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University – SBDC Working Group on Employee Ownership

August 29, 2018

Since April 2018, The Democracy Collaborative’s Higher Education Anchor Mission Initiative (a joint project with the Coalition of Urban and Metropolitan Universities) has been running a working group, aimed at aiding universities in bringing employee ownership issues into their Small Business Development Centers (SBDCs). The purpose of this working group is to catalyze pilot projects for building the capacity of university-based SBDCs to incorporate shared equity business models into their business advising work.

Momentum for this work is building, after the passage of the Main Street Employee Ownership Act in mid-August. Our working group is in communication with other organizations working on implementation of the new law – including Democracy at Work Institute (DAWI), National Center for Employee Ownership (NCEO), and National Cooperative Bank (NCB).

A key next step in bringing employee ownership to SBDCs is pilot projects. DAWI, for example, is researching existing pilot projects at SBDCs, and plans to develop new pilot projects. With 900 SBDCs across the nation – more than half of which are located at colleges and universities – the unique perspective of the University-SBDC EO Working Group can bring critical learnings for the whole field, through its own pilot projects. This working group is positioned to be a national leader in the development of pilot projects at universities.

Existing work of the University-SBDC EO Working Group, hosted by The Democracy Collaborative:

The working group has been expanding since April. It is hosting monthly calls and meetings among the participants in San Diego; facilitating coordination among SBDCs and employee ownership experts on training advisors about EO; also drafting training materials; and gathering existing materials from many sources. The work of the group was highlighted at a gathering of 33 universities that are part of the Higher Education Anchor Mission Initiative, where other universities were invited to join. Blogs about the work of the group will be running on the Fifty by Fifty news service about employee ownership. Participants in the working group include:



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- Mysty Rusk, Director, The Brink SBDC at University of San Diego.
- Andrew Delmonte, Small Business Advisor, Buffalo State College, SUNY system
- Jennifer Patel, Small Business Deputy Sector Director, San Diego Region, Miracosta, California Community Colleges
- C.J. Seitz, Director, Western Washington University SBDC, Bellingham, WA
- Jonathan Ossie, consultant at University of San Diego Innovation Center SBDC; former executive at Oracle and wealth consultant at Mariner Wealth Advisors
- Mauri Ingram, Executive Director, Whatcom Community Foundation, Bellingham, WA
- Mitchell Miller, Employee Ownership Consultant, Beyster Institute, University of California San Diego
- Anthony Mathews, California Center for Employee Ownership, University of California San Diego
- Damien Vira, Lead Employee Ownership Consultant, Beyster Institute, University of California San Diego
- Martin Staubus, Director, Beyster Institute, University of California San Diego
- Emily Sladek, Manager for Higher Education Engagement, The Democracy Collaborative
- Marjorie Kelly, Executive Vice President, The Democracy Collaborative

Andrew Delmonte at Buffalo State has for some time been educating visiting business leaders about cooperative worker ownership at the college SBDC. He has also prepared a webinar series educating more broadly on this. The Democracy Collaborative's Fifty by Fifty initiative will be running a blog on his work at the SBDC. He reports there is interest in expanding the work throughout the SUNY system of SBDCs.

Mysty Rusk, head of the SBDC at University of San Diego, has requested assistance in getting her staff of 30 advisers trained in basic literacy about employee ownership, so they may incorporate this in talks with the 700 business leaders they advise each year. Beyster Institute, an employee ownership center also in San Diego – at the separate university, UC-San Diego – has offered to do this training. The two were linked via the University-SBDC Working Group on EO. The current plan for the training by Beyster is to provide a 30-minute overview for all 30 of USD's SBDC advisers. Rusk requested this be kept to 30 minutes, as she must pay for these advisers' time. Following that training, another two or more two-hour trainings will be prepared, for those advisers who wish to learn about EO more deeply.



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The potential for statewide work could also follow. The University of San Diego, Western Washington University, and SUNY Buffalo State College have demonstrated preliminary interest in developing and piloting this information. Currently, universities or colleges within the three state systems, California, Washington and New York, are potential sites for developing the capacity to provide employee-ownership services to their SBDC members. If statewide trainings were to develop, over time, in these three states, the impact could be substantial. Colleges and universities in these three states represent more than 90 SBDCs or nearly 10 percent of SBDCs nationally.

Other SBDCs have expressed interest in this work and are at earlier stages of incorporating it. Among these are University of Chicago and College of Staten Island.

