

# Revitalizing Communities through Employee Ownership

## A Unique Venture in Cleveland

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cus varied efforts on common goals to improve the community. It's what we call being a collaborator, facilitator and convener.

About five years ago, we identified University Circle as an area where we should strategically invest. The Foundation has been strongly committed to neighborhood revitalization and downtown redevelopment, and supports a wide array of projects to help achieve these goals. Our thinking was that if we could concentrate our dollars and attention on a defined geographic footprint and build strong partnerships with institutions within that footprint, we could achieve a greater impact.

University Circle has long been one of Cleveland's brightest jewels. Its world-renowned cultural institutions are a legacy of the city's industrial past – like the Cleveland Museum of Art and the Cleveland Orchestra at Severance Hall. It is also home to educational institutions including Case Western Reserve, the Cleveland Institute of Music and the Cleveland Institute of Art.

We were drawn to this area because it was undergoing an investment boom of sorts. The area's large, or "anchor," institutions were growing and undertaking substantial capital improvements. What's more, we noted that significant investments were also being made by major institutions that were nearby but fell outside the traditional boundaries of University Circle – most prominently the Cleveland Clinic and the Veterans Administration.

Despite all these positives, the area also has immense challenges and dichotomies. The surrounding neighborhoods are among the most underserved and disadvantaged in the city. Annual median household income is under \$18,500. Retail and service outlets and other amenities are sorely lacking. Unemployment is high, educational attainment is low, housing is distressed, and relatively few job opportunities are available.

The large health care, educational and arts institutions spend billions of dollars each year on salaries, procurement and real estate development, but little of this massive economic activity flows into and stays within the neighborhoods. What's more, the institutions historically had no close association with their neighborhoods and no working relationship with one another. Despite substantial investments in their own facilities, they shared no information about their projects or plans with their neighbor institutions. In essence, each acted as if the world ended at its respective property line.

The heart of our effort is making sure that, as the big institutions grow and prosper, the neighborhoods benefit as well. So our neighborhood efforts, initially focused on housing, evolved into what we call an "economic inclusion" approach.

**T**oday I will share with you the exciting efforts we have under way to revitalize an important part of Cleveland and the key role of employee-owned businesses in those efforts. Our project is unique and creative, and is already gaining the attention of national audiences interested in urban revitalization and particularly the topic of how to anchor jobs and wealth in a community.

Allow me first to lay the groundwork by talking briefly about the Cleveland Foundation. The Cleveland Foundation, established as the world's first community foundation in 1914, was a groundbreaking concept. The idea was to pool many gifts from many people into a single, great and permanent endowment for the betterment of current and future residents.

Unlike a private foundation like Gates or Rockefeller with one donor, our funds come from a variety of sources and are invested in perpetuity with the earnings distributed to worthy organizations or causes.

Annually we award more than 2,800 grants ranging from a few hundred dollars to several million dollars. Last year, we awarded nearly \$85 million to area non-profit organizations and projects.

While we are best known for our grantmaking role, it really is only part of our job. Just as important is the leadership role we play in our community. Because of our resources, our objectivity, and our ability to take the long-term view, we are in a unique position to discern our community's needs, look beyond the interests of any single institution, act as a bridge between sectors, and fo-

Our mission became not only to create jobs, but also to generate wealth for low-income residents while also stabilizing neighborhoods. We began to explore how we could anchor and create businesses that employ residents and build wealth for their neighborhoods. As you know, employee ownership is an excellent tool to accomplish that. It has a proven track record of generating jobs, anchoring capital within neighborhoods, promoting asset accumulation and building viable economic enterprises.

Here is a critical part of the equation. New employee-owned businesses, largely structured on the co-op model, would be developed to match the procurement needs of the large institutions.

Getting these institutions to see the benefits of purchasing locally did not happen overnight. We conducted over 100 interviews to understand their procurement processes and what kinds of goods and services they needed and to make sure it would be a win-win proposition for them and the new businesses.

Think about it: businesses hire from the neighborhood, giving people jobs and an equity stake in the enterprise; profits stay in the neighborhood, continuing to circulate and sparking other business opportunities and further wealth. Indeed, the evidence is that employee-owned companies have a higher multiplier effect than conventionally owned firms. In short, we foresee these businesses empowering the whole community and serving as a catalyst for ongoing revitalization.

Can employee-owned businesses create wealth in low-income areas? We strongly believe the answer is yes! While this is a new venture, we believe the evidence supports our case.

Now let me tell you a little about the businesses that we are creating.

Let me preface this by saying that all businesses will give priority to hiring local neighborhood residents and to environmental sustainability. We felt it important to build on the growing national momentum to green our cities and to create environmentally sustainable businesses. We believe this makes not only good environmental sense but good business sense.

Our first co-op, the Evergreen Cooperative Laundry, launches in June. The laundry is an industrial-scale, environmentally advanced, state-of-the-art, commercial laundry providing services to area hospitals and assisted living centers. Its first major contract is with Judson, a retirement community. As it grows, the laundry could employ 50 neighborhood residents, all of whom will make a wage greater than the industry standard and each of whom will, over time, become equity owners of the enterprise, building wealth where it is rare, perhaps as much as \$65,000 over ten years for each employee-owner.

Next up will be Ohio Cooperative Solar, or OCS, a community-owned business that will own, install and maintain solar panels. OCS's solar panels will be installed on the rooftops of the area's major nonprofit institutions in a lease-back arrangement. Energy generated will be sold through a power purchase agreement with the building

owner. OCS will serve as a training platform for employees, and the job count will grow rapidly to include sales, installation, distribution and maintenance of solar panels. This venture was inspired by the Cleveland Clinic.

Now undergoing a feasibility study is Evergreen City Growers, a commercial-scale, year-round hydroponic greenhouse that will grow and sell produce matched to the needs of area hospitals and other institutions. It would cover five to 10 acres. Its first product is slated to be leafy green vegetables, which are now produced almost entirely out of state. When fully functioning, it could employ about 75 neighborhood residents.

Other businesses under development or being studied are a community owned and written newspaper and a housing deconstruction and reuse business, to address many of the foreclosed houses in the area and specifically target recently released prisoners as employees. In addition, we anticipate converting some existing businesses into employee ownership and also starting up labor intensive businesses, such as home care, janitorial and food services that do not require high capital inputs, but provide a significant number of jobs.

It is important to mention that we have set up a financing and support vehicle for our growing network of community-based businesses. Our fund, housed at ShoreBank Enterprise Group, can be replenished off the success of existing co-ops and gives us the ability to seed new co-ops without having to recreate the wheel each time. For the first five years, staffing for the fund will be provided by OEOC. The fund will also provide technical support and training to potential entrepreneurs and assist with the start up of other promising employee-owned businesses in the area. We estimate that the \$10 million we are trying to raise for this fund will be instrumental in capitalizing 10 community based businesses, employing some 400 local residents, and leveraging an additional \$30 million of investment. Although we are seeking other funding, we are excited that our Board has committed \$3 million to this Fund.

There is great interest in our efforts among national foundations, social funders and nonprofit banks. They believe we have a promising concept for comprehensive community development and that we could become a model for how cities, particularly older industrial cities, can leverage remaining assets to create jobs, address poverty, and build wealth – all while benefiting the environment.

Are we optimistic? Yes! But I admit we can't call ourselves a model just yet. It is far too early to see results.

But, supported by strong partnerships, we are trying something new, and we think we're onto something big. Greater University Circle, an internationally renowned center for research, education, medical care and culture, can be nestled in neighborhoods that are highly desirable places to live. And we believe one of the engines behind this transformation will be a thriving network of employee-owned businesses.

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