Podcast Transcript: An inclusive recovery – Building back better with employee ownership

MAZI RAZ: Hello, everyone. Welcome to the Ivey Academy podcast, where we discuss current topics in leadership and organizations, unpack the latest research in the field, and look at trends across different settings for insights to share with our audience. My name is Mazi Raz, and I'm the director of Learning Design and Strategy at the Ivey Academy.

This episode was originally recorded in March 2021 and is hosted by Mark Healy. The featured guest panelist is Jon Shell, managing director at Social Capital Partners. In this episode, Mark and Jon explore the potential benefits of an employee ownership model and other ways leaders can start thinking about social responsibility and equality. Without further ado, let's get into it.

MARK HEALY: Good afternoon, all. Thank you for joining us. As we get started, I would like to recognize the history and tradition of the lands on which Western University, Ivey Business School, and our own Spencer Leadership Centre are located today. We acknowledge and respect the traditional lands of the peoples where Western resides, connected with the London Township and [INAUDIBLE] of 1796, as well as the Dish with One Spoon covenant Wampum.

This land continues to be the home of diverse Indigenous peoples who we recognize as contemporary stewards of the land, vital contributors of our own academic community. We commit to renewing and building on our relationships with Indigenous communities through our teaching, our research, and community service.

And since we're virtual today, we invite all of you to think about the land you share and add your own acknowledgments in the chat. For those of you who've joined us regularly over the last year or so, welcome back. If you've just been new to this, then welcome. We host this series for business leaders and leaders in our community who are looking for perspectives and what has become kind of long and tricky time.

[NON-ENGLISH SPEECH]

I'm Mark Healy. I'm the executive director of the Ivey Academy. That's the Learning and Development lane of Ivey Business School in London.

[NON-ENGLISH SPEECH]

Well, here we are again. It feels a bit like time is reversing. COVID cases are rising again here in Canada, especially in Ontario. It's winter again, as you may be able to see from the back. Maybe we're all in a Chris Nolan film or something. And with businesses across the country now facing a third wave of lockdowns, a whole bunch of Canadian households are at risk of insolvency. The full economic impact of COVID, it's been delayed, but it's clearly kind of yet to be felt.

More alarming is the fallout in the way it's been distributed. It's been disproportionately affecting some groups-- women, low wage workers, young people, racialized Canadians, people with disabilities, living with mental illness, rural communities, without reliable internet access. The way we think about it is, we're in the same storm but we're kind of not on the same boat.

And this rapid acceleration of wealth and social inequality poses pretty critical questions for policymakers as the country plans for recovery. You know, how do we set the stage for a more inclusive economy, that helps build more resilient communities and businesses? And in the plainest of English, how do we build back better?

About a year ago, at this time, we had Jon Shell on. He was one of our first guests. We were trying to make sense of what was happening at the time. He's good enough to be joining us again today. So, Jon, welcome back.

Jon's MBA '03. He's managing director of Social Capital Partners, working with international companies' funds and nonprofit partners. SCP has pioneered innovative approaches to social finance and enterprise in Canada since 2001.

Jon's going to help us explore the outlook for Canadian business today. We'll spend a bunch of time the employee ownership trust model, which he spent a lot of time thinking about and advocating for. It did get some love in the recent federal budget, which is great. We'll also discuss some other ways that leaders can start thinking about how to kind of practically build back and about social responsibility and about equality.

Jon, let's get to you right now. Can you start by just a bit of your background, a bit on SCP, and kind of what you've been up to for the last year?

JON SHELL: Sure, Mark, and Thanks for having me on again. I'll tell you a little bit about my background as MBA 2003. As you said, I worked at a consulting company for a couple of years after that and spent about a dozen years buying veterinary practices. So here in Canada, for seven years, I co-founded a company called Vet Strategy with a couple of other Ivey grads from 2003, where I met Jason Christie. And then I moved to Australia in 2013 because my wife said, we're moving to Australia. She's from Australia. And built a bit of a roll of vet practices there as well. And came back to Canada in 2017.

My partner Bill Young at SCP, founded in 2001, he had been quite successful in the private sector. I think he was-- and he and I share this in common-- surprised and felt that the world had vastly overcome [INAUDIBLE] him for his contributions, which I feel as well.

And so he set up Social Capital Partners to say, OK, how can I use what I've learned in business to help spread the great fortune that I've had to other people? There are these structural reasons in our economy that people who look like me and Bill get to take advantage of the luck that we've had where lots of people don't.

And so for the first 15, 16 years of SCP's path, it was all about, how do we help people who are facing barriers to employment get good full time jobs? Then, [INAUDIBLE] I came back to Canada, I was feeling a bit lost, frankly. You know, and I was really worried, part of that because of the industry that I had just come out of. We can talk about that a bit later.

