# Thinking globally, acting locally: Subnational strategies to promote employee ownership

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**Prepared for presentation at the Capital Ownership Group conference, "Fix Globalization: Make It More Inclusive, Democratic, Accountable and Sustainable," Washington D. C., October 9-11, 2002**

This is the current draft of Chapter 2 of the manuscript *Ownership for All: The High Road to Globalization.* The list of "works cited" may be requested from the author at jlogue@kent.edu.

**Comments, criticism, and suggestions for revision are timely and much appreciated.**

Broadening ownership is a global issue, a national issue, and a local issue in that order of priority. If we are serious about addressing it, however, it is more useful to reverse that order, to begin where we live and work. Not only does this choice have intuitive appeal to those who seek practical choices for actions within their own scope of influence. There are at least five compelling reasons why we should be concerned with encouraging employee ownership at the subnational level: at the level of the state, the province, the region, the municipality, or other subnational governmental and nongovernmental units, including ones that cut across governmental geographic units.

The first is that in many governmental systems, particularly federal systems, legislative measures beneath the national level may be effective in promoting broadened capital ownership. In many federal systems, the writ of the federal governmental does not extend beyond broad national agenda items; state and local legislation speaks to the local economic development questions. Moreover, policy experimentation is typically local, and successful provincial or local innovations frequently become models for national policy.

Second, in larger nation states, be they federal or unitary in structure, the national government is not a very effective provider of technical assistance for companies, employee groups, retiring owners, unions, or community economic development groups. Subnational provision of technical assistance through state, provincial, or municipal programs, or through non-profit organizations and industrial associations is far more efficient and appropriate.

Third, employee ownership is, in its nature, a strategy for anchoring capital and jobs in the areas where employee owners live. Its benefits are local. For example, its productivity-enhancing effects can "help to narrow the divide between those who favor and those who fear more growth in Hawaii by slowing workforce/population growth in future economic expansions which, in turn, could reduce the need for wage cuts and lay-offs in future recessions" (Tom Brandt, 4/4/2000; see also his "Impossible Dream for Hawaii's Future?" 9/10/99).[1] This local or regional strategy is best implemented through subnational action.

Fourth, employee ownership is intrinsically a micro-economic strategy, implemented at the level of the firm. Employee-owned companies can thrive by using collaborative networks, training cooperatives, establishing employee-owned supplier networks, and other strategies for community involvement. The substantial multiplier effect that employee-owned companies can have in spreading employee ownership and increasing community economic activity has the greatest impact at the state or provincial and local levels.

Fifth, with economic globalization, the nation state gradually ceases to be the appropriate unit for economic policy, and the traditional national economic management tools -- whether fiscal, monetary, or exchange rate policies, capital transfer restrictions, domestic content, requiring a controlling domestic ownership stake, domestic preference in the award of public contracts, etc. -- cease to be effective or are struck down by international trade rules. In this environment, employee ownership is a particularly attractive alternative, especially for high wage areas.

Consequently this chapter will look at employee ownership at the subnational level as distinct from the promotion of employee ownership nationally or transnationally. We will look at what subnational actors -- both public and private sector -- can do to promote employee ownership through (1) state or provincial legislation, (2) technical assistance, (3) local actions by public and private sector actors, including employee-owned companies, (4) investment funds, and (5) company networks.

Participants in Capital Ownership Group on-line "eosubnat" discussion (http://cog.kent.edu) that informs this chapter emphasized two major goals with their proposals and comments: (1) broadening ownership of productive assets through increasing the rate of formation of employee-owned firms, and (2) deepening existing (or future) employee ownership through encouraging greater employee participation. Those goals shape this chapter.

## 1. Subnational public policy

Subnational political units can act to encourage employee ownership within their jurisdictions. To date, that seems to have been done primarily in Canada, Italy, Spain, and the United States. But there is no reason why similar measures cannot be undertaken in other federal systems and in unitary political systems that give latitude to subnational governmental bodies in economic development. In principle such measures can be implemented by Russian oblasts, Australian states, Chinese provinces, German Länder, and other provincial governments, by cities and municipalities, and by any of hundreds of thousands of other subnational political jurisdictions.

Indeed, as nation states have gradually lost their capacity to make and implement national economic policies in the face of increasing economic globalization, subnational policies may become increasingly appealing.

### State and provincial legislation

Employee ownership appeared first on the state policy agenda in the United States as Congress passed the Employee Retirement Income Security Act (ERISA) in 1974 that legitimized the Employee Stock Ownership Plan (ESOP) as a pension plan, and is most developed there. In all, twenty-eight states have passed some sort of legislation encouraging employee ownership. (For a comprehensive account of state legislation, see Logue and Grummel 2000.) Their measures run the gamut from policy declarations to substantial financial commitments. They include:

- Policy declarations endorsing employee ownership
- Publicity for employee ownership including workshops, pamphlets, etc.
- Tax credits
- Exemption of ESOPs from state securities regulations
- Explicit legal recognition of workers cooperatives
- Loan guarantees
- Earmarked loan funds
- Interest rate subsidies
- Funding for or the direct provision of technical assistance
- State employee ownership offices or programs
- Use of employee ownership in privatization of state services

The aims of state employee ownership legislation mirror the context of the times. Initial state legi enacted in Minnesota and Michigan in 1974, provided both philosophical and economic justifications for supporting employee ownership. Minnesota declared ESOPs to benefit the people of Minnesota by (1) re a sense of human worth, (2) recognizing the interdependency of human effort, (3) providing direct econo

advantage, (4) reducing differences in the interests of labor and capital, and (5) relieving a primar of social tension. Michigan promoted employee ownership as part of revitalizing local economies to pre unemployment.

The big push for state legislation came between 1979 and the end of the 1980s as the one-two punch of the recession of 1979-80 and the overvalued dollar in the middle of the decade sent American manufacturing into a long-term crisis. While no more than two or three percent of employee-owned companies have been set up to avert job loss, state legislation in this period focused on employee ownership as a job retention strategy. Between 1979 and 1990, twenty-three states passed legislation encouraging employee ownership in a variety of ways. These included every state in the industrial heartland from Massachusetts and Connecticut through Illinois and Wisconsin as well as on the West Coast. In the same time period, a major push for legal recognition of worker cooperatives put such legislation on the books in twelve states, starting with Massachusetts in 1982.

