Employee Ownership at the Crossroads

Reflections on the Kendeda Fund's Big Bet on Employee Ownership

Prepared by the Ohio Employee Ownership Center

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Introductions

Diane Ives, The Kendeda Fund 2023

Advancing the dignity of individuals and the sustainability of communities are two core principles that guide the Kendeda Fund's work. In the years that we have been supporting employee ownership, starting with EO-curious grantmaking, leading to deeper investments, and then launching a 'Big-Bet' for advancing the scope and scale of employee ownership, we have always been focused on our commitment to dignity and sustainability.

In 2018, the Kendeda Fund launched a series of Big-Bet grantmaking opportunities – one-time focused investments in timely and critical issues, to help propel work to new levels of capacity and reach. One of those Big Bets focused on Employee Ownership, where we identified four goals for our funding:

- **Grow the number and variety of businesses implementing employee ownership as a core operating principle, with an emphasis on strategies that build democratic decision-making and work to address the economic and racial wealth gap.**

- **Use patient-capital (grant money used for revolving debt-investments and loan loss reserves) to leverage investments.**

- **Strengthen core elements of the ecosystem needed for employee ownership to thrive (build for scale, accelerate growth, and popularize the ownership culture).**

- **Amplify the communication and media coverage of employee ownership in ways that encourage more mainstream acceptance.**

With this as our compass, the Kendeda Fund granted over $24 million to four organizations that were exploring ways to transition small and medium sized companies to employee ownership: The Fund for Employee Ownership at Evergreen Cooperatives, Nexus Community Partners, the ICA Group and Project Equity. As part of this Big Bet, the Kendeda Fund also invested over $1 million in a shared communications campaign called EO Equals. Grantees were given planning grants to assess their capacities, needs and capabilities. Based on those internal explorations, they were invited to apply for funding that would lead to meaningful growth and expansion, as well as depth and strategy for their work. Each group grappled with some targets for how many businesses would be transitioned to employee ownership, and how many workers would become employee owners. While there was never an attempt to harmonize work across the four groups, they all held a shared vision for tapping the power of employee ownership to grow the field in new and creative ways. It is still too early to know how this Big Bet has impacted the trajectory for employee ownership into the future. But, as Chris Cooper says in his introduction to this document, Kendeda's funding has helped accelerate employee ownership towards a vibrant crossroads where creativity and capacity are converging in non-linear ways.

This document, Employee Ownership at The Crossroads, is based on the reflections of Kendeda's EO grantees that were part of the Big Bet. Through in-person conversations, in interviews and in writing, they have honestly assessed how their expectations and plans advanced, and also needed to be adjusted to the realities of larger societal and economic issues at-play (a pandemic, an ongoing racial-reckoning, inflation,

Cont. →

Diane Ives – Cont.

recessionary fears, quiet-quitting, and war, to name a few). Working to advance employee ownership in these turbulent times has had its challenges, but in every way, these grantee partners have worked in respectful and thoughtful ways to advance the power and magic that employee ownership can bring – the pride and dignity derived from meaningful work, and more stable and sustainable communities where wealth earned through work stays in-place for a ripple effect of shared prosperity.

I am grateful to Chris Cooper and Mike Palmieri, and the deeply knowledgeable and committed team at the Ohio Employee Ownership Center for facilitating this reflection process. Their deep understanding of the history of employee ownership in the US, and their passion for its future, provided all who participated the trusted guides needed for this journey of discovery. Chris and Mike have written this report based on the reflections and data gathered from our grantee partners. A shout out to Dominic Bertolini for his creative design to make this information accessible and usable. Dr. Ashley Nickels of the School of Peace and Conflict Studies at Kent State University played an integral role in interviewing key partners, and demonstrated a useful role for AI in aggregating meaning. And, much gratitude to the Kendeda Fund's grantee partners whose hard work continues to amaze and inspire me every day.

Diane Ives, Fund Advisor for the Kendeda Fund

About Kendeda

The work of The Kendeda Fund began in 1993 under the leadership of Diana Blank, a philanthropist with twin passions for social equity and the healing power of our natural environment. Guided by her vision, we support the dignity of individuals and the sustainability of communities through investments in transformative leaders and ideas.