Pilot projects planned:

The University-SBDC Working Group on EO plans to help **catalyze a series of pilot projects in training about EO at university SBDCs**. This will begin with assisting the development of training for the SBDC at University of San Diego. Beginning with a half-hour overview training, to be delivered by Beyster Institute, this pilot will proceed to the development of subsequent two-hour trainings, for those advisors who wish more in-depth understanding. The aim is not to develop experts in employee ownership. Rather, the goal is basic literacy about EO, so that advisors can comfortably incorporate this, as appropriate, in their dialogue with business owners. Based on learnings from this initial pilot, other trainings will be developed at other universities in the working group. We envision three universities engaged in trainings in the first year. We also envision sharing the learnings from these pilots with the SBDC field more broadly. Blogs will be prepared about activities, and shared through the Fifty by Fifty employee ownership news service, and through the broader SBDC and EO communities. Also, for example, Mysty Rusk has suggested that the working group propose a panel or workshop for the September 2019 national SBDC conference, which will be in Laguna Beach, CA. She suggested the aim is to reach the 62 state and regional directors through which SBDCs are administered, who have strong collaborative relationships. Already Rusk has reached out to her state and associate state SBDC directors, Marquise Jackson and Daniel Fitzgerald, to bring their perspective into the working group.

The working group will remain in close communication with other pilot projects – such as those in DAWI's work – to share learnings and training materials. For example, the initial training



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materials for the USD project are being shared with Melissa Hoover at DAWI and Loren Rodgers at NCEO, for their feedback.

Issues the pilot projects hope to illuminate:

- What is the case for SBDCs to take on employee ownership? Early research by DAWI indicates that SBDCs have funding tied to three primary metrics: Number of new businesses started. Amount of finance mobilized. Longevity of engagement. How does EO work contribute to these?
- How is SBDC contracting conducted? Can SBDCs independently contract for training?
- What is the capacity of participating SBDCs join the larger conversation among SBDCs?
- How are community colleges connected to SBDCs?
- Who are the typical business owners seen by SBDCs? Early research indicates 75 percent of inquiries from business are about startups or early stage companies. There are apparently not a lot of retiring business owners in contact with SBDCs. Is this true?
- The new law directs SBDCs to get involved in succession planning. How do SBDCs plan to do so?
- Are SBDCs able or likely to host outreach events about EO, trying to reach retiring business owners? If this does not connect to funding metrics, is it outside the likely SBDC activity?
- What is the case for universities to support EO work at SBDCs?

Background on universities and the Democracy Collaborative

Universities and colleges are home to over half the nation’s 900 SBDCs. This means higher education is uniquely positioned to play a role as anchor institution for SBDC work with employee ownership. More universities are interested in taking up an “anchor mission” – using the many resources at their command to build the prosperity of their local communities. The Democracy Collaborative is a national leader in anchor mission work; see below information; we are also nationally active in employee ownership. Employee-owned-companies are a key tool in keeping companies locally rooted over the long term, and local ownership means three times as much wealth recirculates locally, compared to absentee-owned companies.

The 900 SBDC across the country provide annual services to over 1 million entrepreneurs and existing business owners. SBDC funding is provided 50 percent federally and 50 percent by the individual institution. Support by universities can take other forms than financial. This can include the commitment by a university or college to take up an anchor mission – which can



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mean direction from top administration, to focus SBDC staff on incorporating employee ownership into their work, as one way to build prosperity in the local community.

Higher education is uniquely positioned and incentivized to support employee-ownership. The public mission of higher education calls on it to foster lifelong democratically engaged citizenry, develop a prepared workforce, and discover new knowledge that will address persistent societal problems. Worker-ownership is a practical form of both workforce development and participatory governance. Four-year universities partnering with community colleges and business developers directly connect the educational, career and entrepreneurship opportunities for local businesses and residents. Particular emphasis will be placed on how to tailor employee ownership programs toward local, low-income and minority entrepreneurs, to deepen higher education’s commitment to community engagement and create more opportunities for inclusive place-based economic development.

Higher Education Anchor Mission Initiative a joint project of the Democracy Collaborative and the Coalition of Urban and Metropolitan Universities

Assets in the Room

Total Students	573,624
Total Employees	126,901
Total Procurement	\$6 Billion
Total Size of Investment Portfolio	\$24 Billion
Total Value of Property	\$19 Billion



The Higher Education
ANCHOR MISSION INITIATIVE





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For many years, the Democracy Collaborative has run the Anchor Dashboard, with six universities studying data collection for their anchor impact. In 2018 the Higher Education Anchor Mission Initiative (the Initiative) was launched in partnership with CUMU, the Coalition of Urban and Metropolitan Universities, which demonstrated demand for a peer exchange and learning around anchor mission work among universities.

Consisting of 33 universities, the Initiative creates a platform to improve these institutions' ability to advance the anchor mission and build locally owned wealth. It is an action-oriented peer learning environment for sharing information, troubleshooting common challenges, testing emerging strategies, and institutionalizing and scaling anchor work. TDC has been working with Initiative universities to track minority-owned and local procurement within disadvantaged neighborhoods. These universities have the capacity for further reporting of financing secured and loan guarantees that the Mainstreet Employee Ownership Act mandates must be tracked. The SBDC-EO working group is one sub-group that includes members of the Initiative as well as other university partners.