By contrast in the prosperous 1990s, half a dozen states let existing employee-ownership legislation lapse, and new state legislation focused primarily on employee ownership in privatization (Virginia 1995; North Carolina 1998). Only two states (Texas 1991; Delaware 1996) added legal recognition of worker cooperatives to their statute books. Maine, however, broke new ground. It followed 1997 legislation driven by job retention interest with a 2000 commission to undertake a comprehensive study of ownership patterns in the state. The commission was charged "with documenting current patterns of ownership of Maine businesses, the characteristics of those businesses (size, number and quality of jobs), and the impacts of changes of ownership on the state and local economies, and civic and environmental accountability," and was also to look at policy options for broadening ownership through employee, consumer and community forms of ownership in firms operating in the state. An area of particular interest was "small, Maine-owned growth companies, particularly technology firms, and their need for large infusions of capital as they grow: how many are bought out, do they continue to operate in Maine, does their growth take place in Maine?" (Carla Dickstein, 4/4/2000; see also her discussion of 4/5/2000 and 4/7/2000 and "LR: 3751: An Act To Broaden Business Ownership in Maine" in the COG library). While Maine's ownership commission did not receive adequate funding to accomplish its mission, its focus was correct: to understand more fully the relationship of ownership patterns to economic and social performance.

A number of other interesting initiatives were proposed in the discussion. These include:

- States could provide tax credits to companies for setting up more participatory ESOPs with caps based on a sliding scale varying with the percentage employee-owned.
- States or municipalities can encourage establishment of community development loan funds with a preference for employee ownership, as has already been done in New Hampshire.
- Unemployment contributions could be cut for employee-owned firms.
- States can encourage electrical consumer co-ops in electricity deregulation.
- States can enact legislation giving employees the right to purchase facilities being shut by companies abandoning that line of business, or, more aggressively, to give employees right of first refusal on plants being put up for sale.
- States could authorize the establishment of special purpose districts to broaden ownership, just as they have authorized the establishment of special purpose districts for hospitals, soil and water conservation, sewer systems, transportation, and the like.

- States can legislate a separate corporate form for employee-owned firms, perhaps providing reduced state taxation in return for greater contributions to the community. For example, the Mondragon cooperatives have a lower tax rate on corporate profits provided they donate at least 10% of their earnings to charitable, educational, cultural, or other non-profit purposes, such as cooperative development.
- Both the French and Italian governments provided preferences to cooperatives in bidding on government contracts (Carla Dickstein, 4/18/2000), and Jeff Gates (1998, 185-91) advocates that the Federal government implement this at the national level. States and municipalities provide a variety of set asides in government contracting for firms owned by minorities and women. Why not establish state and local set asides or preferences for employee-owned firms?

**State and local privatization**

When the hegemony of neo-liberal ideology reached the local level in the 1990s, subnational governmental units joined nation states in divesting themselves of ownership of public utilities and services, from hospitals through water works. So far privatization of municipal and state enterprises has represented a major missed opportunity to broaden ownership in the West. In general, privatization has occurred through sale of locally owned public enterprises to conventionally owned corporations, not to employees, with revenues flowing into general public coffers for current spending, rather than into trusts or other funds which provide a lasting benefit for citizens.

In effect, the public sector has liquidated long-term assets to finance current consumption. While this procedure has been justified by the ideological assumption that the market is always superior to public provision of goods and services, in fact much of the political motivation for local privatization has been covering revenue shortfalls or paying for tax cuts, usually for the well to do, quickly consuming the value of public assets. At least in the United States, this has been “free” funding for the governmental unit, because public sector accounting practices do not provide balance sheets to citizens charting asset liquidations.

Given the fact that these assets were typically built through public effort, achieving some public purpose (beyond replacing tax revenues short term) would seem desirable. The recent Virginia and North Carolina employee ownership legislation considers sale to employees as a means of privatization. Russian and Eastern European privatization at the local level has often also given preference to employees. As is clear from Dan Bell’s chapter on employee ownership in privatization, one primary motivation for an employee share has been getting public employee unions’ acquiescence in privatization. However, one can conceive of a privatization policy designed to create lasting employee ownership of privatized assets.

A second form of state and local privatization has been contracting out to private firms public services from cafeterias to school buses. This has rarely involved giving the employees an opportunity to bid for the work, giving them no option but to wait helplessly to see whether the winning bidder will choose to employ them.

One transitional strategy in both cases could be to create partial employee ownership of the public business or service to be privatized while the service is still in the public sector. This would create an enterprise jointly owned by the public sector and by the employees. (In effect that was the situation with Conrail, the Federal reconstruction of the Eastern freight railroads: the employees owned 15 percent and the government the remaining 85 percent.) The process could begin with the agency to be privatized paying employees a small capital wage in stock. Paying dividends on this stock (assuming

profitability of the agency) could underpin what otherwise would be regarded as purely theoretical ownership rights. A gradual privatization strategy of this sort would be less disruptive, especially to current employees who could bargain with potential business partners as co-owners, than a sale or contracting out to outside owners.

**Distribution of subnational public ownership rights to citizens**

An alternative to privatization is to unbundle public ownership rights and vest a portion of them in citizens or employees while retaining legal ownership in the hands of the governmental unit.

One fascinating case where this has been done is the Alaska Permanent Fund which shares public ownership rights of subsoil resources (in this case, oil) with partial financial ownership rights for citizens. (This is arguably a real world example of John Roemer's coupon socialism model; see Roemer 1993.) Since 1982, a portion of state oil royalties have been distributed to every man, woman, and child resident in Alaska for all of the previous year. Every resident who qualifies gets an equal share. These rights are not tradable (i.e., cannot be sold), cannot be inherited, and cannot be taken with you if you move out of Alaska. In effect, Alaska treats its residents as beneficial owners of royalty rights. In 2000, dividend checks from the Permanent Fund were almost $2000 for each of the state's 585,000 qualifying residents. The state retains the formal ownership right but chooses to pass-through the economic benefit to its citizens.

It is not difficult to imagine a similar treatment for other profitable public ownership rights at the state or local levels when those streams of income are sufficient to be divided. Public income from royalties, easement and concession income, fees for private use of public property, and the like are often consigned to general revenues and not as jealously protected as they might be if citizens derived a more direct benefit from public ownership. In the case of publicly owned production or service facilities, such as municipal electricity generation or public parking garages which sell their products and services directly, ownership might be split between the public sector and employees. Of course, most of these public ownership income rights are already committed to other worthy public ends, especially public education, as is the case for Texas oil royalties and for most state lottery profits.

## 2. Providing technical assistance

One promising mechanism for encouraging employee ownership at the subnational level is the establishment of organizations which provide information, technical assistance, training, and the like for employees seeking to purchase companies or to establish cooperatives. This can be done by governmental units (as has been done in several American states), by not-for-profit organizations (again there are several American examples), by unions, by labor-sponsored investment funds, or, conceivably, by for-profit groups.

**State employee ownership programs**

During the latter half of the 1980s and early 1990s, seven state employee ownership programs (Hawaii, Massachusetts, Michigan, New York, Ohio, Oregon, and Washington) were established. A quasi-state entity -- the Steel Valley Authority -- provides similar services on a regional basis in Southwest Pennsylvania. More than anything else, these programs focused on outreach and assistance to union locals in plants facing shutdown and to retiring owners who might be interested in selling their companies to their employees.