For more than a quarter century, Kendeda—named for Diana's three children—has been making grants to empower communities across the U.S. and around the globe to confront challenges through solutions that increase equity, vibrancy, resourcefulness, and resilience. In all we do, the Fund helps build and sustain social and community capital by supporting underrepresented voices as well as leaders who have the vision to see problems differently and the courage to challenge conventional thinking.

The Kendeda Fund has invested more than $1 billion since its inception, and currently makes $50 to $60 million in grants annually. We also believe it is important to accomplish as much as possible within the lifetime of our founder, whether through near term philanthropic investments or long-term projects that require more time to bear fruit. To that end, we are committed to spending out the majority of our assets by the end of 2023.

Employee Ownership At The Crossroads

- Ohio Employee Ownership Center, Chris Cooper & Mike Palmieri

Employee ownership has a long history, and yet it often feels perpetually new. As with many things, one's perspective plays a big part as to where the idea is met, and how it's reacted to and engaged with. Along the way it challenges us and our preconceived ideas about many things – including the very meaning of concepts such as ownership, participation, equity, value. While not a complete list, those four words are commonly used with the employee ownership community and have multiple meanings depending on their context.

Let's take the word value as an example. In some contexts, it means putting a price on something – how much is this thing that I own worth - what is its value in cold hard cash? In other contexts, it can mean a code or set of standards that one lives by – what is your value system and how does it define who you are and what you do? In still other contexts it's used to describe something that is worth more than money and that price could never define. Something that goes deeper than any system, and to the core of life and experience – family, health, faith, love.

We can take the analogy further into one of the more contentious areas of modern life – politics. It would be hard to find an idea (or a public policy) that can claim the support of both Ronald Reagan and Bernie Sanders - but employee ownership can, and does. Their respective versions of, and visions for, employee ownership are different (sometimes greatly) but they find a way to meet at the idea of employee ownership. To paraphrase Walt Whitman, employee ownership is large (as an idea) and contains multitudes.

Even the title of this short essay contains its own multitudes. Being at a crossroads typically describes a type of "do or die" moment – in front of you are two roads or paths, down one is the greatest opportunity, while the other might bring unspeakable calamity. So you better make the right choice!

In many ways we are in fact at a crossroads – politically, economically, and environmentally. We continue to witness increasing (and historic) levels of economic disparity and concentration of wealth; political discord and divisions lead us to feel that we are not capable of coming together to meet the challenges we all face; and increasing levels of environmental degradation and dislocation challenge our continued existence on our planet.

Alternatively, a crossroads also means the place where two (or more) roads meet; a place where we meet others who are traveling from different (and sometimes opposite) places – a sort of common ground. Employee ownership is one of those common ground ideas that can bring together people with very different views, and has been shown to provide solutions to these common problems.

Employee ownership sits directly, and quite comfortably, at these crossroads of economics, politics, sustainability, and values – showing the way to one of many possible futures that can vary greatly in their results.

The Kendeda "Big Bet" series of grants, and the work they made possible, allowed the four grantees to develop and put into practice their own models for growing employee ownership. They also created the meeting place, and the space, for each to share ideas, support one another, and get better at what they do.

The reflections that follow will share the stories, the lessons, and the results of the grant program through the words of the grantees and the people they worked with and assisted. Through this reflective process of looking backwards and forwards, common themes will be found, and presented to you throughout this report. We will provide an accounting for what's been done, but also a roadmap for public policy, philanthropy, and economic development to build on what's already been done – and positively impact the future that awaits us all.

Organizations

[The Fund for Employee Ownership](#) is Evergreen Cooperative's groundbreaking new investment fund, designed to create quality jobs through employee ownership, anchor jobs and wealth in the local community, and generate value for investors. The Fund builds upon the success of The Evergreen Cooperatives, a national model which proved that networked employee-owned businesses can succeed in the market while generating meaningful social impact and much higher quality jobs.

[ICA Group](#) is a leading expert on worker ownership and the oldest national organization dedicated to the development of worker cooperatives. Centering worker voice, growing worker wealth, and building worker power exist at the core of ICA's mission. They advance democratic worker ownership, which has the immediate effect of increasing worker voice and autonomy in the workplace, while fairly allocating financial returns with a commitment to serving low-wage workers and communities of color.

