State of Employee Ownership in the U.S.: From Practice, Research, to Education

The Economics of Share Ownership and Incentive Pay: Findings and Policy Implications

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The Foundation For Enterprise Development (FED)

- Established in 1986 by Dr. J.R. Beyster, founder and former CEO/Chairman of SAIC, in response to an increasing concern about the vitality of the American free enterprise system and to increase vitality through employee ownership (EO)
- Launched Beyster Institute in 2002. Moved to UCSD Rady School of Management to develop leading training, education and consulting on EO
- FED focuses on seeding and catalyzing research and education programs in technology-based entrepreneurship and ownership:
  - Form new programs to directly support small business entrepreneurs
    - Technology transition, sponsored by DARPA SBIR/STTR
    - Advanced Defense Technologies Cluster, sponsored by Small Business Administration
  - Develop publications on Ownership/Entrepreneurship
  - Support Beyster Institute and scholars through fellowships, annual symposium, Curriculum Library, Essay Contest, and other interdisciplinary projects
- Offices in San Diego, CA and Washington DC
Numbers about broad-based ownership in the U.S. look good:

- Approximately 11,300 ESOPs in place covering more than 10 million employees - 10% of the private sector workforce. (Source: NCEO)
- Almost 11 million employees own stock through stock purchase plans. (Source: NCEO)
- Almost half (47%) of workers in the U.S. report they participate in some form of shared capitalism - employee ownership, profit sharing. (Source: Blasi, Kruse, Freeman).
- ESOP default rate is < 1%. (Source: NCEO, Beyster Institute)
- More than 100 research studies, with hard performance measures, show firms with shared capitalism programs have better performance, both relative to peers and comparing performance before and after plan adoption. (e.g., Recent study of U.S. ESOPs found performance and employee compensation improved in companies that adopted small ESOPs, consistent with large UK study that found improved productivity in firms adopting tax-favored share schemes.)
At their recent annual EO conference, NCEO and Beyster Institute reported that:

- Broad-based equity compensation plans down about 30% from their peak

- About 9% of private sector workforce has stock options, which is stable since 2005, but down for the high of 13% in 2002. Also fewer non-executives are receiving stock options

- Employee stock purchase plans are stable, and seem poised for growth
NCEO and Beyster Institute also reported that broad philosophical support is causing growth in employee ownership of all kinds:

- Increasingly engaging a variety of companies (all industries, all sizes)
- Still primarily a small to mid-sized company choice
- Somewhat industry driven (high tech equity sharing)
- Large public companies (PepsiCo, Starbucks, Whirlpool)
- Growing interest among larger, closely held companies
Broadening the picture even more to cooperatives and we find that:

- U.S. cooperatives generate 2 million jobs and make a substantial contribution to the U.S. economy with annual sales of $652 billion and possessing assets of $3 trillion (Source: University of Wisconsin, Center for Cooperatives)
- Today, over 10,000 credit unions with over $480 billion in assets serve more than 79 million people in the U.S.
- Increasing interest in cooperatives (employee-owned/cooperative companies, labor unions, economic development corporations, academics in business schools)
## Continuum of Wealth-Building Strategies

