

# Improving State-Level Policy Advocacy for Employee Ownership

By Michael Taylor



*Michael Taylor, Rady MBA candidate 2013*

Beyond private-sector consulting services on behalf of client firms, the Beyster Institute at the Rady School of Management sees additional nationwide potential for employee-ownership advocacy in the form of educational efforts designed to influence policy on the state level. If undertaken nationwide, such initiatives could dramatically improve not only the welfare of prospective employee owners, but also revitalize an important source of U.S. firms' competitive advantage in the global marketplace.

J. Michael Keeling, president of the ESOP Association has said, the U.S. boasts world-leading infrastructure for supporting and fostering employee ownership: "No other nation in the world has laws that sanction an arrangement that is the same as the U.S. ESOP. One cannot go to Spain, Germany, Bangladesh, China, etc., and set up an arrangement that is the same as, or even similar to, a U.S. ESOP."

The benefits of employee ownership to U.S. firms have long been observed. Armed with an additional stake in their company's profitability, employee owners are more likely to pursue cost-saving measures and investments in their own human resources that improve firm performance in service of their own retirement needs. Because U.S. firms possess a unique advantage in terms of regulatory support for such ownership structures, employee-ownership programs can constitute a unique competitive advantage over rivals elsewhere.

Meanwhile, although federal support for ESOPs in the U.S. is unmatched elsewhere, there is room for additional encouragement on the state level. Indiana State Treasurer Richard

Mourdock, for example, in 2007 established Indiana's ESOP Initiative, which includes a \$50 million investment of state funds in Indiana banks' CDs to help them finance ESOP initiatives. The program has led to financing for such transactions as the \$1.42 million transaction in 2010 to establish employee ownership for Indiana construction firm HIS Constructors.

Indiana's advocacy for employee ownership doesn't stop at financial investment. The Indiana Treasury remains active in encouraging in-state, employee-owned companies as they continue to grow and provides an online directory of resources for companies that may be interested in starting their own ESOPs.

In Ohio, the state Treasury's GrowNOW program offers interest-rate reductions for small-business loans via a partnership between the state and Ohio banks. Under former Treasury Secretaries Richard Cordray and Kevin Boyce, the state encouraged businesses to consider using the loan program to finance ESOP transactions, and the GrowNOW program remains in place under current Treasurer Josh Mandel.

State-level support for employee-ownership initiatives is a clear avenue to foster proliferation of ESOP companies. Such public investment creates the attendant advantages of more widespread employee ownership: additional competitive advantages and growth for ESOP firms as well as improved retirement prospects for workers. Organizations with an interest in promoting employee ownership would be wise to consider educational and advocacy initiatives that create ESOP-friendly policies in other states, and further encourage governmental support where it has already found a foothold.

###

© 2012 Regents of the University of California. All rights reserved. Official Web site of the University of California, San Diego.