[Project Equity](#) is a national leader in the movement to harness employee ownership to maintain thriving local business communities, honor selling owners' legacies, and address income and wealth inequality. Headquartered in the San Francisco Bay Area, Project Equity works with partners around the country to raise awareness about employee ownership as an exit strategy for business owners, and as an important approach for increasing employee engagement and wellbeing. Project Equity also provides hands-on consulting, support and financing to companies that want to transition to employee ownership, as well as to the new employee-owners to ensure that they, and their businesses, thrive after the transition.

[Nexus Community Partners](#) supports strong, equitable and just communities in which all residents are engaged, are recognized as leaders and have pathways to opportunities. The key to building more engaged and powerful communities of color lies in the dynamic relationship between authorship, leadership and ownership. The Nexus Worker Ownership Initiative (WOI) is a bold effort to change the face of business by promoting employee-owned business models. The Initiative builds community wealth, grows the region's economy and encourages equitable economic opportunities. It advances worker ownership by seizing opportunities presented by the wave of retiring business owners in the Twin Cities.

Impact

Looking out into the world in 2018 the Kendeda Fund recognized that the United States (and the world) were at a crossroads – either continue down a path of rising economic inequality, poor paying jobs, and environmental degradation or forge a new path towards shared wealth, family sustaining jobs, and business models rooted in place that struck a balance between the people, planet and profit.

Types of Employee Ownership

Employee Stock Ownership Plans (ESOPs)

Are qualified retirement plan trusts that invest primarily in the stock of the sponsoring company. Participants are paid out for the financial value of the stock allocated to their individual accounts upon retirement, or when they otherwise leave the company. An ESOP can own anywhere from 1-100% of the stock of the sponsoring company. There are over 6,500 ESOPs in the US today.

Worker Cooperatives

Are a form of corporation which is 100% owned and operated by its employee members. Governance of the cooperative corporation is based on one member-one vote, and profits are distributed based on the amount of work hours provided to the company. There are over 600 worker cooperatives in the US.

Employee Ownership Trusts (EOTs)

Are a type of perpetual trust that owns the stock of a company, they are governed by a trustee or set of trustees. Employees do not directly own company shares, and the structure is not a retirement plan. Instead, employees usually participate in a profit-sharing plan that distributes annual company earnings. There are roughly 35 EOTs in the US.

Fortunately, the Kendeda Fund chose the latter path. In 2018, building on their earlier support for community wealth building, it made a historic $24 million dollar investment to four organizations to expand employee ownership. But expanding employee ownership required addressing key barriers. These included raising awareness about employee ownership, making technical assistance for business owners interested in selling to employees readily available, and creating easily accessible capital to finance conversions and grow the business after its transition to employee ownership.

With the support from the Kendeda Fund, the four organizations set out to address these barriers and grow employee ownership in meaningful ways. Each organization developed and implemented their own unique strategies to do so, creating variations that reflected the needs of the communities they serve. Raising awareness, providing technical assistance, and making capital available is a tall order for any organization to achieve, let alone in a 5-year period. Despite this, the impact achieved is undeniable and resulted in more employee-owned companies, more pathways to ownership for workers, and a substantial amount of business assets rooted in the community.

> "We are constantly talking how we can only move at the pace of trust. We can make all the project plans we want... We are grateful that Kendeda, gave us the space to incubate different models, different approaches, and be able to build those relationships."
>
> - Nexus Community Partners, Patty Viafara, Director, Worker Ownership Initiative

$32.7M
ASSETS TRANSFERRED

Transitions to employee ownership provide employee owners with opportunities to participate in both governance and profit sharing. By transferring ownership of the business, they also root the assets of the company in the local community. The term assets transferred reflects the total value of the companies that became employee owned.

903
EMPLOYEES

Because each model has its own structure, and path for becoming an employee owner, the number of workers in the newly employee-owned companies was a key metric. In some cases, becoming an owner occurs automatically when certain requirements are met, in others it is an opportunity that workers actively decide to take advantage of or not.

45
COMPANIES

Despite the 5-year grant period overlapping with the covid pandemic and the challenges it presented, grantee organizations were still able to complete 45 transitions. The companies successfully transitioned spanned 10 different industry sectors, including manufacturing, food and accommodation, information and professional services and included all 3 major forms of employee ownership – underscoring employee ownership's broad application.