But, you know, you're seeing wealth inequality grow. Thomas Piketty had just written a book that talks about how unequal ownership had become in society, how concentrated it has become in society. And I was worried about these things, and I wanted to do something different.

I knew Bill, we hooked up again, and he said, why don't you come join me? So we're independently funded by Bill [INAUDIBLE]. Our objective is to dig in on areas where we think we can directly or indirectly change some of these structural issues that we face. And because we're independently funded, we try and take big risks. We failed a bunch of times, but we try to go over things that other people can't go for because they have other funders that are pressuring them to do this and that.

And so we're a nonprofit, I don't know if I mentioned that. Because we are relatively small, we also try to engage with government. We try to engage in public policy, wherever we can, because there's a lot of structural challenges that we can't have any influence on directly.

So, in the last year, you said, when I joined in 2017, we shifted from this focus on, how do we help people get full time jobs? to, how do we help people own things? Right. So if we have too much ownership concentration, if we have continued and increasing ownership concentration, that will lead to permanent wealth inequality, unless you can break that down somehow. So how do you think about breaking down ownership and spreading it as broadly as possible?

And so we've been working on a number of different ideas in that. We'll talk about this a bit later, but we landed on employee ownership as the most scalable and sustainable way to broaden ownership and a way we can directly influence. So that's what we're working on. I'm sure we'll talk about that.

And the other thing that I've spent time on the last year, and the reason I was on that call, I think, a year ago is, when the pandemic hit and the government came out with, here's what we were going to do to support small business, here's what we're going to do to support people, this was in early March or mid-March, I got very concerned. Because we'd spend all this time thinking about inequality, the different types of jobs that people have, the different exposures that they had, and the things we were going to do to face the implications of shutting down businesses all over the country seemed incredibly feeble in terms of what it was trying to achieve.

And so I wrote an article and said, here's where we're headed, and I'm really worried about the unequal outcomes of our approach here. And that article went viral, and it led to us starting something called SaveSmallBusiness. And so for about six months between the end of March and kind of end of October, I worked with a couple of other people on this organization called SaveSmallBusiness. And with having 38,000 businesses sign up within three weeks of us starting, it was a crazy ride.

But we ended up being the ones who fought for rent relief. You know, the rent relief program that wasn't so good at the beginning, that became really good after Chrystia Freeland took over as finance minister, that was largely driven by our actions in March and April. As with everybody else, it's been a very unusual year. But that gives you a bit of insight into what we've been up to.

MARK HEALY: Thanks for that. So we're going to definitely get into the employee ownership side of things. We're going to start a little bit more balcony view. I was thinking this morning, when I was doing my prep, I give this-- I get asked to do talks once in a while. I gave this talk. And the last time I gave it was-- it was in Toronto in the real world, right before COVID locked everything down.

And I sort of start by saying, in your feed, you only read about two kinds of business. You read about the big blue chips that generate a ton of wealth, to be honest, for lots of folks. And you read about the startups that are raising a ton of money, right?

And I have this thing about the North American economy sort of at war with itself. You never read about small-medium-sized businesses are actually trying to employ people and make money, right? Except now, a year and change later and unfortunately for the wrong reasons, because they're suffering largely, in a big way.

I know we don't want to dwell on this point for too long today, but I would like to start with, what's your perspective on the state and the kind of outlook for small business in Canada?

JON SHELL: Well, I mean, I think you got to separate them into different categories. I think the one that I've been focused on has been the one where they're facing the most dire situation, which is anywhere where you need to go in order to get a service.

And I think this isn't news, right? Everybody on this webinar will be incredibly aware of the challenges faced by the barbershops, the coffee shops, the daycares, direct person-to-person contact, small businesses.

And the outlook is exactly what you would expect it to be. It's incredibly dire. I mean, this has been over a year. Who would have thought we'd be here 13 months later, or whatever it is, still talking about this?

The CFIB estimates the average small business and members or something like $180,000 that they're looking at $200,000 bankruptcies over the next period of time. You know, people are hanging on by a thread.

We have to acknowledge things have improved since Chrystia Frelund took over. I mean, that is fact. The two major problems before was kind of the structure of some of the programs, plus the uncertainty of them. They'd renewed every month, but after the month it ended-- and she has fixed that, which is great.

But it doesn't take away the fact that we haven't handled the pandemic very well. COVID still rages, and businesses remain shut. The debt loads-- and it's not just debt loads, right? So if you think about your average small business, its debt load, it's deferred rent, in very many cases. It's a bunch of other deferred costs. They often owe suppliers. Their suppliers then don't have money [INAUDIBLE].

So it's dire. And I think we don't know yet what happens once we are largely vaccinated. I mean, does it go back to normal? You know, is it slow? Is it slow for some industries and not for others? And so, you know, there's been this unequal application of an incredible dire situation. But those that are facing it have incredible debt loads and no real path to paying them back.

