

**Testimony on behalf of the  
Vermont Employee Ownership Center (VEOC)**

**by Jon Crystal, Executive Director**

**To the Senate Committee on Health, Education, Labor and Pensions**

In support of

**The Worker Ownership Readiness and Knowledge (WORK) Act and  
The U.S. Employee Ownership Bank Act**

**August 26, 2010**

***1. Brief history of VEOC – our mission, why we were formed.***

Too often, a surprisingly small number of business owners take the necessary steps to prepare for one of the most important decisions they will face: their departure from the business. As a result of this lack of planning, the better opportunities may be lost and some owners are forced to select among a limited number of less desirable options including liquidation of assets or a sale to outside interests which may result in the business being relocated. These actions can have a significant negative impact on Vermonters, their communities and the state as a whole.

One of the better alternatives is to sell the business to the employees. Employee-owned companies tend to perform better, pay higher wages, and provide better retirement and other benefits than non-employee-owned firms. Ownership of a business by its employees can be an extremely effective way to increase long-term sustainability with all the associated benefits to employees, local communities and the state.

The Vermont Employee Ownership Center, or VEOC, was formed in 2001 to address this need. The VEOC's mission is "to promote and foster employee ownership in order to broaden capital ownership, deepen employee participation, retain jobs, increase living standards for working families, and stabilize communities." Our mission statement is very similar to that of the Ohio Employee Ownership Center, the organization on which the VEOC was modeled, which was founded in 1987 and is based at Kent State University. You will hear today from Bill McIntyre, the Program Director of the OEOC, about the impressive accomplishments of the Ohio Center. Vermont is a much smaller state, and our center has existed a much shorter time, but between our two programs, you have evidence that statewide programs promoting and fostering employee ownership can be effective under very different economic and business conditions.

## ***1. Why employee ownership is an important economic development tool.***

Why do we care so much about employee ownership? First, we care because it helps retain local ownership of businesses and the jobs within them. You hear much about “sustainability” these days, and we believe that this model of business ownership is the most sustainable, both in terms of retaining jobs and the longevity of the business. In addition, this approach helps broaden the ownership of wealth. Studies have shown that broad-based employee stock ownership plan participants tend to accumulate more than twice the level of retirement assets of employees in other companies. Finally, we care because it can be a crucial ingredient in creating high-performance companies that are more competitive – and that are great places to work. It helps engage employees in the future of their own companies, and also tends to create better workplaces.

There are now well over 10,000 companies in the U.S. with some form of employee ownership, but there should be many more. The 30-40 such companies in this State represent one of the highest *per capita* rates, and that is due at least in part to the work of the VEOC. In helping to establish similar centers in states around the nation, the WORK Act could contribute greatly to increasing the number of employee-owned companies.

The best evidence in favor of employee ownership is provided by real examples. You will hear today from some of Vermont’s best-known employee-owned companies, all of which are among Vermont’s highest-performing companies. We sometimes refer to the “disproportionate excellence” of these companies – reflecting the fact that in Vermont at least employee-owned companies seem to gain a greater share of recognition and earn more awards than would otherwise be expected by their modest numbers. We at the VEOC are devoted to the objective of helping to create more companies like these.

Earlier this year we invited comments from key leaders of some employee-owned firms in Vermont on the impact this has had on them. These excerpts provide some of the strongest arguments to go this route:

“Economic development is about helping companies form or move to Vermont, grow, and then stay in state as they go through ownership transitions. Employee ownership targets company growth and retention. As in our instance, employee ownership is an incredibly powerful tool to engage employees in the future of a company, to help drive company success...From just a job retention point of view, we are a compelling story. I can tell you that if not for employee ownership, Will Raap's next best option would have been to sell to a strategic buyer from out of state, which with near certainty would have meant a loss of most of our in-state jobs. “

*Jim Feinson, President and CEO of Gardener’s Supply*

“We just recently completed our transition to 100% employee ownership. This means, among other things, that the 60+ high-paying jobs that we have created in Vermont will stay in Vermont and that we will continue to grow here...Our company is among many who believe that employee ownership exemplifies and promotes Vermont’s unique values.

And, most of us also believe that increased employee ownership could be valuable nationally as an approach to preserve and enhance employment in companies of all types.”

