

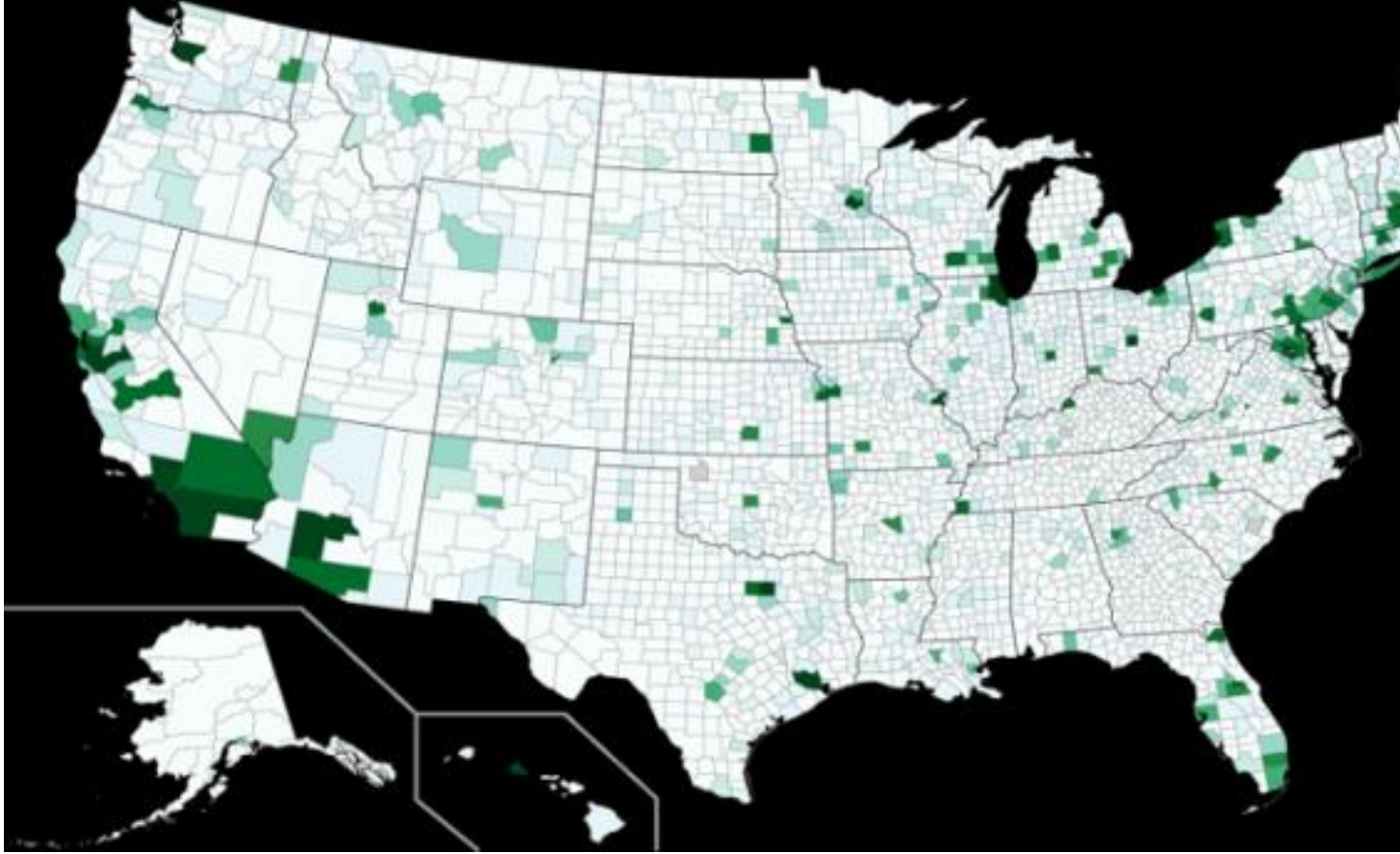
ESOP and a New Wave of Local Awareness

By Anthony Mathews

It has long been apparent (although often overlooked) that the most effective way to promote employee ownership is through local influence. The proof of this is pretty clear in the distribution of ESOPs around the country. Over the years, people have often wondered why there are such distinct clusters of ESOPs in specific areas of the country (Northern Calif. and the Mid-West, notably Minnesota, for example) and the answer is embarrassingly simple – ESOPs sprang up initially where there were committed ESOP practitioners at work. And, having a cluster of ESOP companies in a given area increases the likelihood that other ESOPs will be formed in that same area.

More than 40 years from the adoptions of the first ESOPs (more if you count the original Kelso Plans that were formed pre-ERISA), it should be no surprise, then, that the original clusters are now the hubs of larger clusters of ESOP companies that followed them into existence. By extension, many of us in the employee ownership community believe that the key to increasing the number and coverage of employee ownership plans in the U.S. is not to focus exclusively on federal tax and other initiatives, but to create more local and regional information and support services to encourage and help to build employee ownership where it exists – in our communities.

After all, among the real winners from employee ownership are the communities that are home to employee-owned companies, but most are sadly unaware of that fact. This fact is just now beginning to be better documented – ESOP formations can and do have a significant and positive effect on the communities in which they reside. Very recent research is being conducted that is attempting to map the relationship between the existence of employee ownership in communities and significant measures of the health of those communities. The research is in early stages, but the initial results are very encouraging – employee ownership is positively related to a healthy community. The more employee ownership in an area; the better off the area is (in many ways "better" is measurable for a community – job stability, median income, tax base, etc.) The map below is a beginning illustration of this phenomenon – the greener areas are achieved by concentration of employee-owned companies and positive scores on these measures.



It is intuitively clear in any case, that employees buying a company is going to be better for the community in a multitude of areas including creating an enhanced local tax base; keeping wealth in the community where it is being created; fostering a stable work environment; and forging a wealthier community overall.

Following these observations, there is a significant and growing interest in creating/increasing local influence on the development of employee ownership through an aggressive state center movement. Several well established state centers provide a clear model of how these facilities can be established and sustained. Ohio and Vermont, for example, both have long established and very successful state centers that provide considerable support to their communities and expand that influence to surrounding areas. And, we believe, it falls to all of us in the community to follow their example to provide the same penetration of information and support to the rest of the country.

The National Center for Employee Ownership is undertaking to facilitate the creation of these centers, and our institute is deeply involved in working to develop a strong center for the State of California that can serve as a base upon which other states or regions or communities might build a local effort for themselves. Check it out at www.ownershipcalifornia.org.

By taking the great example of regional ESOP promotion pioneers, engaging the University of California in the effort and working to engage other educational institutions as well as leaders in business and the local employee ownership community, we believe that it will be very possible to build strong regional support for the idea that communities ought to be the most active supporters of employee ownership.

As the baby boomers get ever closer to their "liquidity years," we are committed to assuring that wherever solid businesses are available there will be a community influence to promote the idea that those businesses would be better served and better serve all their stakeholders if they joined the growing ranks of employee-owned companies rather than just becoming another portfolio item for an absentee investor group - or most tragically a victim of the option many owners of closely held companies exercise on retirement, liquidation.

Help support our communities, help support the rebuilding of a sound middle-class through support of efforts to increase employee ownership at the local level. We have significant federal advantages, but without local support and commitment, we will never achieve a tipping point at which employee ownership becomes a base upon which a rich future can be built for all of us.

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