31
CITIES

While some of the grantee's approaches are place-based, the impact of this grant had national reach. Transitions to employee ownership took place in 31 cities across 12 states located in the West, Midwest, South, and Northeast of the country.

Diversity of Approaches

While the four grantee organizations all focus on the key areas of outreach, technical assistance, and education, they do so in varied ways - providing a diversity of approaches that met the needs of their clients and communities, and which others can draw upon and learn from.

The Fund for Employee Ownership

Based in Cleveland, OH the Fund for Employee Ownership (TFEO) used Kendeda support to capitalize its fund and put its acquire, convert, and support approach into action. In their 3-part approach the company is purchased by TFEO, converted to a worker cooperative, and provided support through the existing network of Evergreen Cooperatives. The model's strength is that with TFEO handling the conversion it flattens the learning curve for selling owners, mimicking the experience of other purchase offers. Moreover, converted businesses are supported by being a part of the larger network of employee-owned businesses. TFEO focuses on converting light manufacturing businesses and companies that provide goods and services to Cleveland area anchor institutions making the TFEO model an example of a place-based employee ownership initiative.

Project Equity

While located in the San Francisco Bay area, Project Equity used support from the Kendeda Fund to expand its national presence and refine its transition process which consist of providing a full suite of services to selling owners including basic education, feasibility studies, deal structuring, financing, and post deal education and training to employee owners. Project Equity's model has demonstrated the important role partnerships with local and state governments play when it comes to raising the profile of employee ownership to the business communities. Moreover, their approach underscores the importance of developing staff capacity capable of transitioning companies to all forms of employee ownership which in turn provides selling owners more flexibility in choosing which form meets their goals and objectives as well as fits the company's culture.

Nexus Community Partners

Nexus Community Partners, based in St. Paul, MN, used Kendeda support to launch their Worker Ownership Initiative. Drawing on their existing deep relationships with local government and nonprofit leaders, Nexus created a networked model approach to conversions. Rather than acting as a full-service conversion shop, Nexus' model focuses on building strong ties with the business community and economic development leaders – including St. Paul's chamber of commerce, port authority, workforce development organizations, and other service providers – to provide supports to businesses owners and expand employee ownership. The upshot of this approach is that in the long term, conversions to employee ownership can become embedded in the existing local economic development ecosystem.

ICA Group

Based in Massachusetts, ICA has a strong presence in the Northeast region of the US and a focus area in the childcare and homecare industries, although their work spans multiple industries and is not limited by geographic region. ICA used support from Kendeda to scale up its staff capacity as well as capitalize it Jobs Worth Owning Fund which can be used for mezzanine or gap financing for transitions to employee ownership, the creation of shared service cooperatives, and start-up capital for cooperatives engaged in care work. ICA's approach is bolstered by its partnerships with the state of Massachusetts and New York where they have been able to leverage government resources to raise awareness about and expand employee ownership.

Employee Owners at California Solar

> **"Kendeda's support allowed us to analyze and compare the model of starting a worker cooperative from scratch versus acquiring and converting a business that already exists with a successful track record. Because of their support we were able to move significantly toward the conversion model of employee ownership...so far all of our acquisitions are doing very well, they are growing, and the fund has enabled us to acquire add on pieces for some of the companies and grow our base of investment we already made with the Kendeda funds."**

- Evergreen Cooperatives, Jeanette Webster, Chief Investment Officer

Employee Ownership as Legacy

Starting a business is a challenge – making it successful and profitable even more so. The journey from idea to execution - and then to success – is rarely a short one that follows a straight line from beginning to end. The US economic system mythologizes entrepreneurs and entrepreneurship – lone wolves that change the world through the power of individual effort.

Is that view justified by reality? Objectively, entrepreneurs can indeed be different – highly driven, very passionate, and often more capable (at least in their area of expertise) than others; the interviews conducted with selling owners for this reflection process have shown as much. They can also care very deeply about their business, beyond the standard of living its enabled; about the people that helped them build the business; and the community(ies) in which they and the business live.