<table>
<thead>
<tr>
<th>Family Wealth Building</th>
<th>Shared Equity</th>
<th>Community/Worker Ownership</th>
<th>Public Ownership or Investment</th>
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<tbody>
<tr>
<td>✓ Individual Development Accounts</td>
<td>✓ Community Land Trusts</td>
<td>✓ Anchor institutions (eds, meds, churches, museums, libraries)</td>
<td>✓ Municipal enterprise</td>
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<tr>
<td>✓ Microenterprise</td>
<td>✓ Limited Equity Cooperatives</td>
<td>✓ ESOPs or worker cooperatives</td>
<td>✓ State &amp; local venture investments</td>
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<tr>
<td>✓ Family Self-Sufficiency Program</td>
<td>✓ Deed restriction (inclusionary zoning)</td>
<td>✓ Credit unions</td>
<td>✓ Public pension fund ETIs (economically targeted investments)</td>
</tr>
<tr>
<td>✓ “Baby Bonds” &amp; child savings accounts</td>
<td>✓ Mixed ownership (Market Creek)</td>
<td>✓ Community corporations</td>
<td>✓ Public leases: land &amp; transit development</td>
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<td>✓ Earned Income Tax Credit volunteer assistance programs</td>
<td>✓ Program-Related Investments</td>
<td>✓ CDC or CDFI direct ownership</td>
<td>✓ Stock warrants in exchange for granting tax breaks (fair exchange)</td>
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<tr>
<td>✓ Alternatives to predatory lending</td>
<td>✓ CDC/CDFI equity investments or joint ventures</td>
<td>✓ Social enterprises</td>
<td>✓ Trustee ownership (e.g., Alaska Permanent Fund)</td>
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<tr>
<td>✓ Nonprofit financial education programs</td>
<td>✓ Community benefits agreements</td>
<td>✓ Commons-based enterprises (e.g., Wikipedia, Creative Commons licenses)</td>
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**Source:** Democracy Collaborative, *Continuum of Wealth-Building Strategies*, College Park, MD: The Democracy Collaborative at the University of Maryland, 2010.
There is no one-size-fits-all at the company-level

SAIC started with all employees purchasing stock and being awarded options based on performance, and grew to using over a dozen different equity mechanisms

In 1973, SAIC created Bull, Inc., a wholly owned broker-dealer subsidiary, registered with and licensed by the SEC and the National Association of Securities Dealers (NASD)

Bull, Inc. was the internal market system. Trades were typically held every quarter.

Only a few companies have an internal market similar to Bull Inc. SEC and NASD don’t make it easy. Administrative burden is high. SAIC is now a public company.

What works at one point, will change over time
The SAIC Internal Market Model (Early 2000’s)

Illustration of SAIC’s Internal Stock Market (Early 2000s)
EO-specific associations and non-profit organizations are the first place to seek information, network through conferences, find best practices, gain referrals, and in some cases, sponsor or participate in applied research:

- The National Center for Employee Ownership (NCEO) [http://www.nceo.org/](http://www.nceo.org/)
- Foundation for Enterprise Development (FED) [www.fed.org](http://www.fed.org),
- The 401k/Profit Sharing 401k Council of America [http://www.psca.org](http://www.psca.org)
- Global Equity Ownership [http://www.globalequity.org/geo/home](http://www.globalequity.org/geo/home)

*Above list does not include cooperative non-profits or associations*
Other examples of non-profits engaged on the topic of employee ownership:

- The Aspen Institute, [www.aspeninstitute.org](http://www.aspeninstitute.org), through collaboration with EOF and FED, created the on-line Curriculum Library on Employee Ownership (CLEO) housed at Aspen’s [www.caseplace.org](http://www.caseplace.org)


- The National Bureau for Economic Research (NBER) [www.nber.org](http://www.nber.org)

Academics Increasingly Providing Research/Educational Basis for Employee Ownership

- Four U.S. universities with well-established programs and formal EO courses:
  - Rutgers University: School of Management and Labor Relations
  - Kent State University: OEOC
  - University of Pennsylvania: Organizational Dynamics department
  - University of California, Rady School of Management, The Beyster Institute

- Many academic leaders: more than 100 academics integrating employee ownership into curriculum (e.g., accounting, finance, HR, organization design)

- Competitive Fellowship Program started in 2008 has dramatically expanded interest and deepened academic commitment. As of 2011, 49 fellows across the U.S. and international:
  - Managed by Rutgers; funded by FED, EOF, and increasing number of individuals
  - Support to doctoral, post-doctoral, associate professors and senior faculty
  - Inter-disciplinary research on industry practices, worker well-being and policy
Supporting Forums for Academics in Employee Ownership

- **Curriculum Library on Employee Ownership (CLEO)**
  - Managed by Aspen Institute; Funded by FED and EOF; Academic advisors
  - Part of www.caseplace.org, with more than 3,000 teaching materials that incorporate environmental, social and/or ethical topics into business and management
  - On-line fully accessible to a global network of academics, most business schools, and partially accessible to practitioners
  - More than 480 materials on EO, making CLEO the largest repository of teaching materials on employee ownership and shared capitalism; More than 245,000 views

