



The role of **IMPACT INVESTORS** in taking **EMPLOYEE OWNERSHIP** to scale

Learning + Design Session | January 18th , 2017 | New Brunswick, NJ



PARTICIPANTS & PURPOSE

On January 18th, 2017, *The Fifty by Fifty Initiative* joined The Foundation for Enterprise Development and the Rutgers School of Management and Labor Relations to convene a meeting on the role of impact investors in taking employee ownership to scale. Hosted in New Brunswick, NJ the meeting brought together leaders in the employee ownership field with impact investors to examine barriers and opportunities for moving more impact capital into employee ownership.

The purpose of the session was to discuss the role that impact investors can play in *Fifty by Fifty's* goal of reaching 50 million employee owners in the United States by 2050. While employee-owned businesses have historically used a wide range of financial tools, the role of private equity and impact investors has been limited to date. Participants in this session took a deeper look at barriers, opportunities and resources for connecting the gaps between investors and employee-owned firms.

Andrea Armeni, Co-Founder & Executive Director,
Transform Finance

Shawn Berry, Co-Founder, LIFT Economy;
Force for Good Fund

Mary Ann Beyster, President,
Foundation for Enterprise Development

Joseph Blasi, J. Robert Beyster Distinguished Professor,
School of Management and Labor Relations,
Rutgers University

Jessica Bonanno, Chief Financial Officer and
Director, Employee Ownership Programs,
The Democracy Collaborative

Steve Buchanan, Managing Partner, Mosaic Capital

Maurie Cohen, Professor of Sustainability Studies & Di-
rector of the Program in Science, Technology, and
Society, New Jersey Institute of Technology

Tina Corea, Vice President, National Initiatives,
Citi Community Development

Thomas Dudley, Co-founder, Certified Employee Owned

Gerardo Espinoza, Executive Director,
Local Enterprise Assistance Fund

Kyle Farmbry, Dean of the Graduate School & Professor,
School of Public Affairs and Administration,
Rutgers University

Carl Fischer, CEO & Founder, Positive Capital Corp.

Russ Gaskin, Managing Director, CoCreative Consulting

David Hammer, Executive Director, ICA Group

Melissa Hoover, Executive Director,
Democracy at Work Institute

Jason Jaffery, Director, Organizational Advancement,
The Democracy Collaborative

Marjorie Kelly, Executive Vice President,
The Democracy Collaborative

Camile Kerr, Associate Director, ICA Group

Newell Lessell, Chief Financial Officer,
Chroma Technology

Andy Loving, Certified Financial Planner,
Just Money Advisors

Christopher Mackin, Partner, American Working
Capital; President, Ownership Associates

Steve Magowan, CEO & Founder,
Sunrise Management Services

Brendan Martin, Founder & Director, The Working
World

Dick May, Founding Member, American Working Capital

Chris Michael, General Counsel, ICA Group

Robin Odland, EVP, Financial Services,
Opportunity Finance Network

Amy Orr, Director Capital Markets, Heron Foundation

Jacob Park, Kevin Ruble Fellow in Conscious Capitalism
and Professor of Strategy, Innovation, & Entrepreneur-
ship, Rutgers University School of Management & Labor
Relations, Green Mountain College

Malini Ramanarayanan Moraghan, Principal, Drawing
Board and Advisor, Kresge Foundation

Corey Rosen, Founder,
National Center for Employee Ownership

Luke Seidl, Research Associate, Veris Wealth Partners

Armin Steuernagel, Co-Founder, Purpose Platform

Dave Stiller, CEO, Heritage Aviation

Jasmine Thomas, Senior Vice President for National
Initiatives, Citi Community Development

Lisa Williams, Vice President, Alternative Investments &
Manager Selection Group, Goldman Sachs





{ Barriers to Moving Capital }

Lack of knowledge

- Lack of awareness about employee ownership among most traditional and impact investors—off radar
- Lack of data on performance of similar investments
- Perception of subpar returns, perceived or real
- Perception that ordinary employees may not be critical talent
- Lack of public awareness—need more education
- Lack of clear, positive examples on finance side
- No simple, well-communicated value proposition

Complexity

- Competition from alternatives in the asset class
- Investors look at employee owned firms (ESOPs) and believe it's too structurally complicated
- Time horizon not always aligned
- DOL/ERISA guidelines pose challenges

Differing opinions

- Cultural confusion about terms democracy and ownership —people concerned it means no management structure, etc.
- Ideals about property rights; belief that business should be owned closely not broadly; principle that ownership equals control
- Lack of reasonable expectation about market share
- Implicit biases, explicitly sexism and racism