A study of three of these programs -- New York, Ohio, and Washington -- in 1990 by the

National Center for Employee Ownership found all of those studied to be efficacious in increasing the rates of ESOP formation in the states in question (National Center for Employee Ownership 1990a; 1990b).

Practically all we know about the impact of employee ownership at the state level is a consequence of studies done by those state programs (Michigan [Michigan Center for Employee Ownership and Gainsharing, 1990], Ohio [Logue and Rogers 1989; Logue and Yates 2001], and Washington [Keogh 1988; Keogh and Kardas 1994/95; Kardas, Scharf, and Keogh 1998]) or supported by them, most notably Gorm Winther’s study of the impact of employee ownership in both New York and Washington (Winther 1995).

Despite the apparent success of these programs, their political support ebbed with improved economic conditions in the 1990s and party transitions in a number of state governments. The consequence was the defunding of state employee ownership programs in Hawaii, Massachusetts, Michigan, New York, Oregon and Washington, although state personnel continued to provide support and technical assistance for employee ownership in Massachusetts, Michigan and Washington.

Why were clearly successful programs dismantled? They were largely anchored in state governments; only Ohio's and Oregon's were contracted out to, respectively, a state university and a non-profit organization. Within government, they were susceptible to the slings and arrows of state politics, especially because several state programs had clear partisan backing at the time of their establishment. Placement outside of state government was no panacea, however: while the Ohio program has continued to grow despite reductions in state support, loss of state funding terminated the Oregon program.

Jim Houck, who ran the Michigan program while it existed and who continues to promote employee ownership in that state reflected that “State programs are inevitably vulnerable and most have a somewhat limited life expectance. There is always the temptation to try something new and programs are constantly being scrapped, merged with others and replaced by the latest fad incentive.... Employee ownership must compete with a lot of other program applications in government. It must constantly evolve its marketing appeal (attracting and retaining employees is a major concern to most all states in today's economy) and specific applications if it is to retain its support by state government officials” (Houck, 3/27/2000). Thus the new Virginia employee ownership program has a special interest in employee ownership in privatization. In Quebec, it’s fee for performance: the provincial government supports the Regional Development Cooperatives (RDCs) with payments on the basis of number of jobs created.

One aspect of state programs is particularly important to note: their greatest successes arose from targeting retiring owners to encourage them to sell their businesses to their employees when there was no heir eager to continue the family business. Special Federal tax incentives encourage the sale of closely held businesses to employees. For the seller, the employees constitute an often enthusiastic buyer willing to pay a market price for the company, rather than bottom fishers looking for a bargain. For the employees, buying the company averts uncertainty and avoids the dubious aims of outside owners.

A number of subnational programs have this focus. In the early 1990s, Hawaii's employee ownership program was funded to identify owners within 5 years of retirement and to let them know about the advantages of employee ownership (Tom Brandt 4/4/2000). The New York state program actively promoted employee ownership in retiring ownership situations by funding preliminary feasibility studies. The Ohio Employee Ownership Center, which always stressed outreach to retiring owners, has successfully run a business succession planning program to promote broader ownership in

the Cleveland area since 1996. Between 1996 and spring 2001, 347 business owners from 276 area companies employing more than 25,000 participated in the program. (The rationale and design for the OEOC program can be found in Clifford and Logue 1996; the manual used in the program is Clifford and Teodosio 1999.) Massachusetts recently piloted a state-wide succession planning program patterned on the Ohio model.

This retiring owner focus pays off. The 1990 NCEO study of state employee ownership programs found, for example, that in Ohio, where the state program targeted small business, the rate of ESOP creation in closely held firms rose 45% faster than the national average (National Center for Employee Ownership 1990b, 1).

Have these state programs made a difference? The answer is overwhelmingly "yes!" The question is how best to maintain them. Michigan's Houck argues that it is "very important to have legislation which more or less permanently supports the establishment of some sort of government response encouraging employee ownership. Ideally, that legislation will also establish a modest funding level to support staff and program initiatives. It does not have to cost a lot of money. From $100,000 to $200,000 annually will provide a substantial administrative effort. Legislation will help a state to override inevitable political shifts" (Houck, 3/27/2000).

**Non-profit employee ownership organizations**

In addition to public sector employee ownership assistance organizations, there are a handful of regional not-for-profits which promote employee ownership in the United States. These include the Industrial Cooperative Association (now ICA Group) in Boston, the Center for Democratic Solutions in San Francisco, and the Southern Appalachian Center for Cooperative Ownership in North Carolina. The ESOP Association, Center for Economic and Social Justice, Foundation for Enterprise Development, and National Center for Employee Ownership promote employee ownership at the national level.

A number of local non-profits have been set up to encourage employee ownership. In Ohio alone there have been three: Commonwealth in Youngstown, Worker-Owned Network in Athens (now ACENet), and Jobs for People in Cincinnati. Generally speaking the catchment area for such local organizations is simply too small for them to focus exclusively on employee ownership and, over time, they have come to broaden their scope to include such other admirable goals as low and middle income housing development (Common Wealth) and flexible manufacturing (ACENet).

The largest and by far the most successful network of non-profit promotion of employee ownership has been created by the Quebec cooperative movement. Since 1985, it has established eleven Regional Development Cooperatives (RDCs), which currently employ 75, to establish new consumer, forestry, processing, and worker cooperatives. The provincial government funds the RDCs on the basis of their success in job creation. Currently the province reimburses the RDCs $2000 per job created. The result: "In 1999, the RDCs created more than 175 new cooperative enterprises representing more than 1500 jobs created or retained in Quebec, compared to 15 per year a decade ago" (Labelle 2000/01, 16).

**Employee ownership as a tool for general economic development organizations**

A handful of general purpose economic development organizations use employee ownership as one of their tools for economic development. These include Coastal Enterprises, a community development corporation in Maine; Social Action for a Just Economy (SAJE), a nonprofit Hispanic community organization in Los Angeles; the Center for Community and Labor Research, a labor-related

economic development and research program in Chicago; and the Steel Valley Authority, a quasi-governmental economic development agency established by a number of municipalities in the Pittsburgh area. While their regional catchment areas are not sufficient to focus on employee ownership alone, through their economic development activities they screen enough firms that some individual firms are identified as appropriate candidates for employee ownership.

Given the successful experience of these organizations in using employee ownership in their regions, it would be worthwhile to train additional economic development organization personnel in the appropriate uses of employee ownership. This could be done through the National Development Council's professional economic development certification program or, conceivably, though a web-based, continuing education course conducted by a university.

**Industrial sector strategies**

An alternative to a regional focus is a sectoral strategy. Several organizations have undertaken to promote employee ownership nationally within particular economic sectors. These include Childspace Cooperative Development, a national cooperative daycare developer; Cooperative Homecare Training Institute; the Industrial Cooperative Association's temporary service cooperative initiative; and the United Steelworkers of America's Worker-Ownership Institute.