Despite these aspects of individualistic achievement, successful entrepreneurs also need business partners, social and community networks, and good employees to succeed. Often the threads that connect these individuals and networks are as emotional as they are economic. Businesses tend to share many of the same traits as extended families – shared events, shared experiences, shared lives – in other words, a community. Maintaining that community beyond the current generation – the legacy of the business and their work – becomes an important part of planning for the future.

When it comes time for the founding or current generation to exit the business, many entrepreneurs find themselves at a bit of a loss in how to handle that transition. The expectation that one or more children will be willing or interested in taking over the family business is becoming less common – almost unlikely. Business owners are often pulled into a "max money" outside buyer or private equity scenario that can leave them very well off while the business is sliced up and sold as parts. And the data shows that only 30% of businesses put on the market actually end up selling.

Consequently, many business owners end up waiting too long to plan while hoping their children change their minds, or that the golden goose turns up. When this happens the outcome for the business owner, and the business and employees, is seldom positive.

When done well, employee ownership can address these issues, and sometimes conflicting goals, in a positive way. Legacies are maintained and have the opportunity to get stronger; employees benefit from the business and share in the wealth they helped create; businesses, jobs, and economic activity are anchored in the community; and the selling owner gets a fair price for the business.

An oft-asked question needs addressing: if employee ownership is so great, why isn't there more of it? It's a fair question, and there are some answers. Too often business owners don't know the employee ownership option exists. Equally so, expectations are created – in the culture, the business press, and the advisory community – that the "purpose" of entrepreneurship is to grow the business to sell the business.

The legacy of this project certainly includes the specific business owners you will read about on these pages, along with the many other companies that successfully transitioned to employee ownership. But that legacy also includes the broader work in educating and promoting the employee ownership option as a viable choice for business succession – a fundamental change in how business is done.

"Turning LEFCO Worthington into an employee-owned business that will continue to provide attractive wage jobs and provide true wealth creation opportunities… can be life-changing for its new employee-owners. Not only does this acquisition feel good, it is good, both for the business and the community. I'm thrilled to partner with [the Fund for Employee Ownership], whose strategic mission supports my beliefs of ethical business, doing good business, and being a good business citizen."

- LEFCO Worthington LLC, Larry Fulton, Selling Owner

Larry Fulton,
LEFCO Worthington

Will You Regret Selling Your Business?

Studies show that on average 60-70 percent of business owners that have sold their business tend to be dissatisfied – with either the process and the result – within 5-10 years after the transition. Rarely does the broader business community reflect on this statistic and ask themselves why this is so.

Clearly there can be many reasons why. Perhaps the selling owner feels they sold at too low of a price. Maybe they haven't been able to figure out what to do with themselves in the next stage of their life. Or they're distressed at what's happened to the business, and the impact on their employees and community after selling to an outside buyer. Though these types of big events are never without their ups and downs, the interviews with selling owners - as well as broader experience – make it unlikely that similar levels of dissatisfaction will be present with these transactions.

Quite often, the usual approach to business conversions is strictly transactional in nature. This is understandable – business transitions can be complicated, and business owners need experts to navigate the legal, tax, and financial issues involved. However, selling a business is also transitional in nature – business owners transitioning to the next stage of their life; businesses transitioning to a different operational model; and workers transitioning into employee owners, and to new opportunities. It's often an emotional process, with real emotional impact - for all involved. Each of the four grantees approach conversions from this perspective and provide support before, during, and after the transition. This method increases the chance of positive outcomes, for the selling owner, the community, and for the new employee owners.

"I knew if I sold to someone else, they wouldn't have the philosophy that I had. They would have made changes that would have affected the culture… we'd had people who worked for us for 25 years, and they knew the culture, they understood it top to bottom."

– Alternative Technologies, Jerry Skomer, Selling Owner, Founder & Board Member

First on the right: Employee Owners from Alternative Technologies

Second on the right: Sarah Durham

"The profit is now going to be distributed in a much more equitable way. That feels very aligned with what the people in the business want, and what we've been trying to do for years…I am very glad I sold the company to the employees. I don't regret doing it and I think it was the right exit strategy for me and the right next step for the business."