*Tom Adler, President of Resource Systems Group*

## ***2. The VEOC's activities and results so far.***

Since the fall of 2002, when the VEOC embarked on its work, we have focused on two main types of activity. The first of these is educational work: getting the word out about employee ownership to business owners, employees, economic development professionals, business advisors and the general public. The point at which most Employee Stock Ownership Plans (ESOPs) are formed is when business owners are seeking a good way to exit from their companies. If they don't know about this possibility and its merits, they won't consider it. Getting ESOPs and other employee ownership structures on the map for business owners and those who advise them has been one of our main efforts since the beginning. We have had increasing success of late partnering with other local and regional economic development organizations both to support these educational activities and to provide these professionals with basic tools and understanding of this option to share with their clients.

We also work to plant seeds more broadly – in college classrooms, at Rotary Clubs, at conferences and community forums. Our most important educational outreach activity is an annual conference, which serves both those just considering employee ownership as well as those in employee-owned firms. To date, we have presented eight annual conferences, with strong attendance every year. We also offer a variety of introductory and intermediate level workshops around the state, which cover basic business succession issues and the opportunities to sell to employees.

Our second major activity has been to provide information and technical assistance to those interested in exploring employee ownership for their companies. Since our founding, we have had direct conversations with representatives of over 165 different companies. Thirteen of those companies subsequently implemented an ESOP or worker cooperative structure. Another eight of those companies are either well on their way to an ESOP or co-op or are very strong candidates. Since this is Vermont, most of these companies are small – several of them with fewer than ten employees, several with 30 to 50 – but occasionally we have the opportunity to play a role in a larger company.

There is a manufacturing company with over 200 employees in a small Vermont town that is on track to become 100% ESOP-owned next month. This is a clear example of how employee ownership can preserve local ownership and jobs. The husband and wife owners of the company were considering offers to buy the company from several strategic buyers from outside of Vermont. After a meeting with the VEOC, their banker suggested they consider an ESOP and they quickly realized that this was a way for them to exit and also keep the business operating in its community, an outcome they very much wanted – and which would have been very unlikely had they accepted one of the outside offers.

Once two transactions which are underway are completed, VEOC will have directly aided fourteen companies to become employee-owned with over 550 jobs impacted.

In addition to these two main activities, we also work with existing employee-owned companies seeking to expand and improve their ownership culture and the types and degrees of employee participation. Much of this takes place at our annual conference, but we are also currently preparing a shared training series to address these ongoing needs.

We are now seeing the fruit of our earlier work in outreach and education. It often takes years from the time when someone first gets the idea that an ESOP or worker cooperative might suit their situation until they take action. It is very possible that someone who attended our conference for the first time this year will help create an ESOP in 2020. This particular pipeline is a long one. It takes persistence and patience and a reliable funding stream to sustain these efforts.

### ***3. Funding.***

Most often the transactions which result in a transfer of ownership to employees involve a significant element of bank borrowing. While the VEOC rarely plays a role in the financing aspects of the deal, it is our understanding that timely access to capital has become a serious hindrance on both the local and national stage. We strongly believe that the U.S. Employee Ownership Bank Act can play an important role in facilitating such deals and would have a positive impact on the numbers of successful transactions.

Another funding need is that required to operate centers like ours. VEOC's initial funding came from several foundations and, in 2002, a federal appropriation secured by then-Representative Sanders. We have since developed several revenue streams, including income from corporate sponsorships and our educational events, modest support from the State of Vermont and, for the past four years, a grant from the Small Business Administration that Senator Leahy secured for us. Government support has been essential to the VEOC, but it has always felt tenuous and temporary. The pursuit of private grants and other funding continues to be necessary but also a distraction from our core work. A federal grant around which we could build our budget would make our organization sustainable for the long haul.

Over the past thirty years there have been statewide employee ownership programs in several other states – notably Massachusetts, Michigan, New York, Oregon, and Washington. One of the main reasons these programs have disappeared (at least temporarily) was the lack of dependable core funding.

We believe that statewide programs like the VEOC and OEOC have a crucial role to play in creating more employee-owned companies, and may be the most cost-effective way to accomplish this. As with the Employee Ownership Bank Act, we have great hopes for the WORK Act: that it will be passed, that statewide programs will be developed and will flourish, and, most importantly, that these programs will help to create many more excellent employee-owned companies in the United States.