The first two of these build off the success of single cooperative enterprises. Childspace, a parent-teacher cooperative daycare program, originated in Philadelphia where it developed an enviable track record of providing high quality daycare services in a low income community. Cooperative Home Care Associates (CHCA) in New York is an outstanding example of how a cooperatively organized and well led company can provide higher wages and benefits as well as ownership in a low income, female service sector branch. In both cases, national replication projects have been funded by foundations. The third, the ICA's employee-owned temporary employment agency initiative, similarly attempts to improve the employee's economic conditions in what is usually benefit-less work while also providing ownership. To have large-scale consequence, they need linkages to other large organizations with the purchasing power to take these attractive models to scale.

The Steelworkers' Worker Ownership Institute (WOI) was designed to link existing employee-owned firms in the steel industry as well as provide advice and assistance to employees and union locals trying to buy firms in the industry. While the WOI fell victim financially to the steel crisis – it was funded by a per capita contribution by member firms, the model is an appropriate one for other union-organized employee-ownership initiatives.

**Private sector consultants**

Private sector consultants – lawyers, accountants, valuators, and plan administrators – specializing in employee ownership in the United States outnumber public and non-profit staff by perhaps a 50 : 1 ratio. They account for the rapid growth of employee ownership in the United States. Employee ownership is a substantially more lucrative area of professional endeavor in the United States than in other countries, because the most common form of employee ownership in the United States is the ESOP, a government-regulated pension plan, rather than cooperatives, which provide few fees for professionals. Outside the US, professional consultants play a more limited role.

While professional consultants have broadened employee ownership in the United States, they have done little to make it more democratic. The tax breaks are equal for democratic and non-democratic ESOPs. However, if the evidence that more participatory ESOP companies outperform less

participatory ones is in fact as compelling as it appears, one can argue that ESOP professionals have to start promoting greater participation, and may be remise as advisors should they fail to do so. Further, ESOP trustees may have a legal obligation to encourage greater employee participation in ESOP firms simply to increase the value of the stock in the plan.

**Maximizing leverage**

Since participatory ESOP firms are better performers, it makes sense to encourage participatory management. But in the United States, Federal tax advantages are accorded to good, bad, and indifferent ESOPs alike. In fact, in terms of the total dollars in tax expenditures, the bad and indifferent ESOPs -- those with little employee participation, communication, training, and generally lower economic performance -- account for the lion's share of tax incentives. An Ohio study found that the bottom two-fifths of firms in these areas accounted for just over 90 percent of the Federal tax expenditures for ESOPs in Ohio. By contrast, the roughly three-fifths of firms which provided more opportunity for employee owners in these areas got under 10 percent of the corporate tax dollars (Logue and Yates 2001, 169-70).

Ironically, it is the latter category of companies that outperforms conventionally owned firms, not the former.

Although compelling for corporations, Federal tax incentives are expensive. They probably exceeded $2 billion annually in the 1990s. By contrast, total public sector funding for all employee ownership support organizations did not exceed $2 million annually at any point in the 1990s – 1/10th of 1 percent of the tax expenditure. A modest Federal program to provide matching funds for state, regional and sectoral employee ownership assistance programs would be highly cost effective in generating both more employee-owned companies and in improving their performance. Only $5 million annually in Federal matching funds – less than 3/10ths of 1% of the federal tax expenditure for ESOPs – would probably lead to the establishment of 20 to 30 state, regional and sectoral employee ownership programs that would effectively cover the country.

In addition to matching funds, a $1 million marketing budget annually to promote the idea of employee ownership nationally would be valuable (COG meeting, 4/2000) as would funds to establish certificate programs in managing employee-owned companies in business schools in several regions.

**An extension service for employee-owned companies**

One of the most successful American innovations in economic development is the Agricultural Extension Service. For decades it has been transferring research results from the lab to the farm, bringing knowledge and technology to the family farm. The Extension Service has helped keep American family farms competitive with corporate farming and promoted a continual process of intellectual renewal in agriculture**.** An employee ownership extension service could be created at the state level to supply a variety of technical and organizational development assistance to smaller firms and to share best practices. Once successfully field-tested in a couple of states, an employee-ownership extension service could be spread by Federal matching funds.

Another prototype is the Department of Agriculture's new Rural Cooperative Development Program, which has put cooperative development specialists into nearly all states to provide outreach and technical assistance. Their mandate includes aiding the establishment of worker cooperatives, though little has been done in this area to date. This program, however, has substantial potential to

expand employee ownership in small towns in rural areas as a means to stabilize their economic base, and it could easily be expanded to include other forms of employee ownership. The Department of Agriculture has also provided matching funding for some twenty state or regional cooperative development centers. [need exact number]

A third attractive model is the Province of Quebec's Regional Development Cooperatives (RDCs), which have outreach, networking, and technical assistance roles. Created by the cooperative movement, the RDCs are supported by the provincial government in proportion to their success in job creation. Their 75 professional staff members – in a province with a population of 7.4 million – provide a dense support network that has been striking successful in creating new cooperatives and in creating thousands of new jobs.

### 3. Action at the local level

Why limit ourselves to actions by state, provincial, or regional governmental entities? Once we move out of national capital cities and turn to public and private initiatives at the state and local levels, the possibilities are legion. Much can be done to encourage broader employee ownership by municipalities, by charitable and religious organizations, by unions and universities, and by employee-owned companies themselves.

Little has been done to promote employee ownership by local government outside of using local revolving loan funds to save jobs in employee buyouts. This probably reflects a lack of imagination rather than a lack of ability.

Among the proposals brought forward during the COG process are

- Municipal or local economic development authorities can establish industrial parks for employee-owned companies and other high performance companies so they can share a joint training facility, a cooperative day-care facility, and a co-op lunch facility.
- Municipal governments can provide preference in purchasing for employee-owned firms as is the case in Northern Italy, aiding the growth of production cooperatives there (Carla Dickstein email to Deb Olson, 4/18/2000).
- The Catholic hospital system can use its institutional strength to replicate New York's Cooperative Home Care Associates, creating better jobs and ownership for home health care aides and simultaneously improving care for the homebound (currently under discussion in a number of dioceses).
- Local churches can encourage employee ownership within their spheres of influence through their purchasing and through social justice work within their congregations.
- The sale of religious or public hospitals to for-profit chains can be made contingent on their contracting home health care, janitorial services, and other services to employee-owned firms.
- Community foundations, educational institutions, and churches could receive stock in closely held local companies (charitable contribution at stepped up basis for donor) and create markets by selling the stock to employees (COG meeting, April 14-15, 2000); all of them would need some assistance with appropriate uses of employee ownership.
- Unions can negotiate contract language that gives their members the right to buy facilities put up for sale or right of first refusal at the time of such a sale.