- **Academic Symposia**
  - Annual Beyster Fellowship Symposium
  - Rutgers Mid-Year Fellowship Symposium
  - The International Association for the Economics of Participation (every two years)
  - Others (Penn; Harvard/Georgetown)

- **Other Foundation for Enterprise Development Initiatives**
  - Rutgers Chair in Employee Ownership
  - Beyster Fellows at University-based Entrepreneurial Centers
  - International EO Dissertation Proposal Award Program (with EOF)
  - Creating Wealth by Sharing Wealth Essay Contest and Related Documentary Film
Research Gaps

- Growing base of academic research over past 30 years
- Mostly focus on economics, accounting and finance
- Mostly on publicly-held or ESOP-based companies
- Limited research base on wide range of ownership models, especially used by privately-held companies
- Overarching research gaps:
  - Interdisciplinary research on broad-based ownership (systems approach)
  - Focus on closely or privately held companies
New Educational Tool

MIT Start-up simulation model links causal influences of Market Capitalization

- Model is based on numerous, national empirical studies, and illustrates Market Capitalization strongly influenced by ownership among founder, employees, and venture capital.


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## Challenges and Opportunities Ahead

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<th>Challenges</th>
<th>Opportunities</th>
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<tbody>
<tr>
<td><strong>Government</strong></td>
<td>• fragmented efforts</td>
<td>• local private/public (bi-partisan) initiatives</td>
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<td>• lack of public trust</td>
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<td><strong>Economic turmoil</strong></td>
<td>• low availability of capital</td>
<td>• more attention to alternative financing</td>
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<td>• vulnerabilities of old business models</td>
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<td><strong>Investors/Financial Institutions</strong></td>
<td>• megabanks are even bigger since 2008</td>
<td>• interest in “responsible capitalism”, community funds</td>
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<td>• family-business conversion</td>
<td>• family-business conversion</td>
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<td><strong>Professional services</strong></td>
<td>• single mechanism orientation</td>
<td>• life cycle services</td>
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<td></td>
<td>• uninformed of EO, especially with start-ups</td>
<td>• Integrated, multi-disciplinary services</td>
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<td><strong>Media</strong></td>
<td>• focus on EO failures</td>
<td>• seeking the next best solution</td>
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<tr>
<td><strong>Terminology</strong></td>
<td>• exclusiveness of EO terms</td>
<td>• inclusive of EO terms such as “democratic capitalism”</td>
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• FED web site contains reference materials and links for entrepreneurs interested in broad-based ownership:
  • Videos and written principles, practices, and lessons learned from SAIC: http://www.fed.org/publications-saicstory
  • Presentations and resource links for Small Businesses: http://www.fed.org/publications-books
  • Videos, research papers, case studies and resource links on employee ownership: http://www.fed.org/publications-ownership-panel
  • Curriculum Library on Employee Ownership at www.caseplace.org
  • 2009 and 2010 Beyster Fellowship Symposia proceedings: http://www.fed.org/advancing-research-beyster-symposium
  • 2010 Essay Contest including winning essays: http://www.fed.org/education-essay-contest
  • Documentary film: http://www.fed.org/documentary
Many of the “best companies to work for in America” have broad-based employee ownership and profit sharing.

Student views from FED-sponsored, 2010 essay contest:

- **Freedom and stock** – as the two most important and transferable building blocks
- **Alignment** – of individual productivity, the company’s success, and their own personal success
- **Fairness** – by rewarding all workers for their innovation, productivity, and contribution
- **Transparency** – through open book policies inside companies as well as by government policy
- **Purpose** – by establishing high-standards and a culture for employees to be part of something great
- **Inclusiveness** – including a diverse range of rewards to effectively motivate a workforce made up of unique employees

21st century business models for success are going to be different. Successful business models will be based on the belief that “None of Us is As Smart As All of Us.”