MARK HEALY: You talked a bit about-- when we were thinking about this. Talk a bit about this daisy chain of bankruptcy and how it's kind of not as easy as it is glamorized in some ways. You don't just sort of start over. Can you talk about the practical side of that? Why is that true?

JON SHELL: So let's say you want to open, whatever, barbershop. Are you go get your loan if you can? And then you sign your lease and you personally guarantee your lease. And the personal guarantee in your lease and potentially on your loan, that's the problem. Because you might have a corporation, that's fine. That corporation goes bankrupt, that's fine. You're personally liable for that lease, so you need to go personally bankrupt.

Once you go personally bankrupt, that's about seven years you're in the penalty box before you can properly get a loan again and start again. So, if you think about the relatively small percentage of our economy who's willing to do that, you put your name--

I've done this, right? So the reason I have sympathy or empathy for all of this is that I was a small business owner in a plaza before I did my MBA. And I had my name on a lease. And the feeling of-- and our business didn't go that well. It was not a very good business, and we operated it poorly.

And so the feeling of being trapped was palpable. And so you have these hundreds of thousands of people who feel trapped across the country by the personal guarantees that they have committed to. And then this thing has happened it was no fault of their own. Insurance isn't paying out.

So, unless we can figure out a way-- and we talk about what we should do for these businesses-- we haven't done a very good job of planning ahead, right? So if we think about the next six months or the next year, the most recent budget has extended a bunch of the supports for small business. That's great.

But we're not thinking about what happens when these businesses go bankrupt or if they have to go bankrupt. And what if they are so afraid of going bankrupt, which many small business owners are, that they don't go bankrupt even though they should? So they've got these businesses that they are just running in order to survive. They're barely paying their bills. Their families don't have any money. But they're doing it because they are so afraid of bankruptcy and what that means because it's complicated, confusing, and scary.

But I haven't heard anyone talk about that and say, OK, well, maybe we should be making bankruptcy easier for that set of businesses. And say, look, we screwed you. We made you shut down, we didn't provide you quick enough supports, we gave you loans that you'll never be able to pay back. Your business can't support that. Let's find another path for you to start again.

But we're not talking about that or at all. You know, again, planning ahead, so we get vaccinated. But we're probably still going to have localized outbreaks, right? So when we shut down, say, small business in October, one of our recommendations was, look, you're going to have sort of hotspot-based flare-ups of the virus probably for a long time. We need to organize around that in a very specific way.

So it's not like, OK, we support for everybody. It's OK. The town of-- whatever it is-- Galt has had a flare-up and it has a real problem. It has to shut down for a period of time while we do contact tracing, whatever it is. We need a SWAT team to go in there and make sure that we shut those businesses down, make sure that rent's being paid by somebody who just do all the things to freeze those businesses and those employees while that hotspots are taken care of. And that way, we can keep the economy going as opposed to having all of this uncertainty.

But we're not talking about that either. So we really have to, I think, step back and say, OK, what's the long-term answer here? And start to prepare for that. And that's where I think the gaps are.

[MUSIC PLAYING]

MARK HEALY: I want to get to learnings before we shift gears. So I guess two fronts. So as a business community, what are we learning through this? And then, you've had a lot of conversations yourself with policy, which is cool. And I'd like to know what you learned in those conversations as well.

JON SHELL: I think one of the things we've learned-- and we'll probably talk more about this later-- is "we're in it together" is the biggest pile of BS you can imagine. So if you go back to March of last year, it was like, OK, we're in it together, what is the government going to do for us? That's what [INAUDIBLE] we're in it together. What did the banks do? And we should talk about that. And what didn't they do?

Let's just use the small business example. You take your small business that's paying rent to a landlord who has a mortgage, and you trace all that back. And generally, it's the bank who has the mortgage.

What you could have said back in March is, OK, what the banks are going to do is, they're going to stop payment on commercial mortgages because these businesses are closed. And in exchange for the landlord not charging rent or charging a certain percentage of rent over the next, whatever, three months, and then we'll be able to kind of get through this next three-month period, we're goint to tack that mortgage on to the end. We're not going to charge you interest in that period of time.

We're going to get our money, banks. We're just going to get it maybe three months later. Fine. The landlord is going to get their money. We'll tack on three months [INAUDIBLE].

There could have been an all-in approach to this that would not have affected the long-term share price of anything. It might have cost a little bit of cash in the medium term, fine, but we didn't do any of that.