There are other colleges, such as community colleges, with whom the working group is also building relationships. At least one community foundation is also involved.

The Democracy Collaborative is an 18-year-old nonprofit that does research and consulting nationally, with the aim of creating broadly shared prosperity. Through our cutting-edge research and our many diverse programs, The Democracy Collaborative works to carry out a vision of a new economic system where shared ownership and control creates more equitable and inclusive outcomes, fosters ecological sustainability, and promotes flourishing democratic and community life. We have a staff of 35 and offices in Washington, DC, and Cleveland, where we designed and helped launch the Evergreen Cooperatives, a network of three worker-owned cooperatives, launched with the support of anchor institution contracts. In addition to the Higher Education Anchor Mission Initiative, The Democracy Collaborative is also home to Fifty by Fifty, aimed at catalyzing 50 million employee owners by 2050. www.fiftybyfifty.org

Background on employee ownership and the new legislation

A typical small business succession strategy can take years to implement. Nationally, over 2.3 million companies owned by baby boomers will be sold or otherwise disposed of in the coming decade; most have no transition plans. Without new ownership, these businesses will close and likely result in significant job loss and diminished economic opportunities in local communities.



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This is a powerful framing message for SBDCs and universities. Employee ownership has been shown to:

- Strengthen companies through increased sales, employment and productivity.
- Reward workers with increase pay and stronger retirement savings.
- Prevent layoffs and reduce bankruptcies.

Main Street Employee Ownership Act

The Main Street Employee Ownership Act of 2018, signed into law in mid-August as part of the John McCain National Defense Authorization Act, directs the Small Business Administration, the federal agency that supports SBDCs, to incorporate employee ownership into lending and education work. The law, passed with bipartisan support, stipulates that the SBA:

1. “Will modernize lending to employee-owned firms through the 7(a) program, by incorporating decades of industry best practices into the SBA’s toolkit;
2. “Will make it easier for employee-owned firms (both ESOP and employee-owned cooperatives) to access SBA financing already available to other small businesses;
3. “Will help firms access the professional support, education, and technical assistance that they need to transition successfully from private ownership to employee ownership through a new mandate to SBA to incorporate this information and training; and
4. “Will help employee-owned firms succeed post-transaction, by facilitating a gradual ownership succession process and increasing access to existing SBA business development programs.”¹

The main purpose of the bill is to provide a smooth transition to employee ownership through providing options for sellers to stay with the company, finance conversion costs, and increase financial access to 7(a) loans. Few sellers understand employee ownership, and fewer still know how the SBA can support them in transitioning to a shared-equity business.

The bill charges the SBA to coordinate with SBDCs to provide them with succession planning services around employee-ownership and assist in small business development through educating them about the employee-ownership business model.

- “Small Business Development Center Employee Ownership and Cooperatives Promotion: This bill requires the SBA to work with the nation’s Small Business Development Centers to provide business succession services, including training, executive education, and one-on-one consulting on employee ownership options.



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Joseph Blasi of Rutgers University has said this new law “is the most far-reaching employee share ownership legislation to pass Congress in over 20 years.” He estimates this law could “double or even triple the growth of employee-owned companies.” He adds, “If it’s successful in leading more small business owners to sell to employees, it could help reduce economic inequality. That’s because the primary beneficiaries would be working- and middle-class employees who would suddenly have a new way to build a substantial amount of capital. Furthermore, it’ll help preserve local jobs and the tax base because as we noted these small businesses often end up closing down because there’s no one to take over. In addition, employee-owned companies have shown greater resiliency in times of economic stress, leading to fewer layoffs. And research shows that these types of companies offer better pay and benefits than other types of businesses.

“With real wages for most Americans flat or declining and most wealth in the hands of the richest Americans, broadening capital ownership to the middle and working classes may be the best – and perhaps the only – bipartisan road left to addressing economic inequality in the U.S.”

The success of this new law hinges on actions by the national network of SBDCs. Since the law includes no funding allocation, it means the SBA and SBDCs must find ways to incorporate employee ownership work given without additional federal funding to help.

Solving this puzzle will rely on pilot projects at SBDCs. The University-SBDC Working Group on EO – already four months into its work – is poised to offer lessons for the SBDC community as a whole.

¹ Fifty by Fifty, “Fifty by Fifty Statement in Support of the Main Street Employee Ownership Act,” *News and Updates*, Washington, DC: The Democracy Collaborative, August 16, 2018, <https://www.fiftybyfifty.org/updates/fifty-by-fifty-statement-in-support-of-the-main-street-employee-ownership-act>, accessed on August 24, 2018.