– Big Duck, Sarah Durham, Founder, Selling Owner, Board Member

Employee Ownership as Opportunity

There is a type of magic at work in employee-owned companies. Let's be honest, it's frowned upon in the business world to use such language – it's too squishy, the stuff of unicorns and fairy dust.

Yet it is worth saying it again – there is a type of magic present in employee-owned companies.

In many ways, there is not the business or economic language to capture the transformative nature of this work – which, at its core, is driven by the opportunities provided to employees through ownership. For example, standard accounting rules tell us that employees are liabilities, not assets. Similarly, economic and business theory holds that sharing ownership with employees is an inefficient business model that leads to negative outcomes.

These perspectives miss the important ways employees of all types contribute to growing the value of the business. When applying them to employee ownership, they overlook an even larger part of the story. This includes how employee owners participate in decision making, contributing to improved company performance; how those contributions build their individual financial and social assets; and how participation and asset building combine to create a new relationship between employee owners and the businesses. In short, it misses the magic of employee ownership - how companies can provide more to employees while improving performance.

Metrics are definitely important, as are financial statements, profits, etc. – new employee owners will soon learn that they need to immerse themselves in such things to be successful. While these metrics capture part of the magic of employee ownership they miss the underlying driver: the change that occurs within employee owners as they grow their leadership skills, and fully understand what it means to have both a financial stake and a voice at the company in which they work.

The transitional, and transformational, component to this work is difficult to measure. It is the result of the interplay taking place within the individual employee owners and how they relate to the work they do; how that new relationship strengthens commitment to the business; and how commitment improves company performance.

Helping people transition from employee to employee-owner isn't always easy. It takes time, effort, and significant education, training, and support. Each of the grantee organizations have developed processes that address the basic needs of any successful business in all relevant areas. But they've also provided the emotional and aspirational support – for the selling owner and the new employee owners – that is vital to future success.

It's not always smooth going; bumps and bruises occur. Excitement mingles with fear. New skills need to be learned; old habits need to be set aside. The good news is that decades of research consistently shows that participatory and democratic employee ownership is a best practice. Once an ownership culture is built companies achieve better outcomes - for the business, for the workers, and their communities.

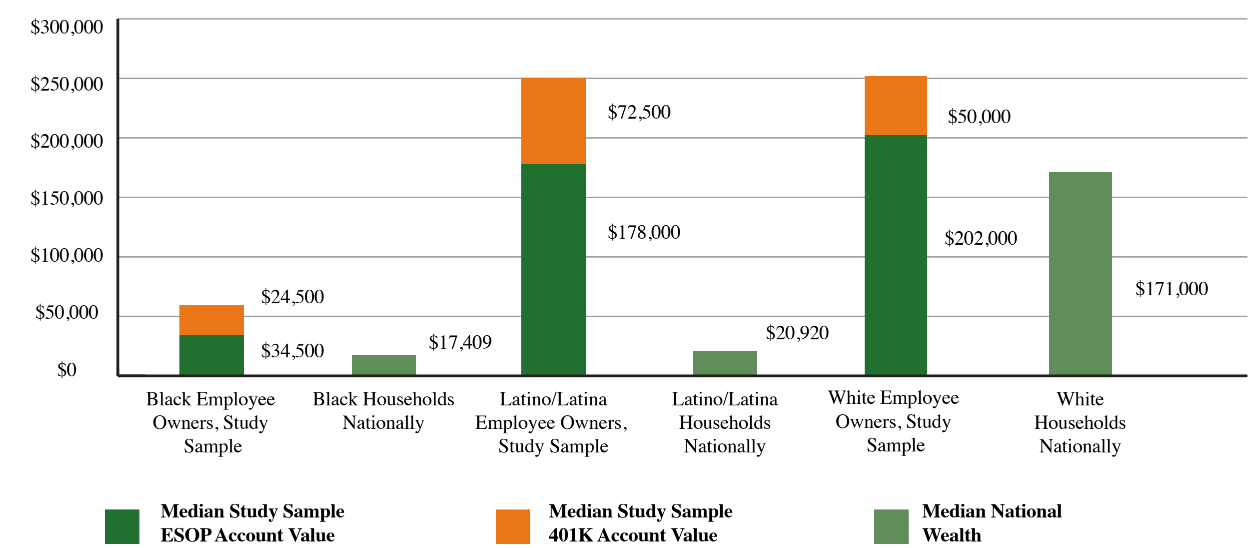
Even so, there is often a lot of initial concern - from selling owners, financing partners, and others – whether the employees are up to the challenge of ownership. Countless individual examples, and large-scale research studies show that, when given the opportunity, employee owners rise to that challenge and, with the right support, exceed expectations.