Lack of infrastructure

- Need cross-sectoral understanding among investors, EO field, other stakeholders
- Need to intervene at early point—many young companies get driven early by venture capital
- Requirements for market rate returns and requirements for fiduciary responsibilities
- No way to officially syndicate deals; not able to move capital to multiple businesses at once
- Lack of infrastructure in impact investment space, specifically for EO
- Lack of portfolio-level financial modeling
- Need for accreditation of EO firms
- Democratic firms need a means to accept risk capital without ceding control

Perceptions about impact

- Positive social impact of employee ownership is not well understood and sometimes overlooked

{ Resources & Opportunities }

Session participants brainstormed specific resources and opportunities for moving capital to employee-owned firms for each cluster of challenges. These included:

Lack of knowledge

- Growing wealth inequality and growing awareness of it, which has motivated public interest in solutions
- Increased interest in preserving US jobs
- Increased interest in the impact space among traditional investors
- Private philanthropy and nonprofits investing in field-building efforts, which can increase knowledge/awareness
- Investors are well networked with one another and these existing networks can be leveraged for impact investing
- Data proves stories are valuable and very powerful
- Trade association for worker co-ops exists:
<https://usworker.coop>
- Business leadership roles transitioning to millennial generation, who care more about ownership and social impact
- State based organizations that educate legislators exist in many states and there are efforts to create more of these
- Opportunity to look at where policy fits into this conversation

Complexity and differing opinions

- Opportunity to make structures less complex— i.e. buy business as standard business then convert to employee-owned
- “Everything is complex. You need to engineer it.” Complexity is relative—once the process is standardized, it becomes less complex
- Financial advisors can influence and educate their clientele
- Many investors are willing to take below market rates on parts of their portfolio

Lack of infrastructure

- Possibility of development of an employee ownership investment index
- Can study how other sectors became formalized (i.e. affordable housing) and apply lessons learned
- Interest in developing data, infrastructure, portfolio measurements among attendees
- Can leverage industry clusters and trends where one firm makes a conversation and then others take the process on too; use learning and pressure within an industry

Perceptions about impact

- Several studies forthcoming that demonstrate impact of employee ownership on low-income communities
- Interest from academic community to conduct additional research
- Creating an employee ownership category within investment portfolios is challenging because EO stretches across business types, industries, yet investors need clarity (i.e. affordable housing, sustainability, etc.)
- Opportunity to redefine impact in terms of business structure rather than goods/services produced
- Unrealized potential for foundations to engage their donors about employee ownership as an exit strategy
- Opportunity to encourage more regional and place-based investing



{ Generating Market Landscape }

After discussing resources and opportunities for each cluster of barriers, participants broke into smaller working groups. Each group selected a challenge that they felt was of particular importance and came up with one or more possible solutions.

CHALLENGE: Lack of infrastructure and coherent narrative

Solution: While the EO models themselves can be polarizing, the topic of inequality draws people in. The discussion and entry point should be inequality, though not currently the focus.

Solution: Set goal of eliminating income inequality and create set of tools for private/public companies.

Solution: Tell stories of individual lives to show why employee-ownership matters.

CHALLENGE: Minimal contact between investment and employee ownership community—related to lack of infrastructure and awareness

Solution: Impact investing and worker ownership experts need to learn more about each other.

CHALLENGE: Identifying leverage points

Solution: Opportunity to identify either entrepreneurial companies that want to stay private OR narrow slice of ESOPs that need outside equity and find a way to have those organizations invest in additional infrastructure.

CHALLENGE: Creating and linking to existing and future research

Solution: Lots of talent in the room, but need to follow up and stay in communication.

CHALLENGE: General lack of infrastructure

Solution: Need for vehicles that make it easy to deploy capital. This is an opportune time to do this because people who don't see eye to eye politically can agree that there is something that's not right about our economy.

CHALLENGE: Market does not recognize value of employee ownership so access to capital is limited

Solution: Create data sets to show economic and social return on investment.

Solution: Demonstrate value by creating a publicly traded vehicle to educate the market.

CHALLENGE: Current lack of readily accessible investment products

Solution: In order to have a scalable path to get to deals for transactions, we should look beyond institutional performance. We need to collect data to better communicate stories of opportunity.