- European and American universities concerned with the use of sweatshop labor in garments carrying their logos could simply require their production in worker-owned businesses, a positive screen which would also be more easily enforced than the current negative screens.

Employee-owned companies can themselves become cornerstones of local employee ownership efforts by building networks of employee-owned suppliers. They can buy from neighboring employee-owned companies and encourage the development of additional employee-owned suppliers. The last is particularly viable in the purchase of services, such as janitorial services for the company or childcare services for the employees. Much of the low wage sector is based on underpayment of workers, failure to pay benefits, and absence of any career opportunities for low skill workers, resulting in high turnover, poor service, and frequent theft or other regrettable externalities. Creating employee-owned suppliers of services upgrades jobs, creates a sense of ownership, and generally improves the quality of service provided to the existing employee-owned company and its employees.

Well established employee-owned companies with ample management can serve as incubators for new employee-owned companies. Such firms could provide space, telephone answering, accounting, purchasing, and management support for new employee-owned firms, perhaps in return for a small ownership share. Such incubators can also provide an opportunity for entrepreneurial employee owners of the sponsoring companies to set up their own employee-owned businesses. As these firms became better established, direct support would transition to mentoring.

Employee-owned companies can build cooperative networks. Those in the same geographic area can develop cooperative services, such as common training facilities, child care facilities, purchasing of supplies, or employee benefits like health and dental insurance. Furthermore, such joint networks can provide employment opportunities for employees of individual companies that are affected by the economic cycle in their industry. Perhaps it is possible to develop joint seniority lists that would permit employees to move among them on occasion. Those in the same sector can establish joint marketing and export co-ops.

Employee-owned firms that use the hiring hall model for employment, such as construction firms, could establish multi-employer employee-ownership plans (COG meeting 4/2000). Today most of those firms do not include their union employees in their ESOPs; a multi-employer plan could cover them.

Many existing employee-owned companies work with local schools to provide coop jobs, internships, job training, and apprenticeships. Those school-to-work programs can be expanded through including ownership principles, participation, understanding business basics, and other knowledge and skills that create an interest in and basis for broader ownership in the future. For example, Mondragon establishes student production cooperatives in its schools. Employee-owned Friesens, one of Canada's largest book publishers, in the Mennonite community of Altona, Manitoba, provides a graphics classroom, instructor, and training for the local high school, and runs a two-week summer camp for its employees' 10-12 year old children in which they write, set, lay out, and print a book about their families and what their parents do.

Employee-owned firms need to look beyond themselves to build coalitions at the state or regional level with the traditional cooperatives (agricultural, rural electric, mutual insurance companies, credit unions, consumer co-ops, etc.). The Cooperative Council of Quebec offers a dramatic demonstration of the possibilities that such a critical mass could create (Labelle 2000/01). Substantial synergies are possible, including developing hybrid consumer-employee cooperatives in which both agricultural producers or consumers, on the one hand, and the employees, on the other, share ownership of the firm.

## 4. Employee ownership funds

Should there be special financing institutions for employee ownership? Opinion is divided. Some feel that it is salutary for employee-owned firms to utilize the standard market financing sources: commercial banks, asset-based lenders, venture capital funds, and bond market. Others argue for at least a partially separate financing stream for the employee-owned sector.

Over the years, a variety of public and private financing mechanisms for the employee- owned sector have been launched with mixed success. These include

- local and regional revolving loan funds;
- a national banking institution with a preference for employee ownership, the National Cooperative Bank;
- state loans and loan guarantees,
- private sector venture capital funds; and
- regional labor-sponsored venture capital funds with special preference for employee ownership, such as the Crocus Fund in the province of Manitoba, Canada, and the proposed Framtid i Norr fund in the north of Sweden.

Some of these funds do only debt financing while others provide a source of friendly equity financing as well.

### Revolving loan funds with preference for employee ownership

There are several revolving loan funds that have a preference for employee ownership or are exclusively employee-ownership lenders. These include A New Beginning/ANB Fund in the Shenango Valley of Pennsylvania; Commonwealth Revolving Loan Fund in Youngstown, Ohio; LEAF - the Industrial Cooperative Association’s revolving loan fund in Boston; and Northcountry Cooperative Development Fund in Minnesota. Some of these funds, like ANB and Common Wealth, are community-based and make loans only in a limited geographic area. Northcountry, the biggest of them, is a regional lender, covering the Great Plains and Midwest. LEAF lends nationally.

### Specialized national lenders

Since the New Deal, the agricultural cooperative sector has been supported by specialized Federal lending institutions. Similarly, the expansion of home ownership from a third of American families to two-thirds of American families since the New Deal has been fueled by federal home-ownership financing institutions. During the Carter administration, the National Cooperative Bank (NCB) was established as a specialty lender for housing, consumer, and worker cooperatives. Privatized during the Reagan administration, the NCB has become a preferred lender for many worker-owned businesses because it is in itself a cooperative owned by its customers.

The NCB and its Development Corporation (the soft-loan window) have undertaken a policy of supporting regional cooperative lending funds, like the Northcountry Cooperative Development Fund. These serve as regional intermediaries for the NCB, working hand-in-glove with local borrowers who are too small to be serviced efficiently from Washington.

This model of decentralization is potentially valuable both in employee ownership lending and employee ownership venture capital in the United States and elsewhere.

**State employee ownership financing programs**

Establishing special state credit facilities for employee ownership -- particularly to avert shutdowns -- was a relatively popular initiative in the 1980s as the one-two punch of the 1979-81 recession and the overvalued dollar in the mid 1980s clobbered American manufacturing. Few have been established since then. These credit facilities came in four primary varieties:

- state loan funds specifically earmarked for employee ownership were established in Massachusetts (1984/1989), Michigan (1985) and Maine (1997);
- state loan guarantee programs were established in New Jersey (1983), West Virginia (1983) and Pennsylvania (1984);
- below market interest rates or rate subsidies were authorized in Illinois (1982), New Jersey (1983), New York (1983), and Connecticut (1985); and
- specific authorization to use state loan programs for employee ownership in Wisconsin (1983), West Virginia (1983), New Hampshire (1983), Pennsylvania (1984), Connecticut (1986), Indiana (1986), Hawaii (1987), and Maine (1997).

A number of other states, including Ohio, used existing state lending programs to support employee buyouts. (For more on these programs, see Logue and Grummel 2000.)

The effectiveness of such programs varied. Earmarked employee ownership lending funds have generally been rolled into other economic development loan funds as small pots of money were either underutilized or overdrawn. Jim Houck also notes that Michigan's threshold requirement of 75% employee ownership was too high to attract a sufficient number of borrowers (3/27/2000). On the other hand, both below market interest rates and public sector lenders' willingness to subordinate their loans to commercial lenders seems to have played a significant role in supporting employee purchases of troubled and/or divested plants and firms. Loan guarantees -- which are very cheap for the public sector -- seem to have been underutilized.