It is worth saying once more - there is a type of magic at work in employee-owned companies and it resides not only in the performance metrics, but in the way employee owners are able to participate in decision making and wealth creation. It is this relationship, which commonly used business metrics and economic theory often does not account for, that you will see reflected in the thoughts collected here.

> "This is real money, it's a real check. I see folks walking out of here with big chunks of change, and a nice retirement, it is a recognition of their hard work and efforts."
>
> - Intellitronix, Phil Misch, Worker-owner, CEO/President

Employee Owners at Intellitronix

ESOP and 401k Values of Employee Owners National Wealth Averages



Source: Boguslaw, J. & Schur, L. (2019) . Building the assets of low and moderate income workers and their families: The role of Employee Ownership. Institute for the study of Employee Ownership and Profit Sharing. https://smlr.rutgers.edu/sites/default/files/rutgerskelloggreport_april2019.pdf

"I treat every single day as if it were my own business. I come into work and now I'm more determined to make sure that we're successful. I've always given 110% but now I'm at like 120%. I want to help everyone pull through, whether they are here for short-term or long-term. I want to show employees the processes and help them feel like they're leaders and they are empowered, by working together, we can make every day successful."

- A Slice of NY, Rendell Boguiren, Worker-Owner,

New employee owners from A Slice of New York pizzeria

The Primacy of Agency

There are multiple employee ownership models. Even within a single model, there is a lot of variation in both the structure of employee ownership, but also in how it is experienced day to day. A common phrase in the community is, "If you've seen one employee-owned business, you've seen one employee-owned business." And that's ok – it's the hallmark of the agency provided to both sellers as well as employee owners as they build their new and shared future.

This idea of agency, and variation, is at the core of the work accomplished with the Kendeda Big Bet grants. Each organization developed a different approach to spending the money provided, and using that support to build and transform their organizations. It's also reflected in the variation (utilizing common principles) in the new employee-owned businesses they've helped create. Employee ownership works better when its participatory; and it works best when that participation maximizes agency and democratic structures.

This is one of the foremost, and most lasting, impacts of the project. The level of support provided by the Kendeda Fund allowed every organization the space to explore, experiment - and even occasionally fail - in order to find their way forward to successful work, and successful projects.

"We already have a group of committed people and I think being worker-owned and providing opportunities to participate in governance and profit sharing will grow that sense of commitment."

- Big Duck, Sandy Zimmerman, Worker-Owner, Design Director,

Employee Ownership as a Future

What will be the lasting impact of this generational Big Bet investment in employee ownership from the Kendeda Fund?

The size of the investment was in many ways life-changing for each of the organizations. It enabled them to think big, and outside their individual comfort zones, to envision a broader, and better, employee ownership future. And the results have spoken for themselves, with assets transferred to employee owners outnumbering the Kendeda grants by a significant margin demonstrating the investment potential of employee ownership. The number of employee-owned companies has increased, and perhaps most importantly, hundreds of working people now have the opportunity to share in the wealth and participate in the governance of their respective workplaces.

The investment also served to broaden the understanding and awareness of employee ownership – as a model for business owner succession planning and an example of a better way to do business day-to-day. Through the work of the individual grantees and the EO Equals campaign – employee ownership has continued its journey to the mainstream in both public policy and business circles. But it would be a mistake to consider the job as being done, there is still work to do. So where does the movement go from here? How can public policy, philanthropy, and economic development keep the momentum moving forward?

The research is clear, employee-owned companies outperform similar non-employee-owned companies while providing workers with real opportunities for wealth building and participation in the workplace. The oft-asked question is "why are there not more"? The answer (or answers) will inform and shape the future of employee ownership. Some of the key answers identified and addressed by the grants (and the grantees) included: the lack of awareness from the business community and the general public about employee ownership; the fragmented nature of the professional service community that can assist with the technical aspects of transitions; and difficulties accessing the necessary capital and finance to complete transitions.