CHALLENGE: Cognitive biases

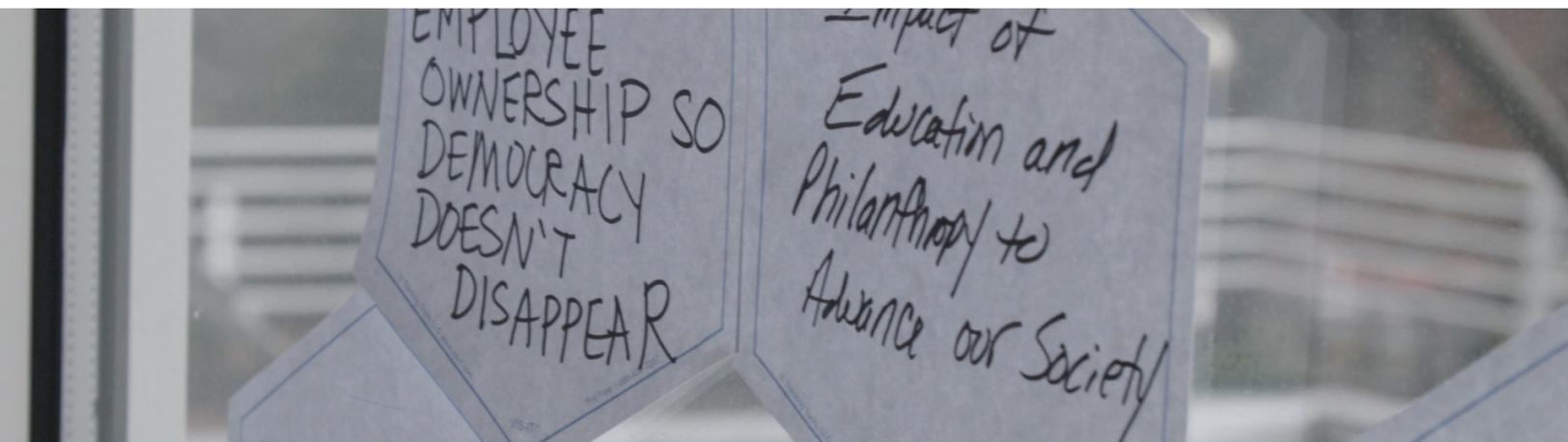
Solution: We need to educate ourselves on what is taking place within the private sector and how it looks at ESG/ impact investing and learn to communicate EO on those terms. We have cognitive bias that says that if you know about employee ownership, you would do it. That may not be accurate. Advocacy is also key.

CHALLENGE: Defining how employee ownership relates to impact investing

Solution: The highways have been paved in terms of social impact investing. Should we try to fit within current metrics or develop framework? It's a bit late to reframe the social impact world, so there's a question as to whether we need to conform or break new ground.

CHALLENGE: Conversations limited to small rooms

Solution: Need to look at policies that can scale investment in employee ownership.



{ Voting On Top Opportunites }

Session s voted on the solutions that they thought would have the highest impact and would be the most realistic to implement.

Opportunites

NUMBER OF VOTES

Focus on the inequality narrative and set a goal of eliminating income inequality, with employee ownership as a key tool

22

Combine qualitative and quantitative tools to communicate value of EO:
Leverage data science to demonstrate performance & collect personal stories to demonstrate social impact—use these to create infrastructure; show return

17

Create a national employee buyout bank

12

Create a more accessible employee ownership investment vehicle as an educational tool

10

Focus on entrepreneurial companies that want to stay private

4

Produce an employee-ownership conversion reality show

4

Direct more equity investments into the portion of ESOPs that need it

2

Millions of Americans already have an ownership stake in their workplace. More than 7,000 U.S. companies are owned wholly or in part by their employees—the people who work there every day. And between 1,600 and 4,400 of these companies are majority employee-owned. These employee-owned businesses are more connected to their communities, better for their workers, and are measurably more stable and productive than traditional investor-owned corporations. They represent the seedbed of a new kind of economy based on broad-based prosperity, limited wealth inequality, and a shared sense of ownership of and responsibility for our communities and workplaces.

What's possible if we think big, and build from this foundation with strategic alliances, smart policy, and the resources to take employee ownership to scale?

50 million employee-owners by 2050

Growing employee ownership to roughly a quarter of our future workforce will require sharing our best analysis, thinking, and strategies. It will also demand an unprecedented level of focused collaboration among both traditional leaders in the employee ownership field, as well as with non-traditional partners, so we can create a broad ecosystem of support for employee ownership. The *Fifty by Fifty* initiative is designed to facilitate the deep collaboration needed to make employee ownership— through structures like worker cooperatives, ESOPs, and other models— a major part of the U.S. economy. Its aim is to begin to bend the curve of history toward an inclusive, community-based economy, where millions more families enjoy financial stability, increased income, and greater retirement security, and where more Americans can control their economic destiny.

www.FiftybyFifty.org | Marjorie Kelly | mkelly@democracycollaborative.org



www.DemocracyCollaborative.org

Fifty by Fifty is a project of The Democracy Collaborative and is co-convened by the Democracy at Work Institute, the National Center for Employee Ownership, and the ICA Group.