, a cooperative or an ESOP is appropriate. Also, can they ever be combined? Can you ever have an ESOP and an EOT?

Chris Michael (01:00:28)

I think that just comes down to the preference of the seller. I think we don't have time to get into all the ins and outs of it, but call the NCEO, get in touch with some advisors and they should be able to walk you through the selection process and see what's a good fit for you. You can combine these approaches. I typically say that the largest [01:01:00] worker cooperative in the world is actually an employee ownership trust. They don't brand themselves as a worker cooperative, but it's the flagship

EOT in the UK, John Lewis Partnership. Everybody's a partner on the first day of working there, and it's one worker, one vote to elect the governance or the governing body of the organization.

Alternatively, you could in principle, have a company that's a 51% EOT and a 49% ESOP, or you could have a hundred percent EOT that layers in equity sharing with the employees in a way that's not a retirement program, but still sort of gets you some of the features of capital gains that ESOP advocates often like.

Melinda Paras (01:01:53)

One of the reasons that people will choose an ESOP are some of the tax advantages. I think that people in the EOT community are really hopeful that through, wider understanding of the EOT as an option, that some greater tax advantages can be directed to the EOT process, because that is a distinct advantage to an ESOP is the tax advantages that are offered.

Kristin Toussaint (01:02:22)

That can easily get very in the weeds if we go super into taxes. Chris, is there anything you want to add about where people can hear more about those tax advantages or what the differences are?

Chris Michael (01:02:36)

I don't think I'm supposed to plug myself here but contact your advisor and your advisors and call the NCEO. Anybody should be able to walk you through a clear and objective, impartial laying out of what the actual tax differences are for the ESOP as opposed to the EOT. Also, worth mentioning that taxes, there's no such thing as a free lunch. Taxes do get paid with an ESOP. I think if you walk through it carefully, there might not be so many differences. I think EOT tax differences often work as kind of a sort of smoothing function on the transaction rather than some kind of big wad of cash that the IRS is going to let people have access to.

Kristin Toussaint (01:03:37)

All right. This next question in the chat, you both touched on this a little bit, Melinda and Rick, but this is asking if you can talk more about the cost of transitioning to an EOT and what a deal could specifically look like.

Chris Michael (01:03:53)

This is for me?

Kristin Toussaint (01:03:56)

For anyone, yeah. I guess, Chris, if you want to, you can probably do a broader view than what Melinda and Rick already shared.

Chris Michael (01:04:01)

No. I often say that people typically price an ESOP transaction, installing an ESOP can be at the floor, maybe 250 to 350k, and I think an EOT transaction might be a fifth of that, 20% of that, or a quarter of that. Maintaining an ESOP can be 50 to a 100K a year, and again, maintaining an EOT could be 20%, to a quarter of that annually. If that helps to answer the question. Again, this can take as quickly as two months. A lot of my clients often will take up to six months or maybe longer, because they want to go at a leisurely pace, but it can move fairly quickly if everyone's ready to go.

Melinda Paras (01:04:47)

Transaction to create an EOT is you need a legal advisor to draw up your paperwork and help you work through these issues, and you need a valuation. Those are the two main costs. As I said, ours was accomplished at under a hundred thousand. I think a big area of difference is the ongoing costs. What I see about ESOPs is that they are spending a hundred to 200,000 annually, because there has to be continuing valuations that are done. The process is complicated enough that perhaps they need communications advisors to help them explain and for employees to understand it. There's just a lot of costs associated with an ESOP that you don't have with an EOT. I think, it's not just the startup costs, it's really the ongoing costs that I found kind of difficult about going the ESOP route.

Rick Plympton (01:05:54)

Yeah. I'll just share that Chris really got me on the EOT path and then I found a local attorney that was very experienced at corporate law and just his natural behavior, he is half lawyer, half professor. When I told him about EOTs and that we were looking at doing this, he got really excited and jumped right in, and helped us develop the founding documents that we needed and the bylaws. We also had to work closely with our local banks and our accounting firm in order to do some forecasting and make sure that we understood the finances and had some realistic projections of how it would play out.

Kristin Toussaint (01:06:41)

Right. There are some other questions here more about the trustees, how they're chosen, what role they play and how they are held accountable. Rick, do you want to start with that?

Rick Plympton (01:06:54)

Okay. Anybody that knows how to hold trustees accountable, let me know. I want to talk to you about what we've done, we have three trustees. My business partner and I are two trustees, and then the third seat is filled by a member of our board of directors. That seat is an individual that represents the Optimax workforce at the trustee level, and so that's a really important seat going forward, that it's always there so that we have employee representation at the trustee level. For us, as Mike and I age out and we want to step away, we still haven't figured it out yet, but we need to decide how we choose somebody to fill the seat that we're vacating. Well, it's obvious we want somebody that understands our corporate culture. The role of the trustee is to defend the perpetual purpose trust document that's written. Trustees have nothing to do with the operation of the business. Their sole responsibility is to defend that trust document. It's a very narrow role, in terms of scope, but a very, very important role.