Support organizations exist, and are needed, to fill what can be understood as a type of market failure. Too many in the business and business advisory community simply are not aware of employee ownership or if they are, they see it as an idealistic, pie in the sky idea that doesn't quite belong. From a business owner perspective, those interested in the model can find it difficult to identify reliable information and service providers who can lend expertise or capital. The four grantees, and others like them, serve as partners and intermediaries that bridge these existing gaps in our current system.

Recognizing the important role support organizations play, Kendeda took a chance, and made a large investment allowing each of the organizations to respond to these market failures using their own varied approaches. In this way, the Kendeda investment provided the resources needed to turn the grantee's visions into concrete realities. But the work is not done. What remains is expanding the work of these four organizations (and others) and connecting it to existing business, economic development, and policy networks to achieve what the broader goal always was – raising the profile and prevalence of employee ownership.

If there is one truth learned through this 5-year "Big Bet", it is that the changes needed to expand employee ownership cannot be achieved by these organizations alone. There is ample opportunity and need for philanthropy, government and private sector actors to join in the project of addressing these issues, and some broad strategies are outlined on this page.

How do we measure success? It is hard to say, but one guiding benchmark can be when business owners, workers, and communities everywhere are able to reap the benefits of employee ownership without encountering common, and perhaps arbitrary, barriers that define our current economic landscape.

"A business owner may have never heard of our organization. But they certainly have heard about their city or their county. Having messaging come through a city or county about the importance of businesses staying rooted in place about business retention. The message to the business owner is we value you as a part of our business community and we want to see you rooted here into the next generation. And then having employee ownership lifted up as one of the strategies that business owners should be considering as they are looking at their succession plans. That's been a very valuable part of these partnerships with cities and counties."

- Project Equity, Alison Lingane, Co-founder, Chief Strategy & Innovation Officer

Alison Lingane, Project Equity

Role of Philanthropy and Government

How Can Philanthropy Continue to Support the Sector?

- Patient (and deep) support for organizations that raise awareness and provide needed technical services for selling owners and employee-owned businesses.
- Longer term grants extending beyond 1 or 2 years, that take the long view when it comes to measuring impact, especially with awareness raising and outreach.
- Provide (and pool) funding and professional support for revolving loan funds and other capital sources for both start-up and conversions.
- Approach expanding employee ownership not as a stand-alone initiative, but as something that can augment other areas of focus, including poverty alleviation, closing the racial wealth gap, environmental and sustainability initiatives, quality work/jobs, and others.

How Can Federal, State and Local Governments Continue to Support the Sector?

- Provide funding for outreach and education to business owners and advisors.
- Encourage business owners to sell to their employees through tax credits or technical assistance grants.
- Ease requirements for employee-owned companies to access capital through rigorous yet reasonable underwriting (no personal guarantees), credit enhancements, etc.
- Pass pro-employee ownership policies like those that gained traction in several states and nationally in 2022.

Left: Allies of Nexus Community Partners

"How do we create the right conditions for making transitions to worker ownership happen faster? Some of that is raising awareness and knowledge of the models. But the other piece is the widespread access to technical assistance. Worker ownership should be an option that's available when you talk to your local business support organizations or when you talk to your attorney. And cities, local government, and philanthropy can create those opportunities. Not just by putting dollars towards transitions but putting dollars towards some of these smaller service providers so they can expand their services in their own practice to include employee ownership. Because that also takes capital and resources."

- Nexus Community Partners, Patty Viafara, Director, Worker Ownership Initiative

"What we are doing is the literal definition of capital on the ground. And government and philanthropist alike share that goal of getting capital into the hands of legacy small businesses to help build up and create community."

- Fund for Employee Ownership, Emma Sherrie, Business Development Manager

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Finally, one last note: the OEOC has a long history (over 37 years) of work in the field of employee ownership. That history and experience can bring a number of benefits to a project such as this – it can also bring a certain level of baggage as well. Throughout we've tried to add some insight where we could, while letting the experiences, insight, and voices of the grantees and those they've helped shine through and be the focus. We hope that we've been successful in walking that fine line. All success in doing so belongs to the grantees, selling owners, and employee owners - and any failure belongs solely to the OEOC.

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