None of these programs, however, addressed the systematic lack of friendly equity investment which has hampered the growth of the employee-owned sector. There are exceptions, however. New Hampshire and Maine have created public sector venture capital funds. While the Maine fund has taken no equity positions in employee-owned companies (personal communication, John Burns, Finance Authority of Maine, 4/13/01), the New Hampshire Community Development Finance Authority has made two placements in cooperatives (personal communication, Robb Nichols, NHCDF). Other than this limited state effort and some near equity placements by revolving loan funds, equity has been left to private venture capital which sought a much higher rate of return than most employee-owned firms could afford.

**Raising venture capital on Wall Street for ESOPs**

Several national venture capital funds have been created in the United States that have special preference for employee ownership. (For discussions of these funds, see *Owners at Work*, 9(1): 15; 9(2): 16-18; 10(1): 10-11; and 11(1): 19.) Their record has been mixed.

The first was Minneapolis-based Churchill Capital's *Churchill ESOP Capital Partners* which raised $188 million in a private capital partnership in 1995 in cooperation with Houlihan Lokey, a law firm with special expertise in ESOP transactions. It was designed to provide subordinate debt, preferred stock, and minority or majority equity stakes in mid-market companies in placement of $5 to $25 million in management-owned or employee-owned companies. Among its first eleven companies financed were four ESOP acquisitions and one recapitalization. After the investment of this initial pool, Churchill decided against raising a second ESOP fund; the market was too limited.

American Capital Strategies was founded as an investment banking firm in 1986 specifically to arrange financing for ESOP transactions. It was one of the most successful firms in the country in this regard, arranging financing for 32 ESOP companies between 1986 and 1997. In August 1997, it raised its own venture fund through a public offering of $155 million as a "Registered investment company," which permits it to avoid paying Federal corporate income tax by paying out practically all its earnings to its shareholders. In 1999 and 2000 American Capital returned to the public market with follow-on offerings which raised roughly $100 million each. As of June 2000, it had assets of $650 million. Since 1997 it has completed ten transactions for eight ESOP companies creating close to 2000 new employee owners (John Hoffmire, 4/11/2000).

While American Capital has prospered and has become a leader in internet financial services for mid-market companies, ESOP companies have played a less prominent part in its portfolio of investments than some of its principals expected (e.g., Malon Wilkus in *Owners at Work* 9(2): 17). Of the 39 companies it has invested in since it raised its venture fund, 31 are conventionally owned. "We continue to be involved in approximately the same number of ESOP transactions per year as compared to years prior to our IPO in August 1997," John Hoffmire, American Capital senior investment officer us (4/11/2000). "But we would do more if we could find more ESOP transactions." ESOPs are part of its exit strategy, says Hoffmire. "Long term we look forward to selling our interests, when possible, to the employees."

In 1998, the *KPS Special Situation Fund,* established by Keilin and Company, the New York investment banking firm which had arranged the United Airlines buyout for the pilots, raised $205 million. As of this writing, the KPS Fund has made two major equity investments in employee-owned companies. The first ($35 million) is a 55% KPS equity stake in Blue Ridge Paper, formerly Champion Paper's DairyPak division. The remaining equity is divided between management stock options (5%) and the employees through an ESOP (40%). The second is a 60% KPS equity stake in Blue Heron Paper, a newsprint mill in Oregon, divested by Smurfit Stone Container. Blue Heron employees received 35% ownership through an ESOP, and 5% of the equity was reserved for a management incentive plan. The Blue Ridge buyout, with 2200 employees in seven plants in six states, was the largest labor-initiated buyout since United Airlines.

All of three of these funds have mobilized conventional venture capital sources including institutional investors and high net-worth individuals. Despite the fact that both American Capital and KPS clearly identify themselves with the labor movement, neither had much success tapping the Taft-Hartley jointly administered multiemployer pension funds or collectively bargained single employer funds. The primary reason for this seems to be the conservatism of multiemployer plan trustees and advisors and the pure Wall Street orientation of the trustees and advisors of collectively bargained single-employer plans. Both look askance at anything that smacks of "alternative investments" that meld social goals, such as broadening capital ownership, with decent investment returns.

Judging from these national venture capital funds' experience, the employee ownership market is not big enough or lucrative enough a niche for venture funds to specialize purely in employee ownership

on Wall Street premises. Funds begun with a preference for employee ownership have found themselves broadening their investment portfolio as a consequence. Still, they need an exit strategy. This is where employee ownership venture funds may create more owners at the time they sell their equity than in the initial transaction.

Conventional venture capital funds should also consider employee ownership as an exit strategy. Selling to the employees is particularly attractive when the company has done decently but not spectacularly; in the latter case, it commands a market premium that the employees cannot finance. Incentivizing venture capitalists to do so could play an important role in broadening ownership in all countries with significant venture capital markets.

**Canadian labor-sponsored venture capital funds**

The Canadians have developed a very different means of raising venture capital that has important implications for the future development of employee ownership in that country and for other countries where it might be replicated.

In response to the economic crisis occasioned by the second oil shock in 1979 and to the perceived shortage of capital availability for local investment in small and medium-sized businesses, the Quebec Federation of Labor undertook to establish a local investment fund -- the Solidarity Fund. Endorsed by the Federation of Labor in 1981, the Solidarity Fund was established in 1983 and raised its first funds in 1984 with the support of a provincial tax credit. Since then the Solidarity Fund has grown into the largest single source of venture capital in Canada, and the Federal Government of Canada has spread the labor-sponsored investment fund idea by establishing a Federal tax credit to match provincial credits. The funds are vehicles for investment of the Canadian equivalent of U.S. Individual Retirement Accounts (IRAs) and collect small investments (typically capped at $5000 Canadian) from large numbers of employees. A national or provincial labor federation must sponsor these funds to obtain the tax credits, although they invest in non-union as well as in unionized companies. Today, provincial and federal tax credits encourage labor-sponsored investment funds in five of Canada's provinces, and they account for about half of Canada's venture capital. (For an excellent survey of Canadian labor-sponsored investment funds, see Hebb and Mackenzie 2001.)

While the Canadian labor-sponsored funds generally focus simply on reinvesting locally with certain screens (for good employment practices, environmental record, workplace safety, etc.) and on retaining jobs and control of businesses within the provinces, the Manitoba Federation of Labour's Crocus Fund added a preference for employee ownership to its investment criteria. Since 1993, it raised over $200 million (Canadian) from 30,000 working Manitobans in a province with little more than one million residents. (The Crocus Fund has been the subject of a number of articles in *Owners at Work* 7 (1): 14-19; 8(1): 11; 9(1): 12-15; 10(1): 11; 11(1): 17-18; and 13(1): 20. Most of these articles can also be accessed through the library on the Capital Ownership Group web site, http://cog.kent.edu/lib.) To date it has invested about two-thirds of that, saving, creating and stabilizing about 9600 jobs. Recently it has added a specialized technology fund to its toolkit to anchor more high tech companies in the province.