Melinda Paras (01:08:09)

Actually, our trustee is Chris and I can say what his function is, as Rick said, it's defending the role of the trust. He conducts an annual audit to make sure that the leadership of the company conducts with him to make sure that the company is continuing to execute the goals of the trust. Did you have profits? Did you distribute the profits to your employees like that? That's how our trust is protected. Then, also Chris had an idea to create a trust protector position, which is myself, and that any future potential sale of the company would have to be approved by the trust protector. I know Rick mentioned how they kind of organized in the execution of their change to keep the company from being sold, but we allow that to go to the trust protector. Similarly, if the company is not able to financially survive anymore, the assets are divided among nonprofits. Then, as a trust protector, I could say whether or not that's really true or if the employees wanted to sell to another company, I could potentially veto that.

Kristin Toussaint (01:09:27)

All right. This next one, we sort of heard a little bit about when, Melinda, you talked about this wasn't something that the employees paid for specifically, but this is asking more about how EOT transactions are typically financed. I guess, Chris, this is probably for you. If today's high interest rates affect maybe the market value a founder takes when making that transition or anything like that?

Chris Michael (01:09:57)

Well, this is a great question. Again, I would say we've got such an amazing track record with the ESOP, over the last 50 years, and you look at NCEO survey data and it looks like, I think, a majority of employee ownership transactions today, ESOP transactions, are seller financed, a hundred percent seller financed. The balance is 60% seller financed with maybe 30 to 40% bank financing, that's for larger companies often, that can obtain bank financing. We have this fantastic track record of business owner’s sellers financing the transactions. It often works out to be in the financial interest of the seller. I mean, that might take some time to walk through, but it's in the financial interest of the seller to provide that financing.

With EOTs, I've talked to clients and potential clients about going to banks or going to outside sources of capital, but for the most part, folks aren't interested. They've already kind of that seller financing is a great way to go, and that's kind of why they're speaking with me in the first place, and that's why they're exploring the employee ownership option in the first place.

I'm keeping an open mind about the potential for financing using bank financing or outside capital, but I don't want that conversation to get too far away from the fact that seller financing is the way that employee ownership successions are done and it works great.

Kristin Toussaint (01:11:38)

Okay. This next question touches on just timelines for this. I mean, Melinda and Rick, you both talked about transitioning to an employee ownership trust later on in your business. This is asking, again, Chris, this is probably for you as it's a little more broad, if there are challenges or opportunities to have the structure from the beginning of a company versus converting later on.

Chris Michael (01:11:59)

I would say, based on my research and firsthand experience, I really think employee ownership is for mature companies as opposed to startups.

Kristin Toussaint (01:12:12)

Interesting. Melinda, is there more to expand on that?

Melinda Paras (01:12:16)

Well, I'm not saying it's not possible to go that route, but my experience is that there's an entrepreneurial spirit that a founder of a company or the founders of the company have that ... Well, I guess, Kristin, one of the things you study is capitalism, but I guess that's part of the nature of capitalism. That entrepreneurial spirit can help drive and build a company. I think as entrepreneurs build the company and they build a relationship with the base of employees who helped them build that company ... I think it makes more sense as an exit plan for the silver tsunami, because there are so many people who are now looking at retirement and want to sell their businesses and don't want to sell it to a competitor and see their company gutted. I just think it's a great option for a large number of companies that are looking at that. I guess it's possible for a startup, but I don't know if that kind of mucks with the entrepreneurial engine of capitalism, it might.

Rick Plympton (01:13:32)

I view employee ownership as an evolution of capitalism. If we've got some people that are just forming their companies and they want to give it a try, do it. Let's see what happens. I know for Optimax, this is a wild journey that we're on, and there are days we feel like we're walking blind through the woods, but it's been working out really great for us.

Melinda Paras (01:13:59)

Well, actually, all of our original core of our company were shareholders. I do want to say actually it was kind of employee owned in its initial stages. It was really just as it expanded that that became a question.

Kristin Toussaint (01:14:14)

Yeah. I love that idea of why not try, right? We have to change something about where this is all going. Then I think that's really our time. Thank you all so much.

Maureen Conway (01:14:26)

Yeah, no, thank you all. This has been an amazing conversation. Really appreciate you all digging in, sharing all your experience. Thank you Kristin, Chris, Melinda, Rick, Leah, and thank you so much to our audience. What an amazing conversation in the chat too. This has been just an exciting conversation and I'm really thrilled that everybody could join us today. Thank you all so much for your leadership in this space and all the work that you do. I know I was really impressed with everybody's comments today.

Stay tuned, everybody. This is not the last in our Opportunity in America series.

Next up, on November 15th at 2:00 PM Eastern Time, we'll be talking about Unstable Schedules: Unwrapping The Impact On Service Workers, An Important Issue. Please join us for that conversation. I want to take a moment to thank my colleagues who do such hard work in bringing these sessions together. A huge thanks to Matt Helmer, Maxwell Johnson, Colleen Cunningham, Amanda Fins, Maya Smith, Frances Almodovar, Bryn Morgan, Tony Mastria, and Nora Heffernan. Thank you, guys, all, so much. You guys do great, great, great work and really appreciate all you do. Any feedback, please remember, please fill out the feedback or send us an email at eop.program@aspeninstitute.org. We love hearing from you all, so let us know what you think. I hope you'll join us all again soon. Thanks, everybody.