Crocus's employee-ownership strategy has two thrusts. The first is that Crocus is a friendly investor with the employees, partnering with employee owners in purchasing or growing employee-owned businesses. The second is that Crocus's preferred exit strategy is to sell its equity stake to the employees. As of 2000, one quarter of the employees in Crocus's investee companies had become employee owners while another quarter are expected to become owners at Crocus's exit.

**Can the Canadian model spread?**

In 1996, Per Åhlström, a Swedish Social Democratic journalist in Västernorrland in the northern part of Sweden, took the initiative to organize a conference on worker ownership. What was clear to Åhlström and others in the region regardless of their partisan affiliation was that the northern areas of Sweden had an unusually high degree of absentee ownership and were susceptible to rapid systematic disinvestment that could have devastating consequences. After research in the US and Canada (Åhlström 1998) and staffing a high profile trade union delegation study visit to several of his research sites in 1997, Åhlström set about organizing the Framtid i Norr (Future in the North) fund. While the fund is not yet operational, it has obtained the backing of union locals representing more than one third of the union members in the region and investment commitments from several unions' strike funds and the cooperative insurance company Folksam. It is continuing to seek additional funds from other unions, the European Union's structural funds, and the governmental Norrland fund. It is seeking initial capitalization of Skr 100 million (about $12 million) to service an area with a population just under one million. "The investment activities," wrote Åhlström (4/5/2000), "are planned to be blueprinted (as far as possible) on the Crocus Fund in Manitoba, which we have found to have an investment policy which is well suited to the needs of our area." Framtid i Norr's preferred exit strategy will be to sell its equity stake to the employees once Sweden develops appropriate legislation for employee ownership.

Åhlström's initiative won a key endorsement in September 2000 when the Swedish national trade union federation's convention unanimously endorsed labor taking the initiative to form regional, labor-sponsored investment funds patterned on the Canadian model. Furthermore, the convention also agreed unanimously to reassess Swedish labor's previously negative stance on worker ownership of individual firms (Åhlström, as posted by Logue, 9/8/2000). Crucially, the fund has won backing not only from blue-collar unions but also from white collar and public sector unions. Business circles in the region have joined the unions in supporting the fund. "Even the ex-communists in the Left Party," Åhlström notes, "have shown great interest in the concepts of employee ownership, the creation of regional financial markets and regional venture capital companies."

While the United States has not developed institutions comparable to the Canadian funds generally, we have long had something similar in the construction trades. The AFL-CIO Building Trades Department began encouraging the development of labor-sponsored building investment funds in the 1960s. The AFL-CIO's Housing Investment Trust (HIT), established 1964, and Building Investment Trust (BIT), established 1988, draw investments from multi-employer building trades plans; their scope of activity is national. Regional building trades funds, like the Employee Real Estate Construction Trust (ERECT) Fund in Western Pennsylvania and Northeast Ohio, typically find practically all their capital in local and regional multi-employer building trades pension funds. It is worth noting that although the building trades construction funds invest only in unionized construction projects and have a penchant for affordable housing projects and promote a "high road" strategy of high skill labor and high quality construction, they have also matched investment industry benchmarks in their fields.

Since 1996, the Steelworkers have explored the feasibility of starting labor-sponsored investment funds in the United States through the Industrial Heartland Investment Forum. In addition to developing a robust analysis of the problems of the existing American pension fund investment system from the employees' perspective, the Heartland Forum has provided the intellectual ammunition (see Fung, Hebb, and Rogers 2001) to justify multi-employer pension fund managers' exploration of alternative investment strategies. An Industrial Heartland Investment fund involving the Steelworkers and several other unions is said to be close to raising its initial capital.

**The Mondragon Model: *The Caja Laboral Popular***

The Mondragon cooperative complex in the Basque region of Spain – the world's outstanding example of organizing a major share of a regional economy along cooperative lines – is built around the Caja Laboral Popular bank as a financial institution. The Caja Laboral is a consumer cooperative -- a credit union -- with a special mandate for investing in worker cooperatives. Using the slogan "savings or suitcases," the Caja Laboral since 1959 has mobilized local capital for the manufacturing, retail, financial, service and support cooperatives, building the largest business group in the region and the ninth largest in Spain since it was established in 1959. Not only did it provide funds, but also its Empresarial Division provided technical and management expertise. "It is an outstanding example of what local communities can do to retain some influence over how and to what extent their affairs are shaped by globalization" (Race Mathews 4/5/2000). The Caja Laboral itself has become one of Spain's biggest financial institutions with assets in excess of $7 billion. We will look further at Mondragon in the next section.

The Italian and French cooperative movements and the Israeli kibbutzim also have internal loan funds and financing institutions that increase stability and encourage growth (Carla Dickstein, 4/13/2001).

Australian researcher and former federal member of parliament Race Mathews suggests that credit unions and mutual insurance companies can play the same role elsewhere as the Caja Laboral does in the Mondragon region, including providing technical and management assistance. "There should not be any insuperable barrier to a repositioning along these lines by credit unions and other co-operative and mutualist financial intermediaries ... in Asia, Australasia, Europe, and North American" (Mathews 1999, 242). "Given that, as much in North America as in Australia, credit unions and insurance mutuals are struggling to regain the sort of relevance to the lives of their members which is needed in order to keep them out of the hands of predatory demutualisers," Mathews suggests (4/5/2000), "it may be that self-interest as much as altruism would make such an involvement attractive to them."

**[Need citation for portion of Race's comments to be included; check COG discussion and add references to his articles in the COG library.]**

### An ESOP partnership fund?

A final possible investment fund strategy is to raise an equity investment fund from existing employee-owned companies -- and possibly from ESOP retirees seeking a diversified ESOP portfolio -- to invest in partnership with employees in existing and in new employee-owned enterprises.

This employee-owned company investment pool could become a general captive financial institution for employee-owned firms more generally, including securitizing the debt of ESOP companies to lower interest costs and extend terms.

## 5. Building company networks

Existing employee-owned firms tend to be islands unto themselves. One positive step would be to associate them as archipelagoes, and to build linkages among them that would strengthen them individually and as a group. Everywhere that has been attempted, it seems to produce positive results. Let's look at three efforts: Mondragon, Manitoba, and Ohio.

## Mondragon Cooperative Corporation

Perhaps the most outstanding company network in any Western economy is the *Mondragon Cooperative Corporation* network in the Basque region of Spain. (For comprehensive treatments, see Whyte and Whyte 1991; MacLeod 1997; Cheney 1999; Mathews 1999, 179-247; Oakeshott 2000, 448-93; and Thomas 2000. For current information, visit the Mondragon web site: see http://www.mondragon.mc.es.) Owned by their employees, the Mondragon co-ops trace their origins to a technical school established by a Catholic priest, José María Arizmendiarrieta. The graduates of this technical school in turn created the first of the Mondragon cooperatives in the mid 1950s. Today, the Mondragon cooperatives' industrial group is one of the largest industrial groups in Spain with 21,000 employees and more than $3 billion in sales; it is among Spain's top ten exporters, selling 47% of its production outside Spain in 1999. The Mondragon cooperatives' retail group does an additional $4 billion in sales and employs 23,000; it ranks number three in the Spanish retail sector. The Mondragon cooperatives' bank is one of the largest in Spain, with more than $7 billion in assets. All in all, the Mondragon cooperative network constitutes the seventh largest closely held business in Spain and employs more than 54,000.

The average size of a Mondragon co-op is quite small -- most are less than 500 employees -- but the Cooperative Network of more than 110 firms provides large-scale economies for the small enterprises. It provides a common financing source in the Mondragon Cooperative Bank, the Caja Laboral Popular, discussed above. It provides joint research and development for member co-ops through research and development co-ops and centers, including Ikerlan, Ideko and the Maier technology center. It provides a broad range of joint social services including kindergartens, medical insurance, day care and other services for children and adults. It provides a strategic management group that can support managers in existing enterprises that are under strain or can help develop new business plans. It operates its own management training program and the technical training school to which the Mondragon co-operatives owe their origins.

This extraordinarily successful group of worker-owned business enterprises use their close network to obtain economies of scale while they achieve the advantages of decentralized management and employee ownership through smaller enterprises. This seems to be an optimal combination in the market economy: the flexibility of small scale business with the economies of scale provided by enterprise networks.

The Mondragon model is being replicated elsewhere in Spain. Ten associated worker-owned firms in the "Grup Empresarial Cooperativ" in Valencia employ 4200 and do US $575 million in sales (COG annual meeting, 4/2000). "Now that the growth of what is in effect a second Mondragon in Catalonia… has finally laid to rest the myth that Mondragon is a one-off quirk of Basque history and sociology which necessarily cannot be replicated," argues Race Mathews, "it should be possible to get on with the practical task of deriving from Mondragon such lessons as may be applicable to our own circumstances, and in particular to the facilitation and support services which plainly would expedite a widespread adoption of ESOPs." [need source]

## Manitoba's Crocus Fund

To achieve its twin goals of provincial economic development and a good return on the retirement funds entrusted to it, it is important for the Crocus Fund to improve the performance of the enterprises it invests in. To this end, Crocus has created a network of the firms it invests in to do three things. First, it has a CEO "club" with regular meetings where top managers of Crocus investee companies share their experience. Second, the fund provides business training for enterprise employees with its own training staff who provide services under contract to companies that Crocus has invested in.

Third, it has developed, with the University of Manitoba, a management training program for investee companies emphasizing high performance workplace practices.

Crocus has outperformed other similar investment funds in Canada that have not created such company networks, although one should not impute causality. At the end of 1998, it had the second-best one year rate of return among Canada's 21 labor-sponsored investment funds, and the best three-year and best five-year rates of return (Hebb and Mackenzie 2001, 143).

## Ohio's Employee-Owned Network

*Ohio's Employee-Owned Network* is a company network of some fifty firms staffed by the Ohio Employee Ownership Center. The companies' common denominator, besides employee ownership, is that they are committed to increased employee participation, training and business communications, factors that appear to improve enterprise performance in the American experience. The Ohio Network provides monthly training programs for employee owners at all levels of the enterprise. About half the programs are designed for nonmanagerial employees, including a three-day leadership development retreat for nonmanagerial employee leaders. Other training programs address the needs of supervisory employees, those who administer the employee ownership plans, ESOP committees, and those who teach financial and business literacy. CEO discussions and a biennial two-day CEO retreat share best practices. Every year more than 500 employee owners attend at least one of the dozen one-to-three day training programs the Ohio Network offers. The Network also provides business linkages through a common catalog of products and services of Network companies and through linking companies' websites on the Internet. Member companies support the network program through their annual dues. Membership has grown from 9 firms in 1989 to more than fifty today.

Ohio Network members systematically outperformed Ohio employee-owned companies that did not take part in networking activities. In fact, the numbers are quite dramatic (Figure 1). Network members reported more positive ESOP results and more improvement in stock prices than non-Network members. Only 20% of non-Network companies reported improved profits relative to their industry after becoming employee owned, but 46% of Network members reported improvements in their profitability relative to their industry (Logue and Yates 2001, 167-69).

**Figure 1. Ohio Network Members Improve Performance Relative to non-Network ESOP Companies**

Again, one should refrain from imputing causality. Companies active in Ohio's Employee Owned Network also generally share a common commitment to becoming "high performance organizations," including establishing employee participation systems; rewarding employees directly for improved corporate performance through bonuses, profit sharing, gain sharing, and other forms of financial incentives; sharing financial and other business information with employees; and investing heavily in employee training to use the participation system, to understand the ownership system, to understand financial and business information, and to act like owners in the companies. Such firms set their sights on long-term success, not short-term or one-time gains. The Network is a part of that.

**Avoiding excessive conservatism**

One theme in the subnational group's discussion was whether there is a tendency of employee-owned firms toward conservatism (Per Åhlström, 4/5/2000; Michael Harrington, 4/4/2000). Are they resistant to change of products, technology, etc?

Opinion in the discussion was divided. Some feared a tendency toward obsolescent production with a consequent decline in living standards for worker-owners and increasing levels of self-exploitation. Others maintained that employee-owned firms innovate internally in existing locations with existing employees, rather than redeploying capital elsewhere. But much the same criticism could be leveled against family-owned businesses in the United States.

One of the advantages of the Mondragon and the Crocus models appears to be their creation of institutionalized processes of innovation, by encouraging and supporting entrepreneurial endeavors. Mondragon's Empresarial Division for several decades encouraged the creation of new enterprises, innovation, and joint research and development to create economies of scale while it also reinforced its more weakly managed cooperatives.

## 6. Thinking Globally, Acting Locally

Dealing with the widening gap in income and wealth globally clearly requires action at the transnational and national levels. At the same time, we know that most of us live and work in a smaller-scale world: that of our company, our local community, our church, union local and civic organizations or, occasionally, our state or province. Certainly the most striking conclusion of the COG subnational group discussion is that there is an astonishing amount to broaden ownership that can be done by each of us today where we live and work.

Together, the combination of our small steps can yield large-scale change.

Endnotes

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[1] Citation system: To find each individual's contribution, the dates in parentheses refer to the dates of

the contribution in the "eosubnat" discussion archive on the Capital Ownership Group webpage (http://cog.kent.edu). Please use the chronological listing (rather than the thread index) to locate the contribution. Items cited in the COG electronic library can also be accessed on the COG website.