There's a level of humility required, I think, in the business community about what was not done during the pandemic and especially at the start of the pandemic.
In terms of politicians-- so mostly, I've talked to, like, policy people who work for politicians. It's frankly fascinating. I have been shocked by how young they are. So I would say, the average age has been, like, maybe in the late 20s dealing with these massive issues. Not that they're not capable of doing it, but there's not a ton of real-life experience in that, but incredibly dedicated, incredibly smart, really wanting to do the right thing, but in a lot of cases, lacking some amount of knowledge and experience in order to tackle some of these problems.
It's been really interesting. I mean, super hardworking, but, again, other countries brought in, folks with very specific experience to help with some of this planning-- there's a lot we can learn from Australia in terms of how they dealt with pandemic. That's one of the things they did, and that was super helpful to them. We didn't do that.
We had a lot of conversations where-- we had a great conversation and then the response will be, OK, we're going to take what you said. We're going to go away and we're going to design something.
And that's why rent relief was so bad the first time, right? Like, they sort of went away and designed it. They wanted to do the right thing, but they didn't because it got messed up in bureaucracy and they didn't understand some of the practical implications.
So, I think both of those things are combined in a way in that I think there's a lack of trust from government to business in terms of being able to trust that they can bring them in and have kind of practical conversations with the right objectives. And then business didn't step up either, and that led to some pretty suboptimal results, which is a shame it didn't have to go that way and didn't go that way in every country. That was my experience of working through some of these things.
MARK HEALY: You know, for us, there's a small amount of sort of irony in this, because we knew a fair amount of programming here directly with government. And a couple of really good people Richard [INAUDIBLE] and Paul Booth started an initiative with us a long time ago, over 10 years ago. And the fundamental premise was, government doesn't know how to talk to business, and business doesn't know how to talk to government.
The Americans are actually better. Those mesh points are actually quite well understood and they're entrenched in the year. There's this sort of awkward divide. We do a fair amount of that work. I guess I would echo that it's too bad that there's this sort of structural divide, because it has hurt us in this time frame.
JON SHELL: And I am interested in your perspective on this, Mark, because my observation is that for business leaders I've talked to, there's a disrespect of government. So there's sort of, government is incompetent, government can't do anything. And so there's a level of arrogance that gets brought to the table.
Then on the government's side, there's a distrust of business, a view that whatever they suggest is going to generally be for their own best interests, that there's always going to be two angles, that we're not going to get a genuine-- I'm going to help, even if it's--
So that's what I observed, and you can see why that would lead to not very good conversations and not very practical outcomes. I don't know if that fits with what you've seen.
MARK HEALY: I think that fits pretty well. Every time we get one of these [INAUDIBLE] gatherings together-- we work with this nice guy in Toronto, [INAUDIBLE], he's got his own course called "How to

Talk to People about Things," which is pretty good. And we tried that for a while, and that's what this that's what this conversation is. It's just better mutual understanding.

I was [INAUDIBLE] every time I talked to the bureaucrats about the number of issues that they're trying to weigh on, and the number of stakeholders that they're trying to-- and they're trying to do their best and mobilize their workforce of 10,000 or 20,000 folks in [INAUDIBLE] communication chains, and at the same time, a handful of experts or informed opinions and sort of 30-minute bursts would help a lot.

There's a fair amount more I want to do in this section but we're up against it on time. I'm going to turn it over to you.

MAN: Sure. Thanks, Mark. So, obviously, we do want to get into the employee ownership question. We talked about that quite a bit in the prep, and we've reframed the session around that. You sent over some great articles. Maybe we'll just start with some level setting. Can you tell us a bit more about what employee ownership trusts are and what you've seen?

JON SHELL: Yeah, for sure. Why don't I step back and say, our objective at SCP was to find the most scalable way to broaden ownership in the private sector? That's what we were trying to do. And we stand around for anything we could find, and we found that the United States' employee stock ownership, and we're kind of overwhelmed by how successful it is.

We've never heard of it, but ESOPs in the US have-- there are 14 million Americans who own shares of the companies through an ESOP, and they own $1.4 trillion worth of corporate wealth in 6,400 companies, average of $100,000 per person. These are broadly owned. So an ESOP up in the US, one of the rules is, it has to be owned by all of the employees and not just top management. Otherwise, you can't qualify for the tax break.

And there are these tax breaks, right? So if an owner sells to an ESOP, they pay no capital gains tax. Once the company becomes an ESOP, they pay no corporate tax. Oh, my god, this thing is great. Why do we not know about this? Why aren't there more of them?

And so just to give you a sense of how it works, if I'm a-- and then we'll talk about where they came from. If I'm the owner of a company, I can sell to-- I set up an ESOP trust in the US, I then loan the value of the company back to the company. And then the company pays me back over time. All the shares get transferred to the ESOP trust.

So on day one, the company has zero-- the shares are worth nothing because the company, let's say, is worth $100 million and it owes $100 million. And then over time, it pays back that debt to the owner. And the share value goes up. And then the value all accrues to the employees. Those shares are given out over time, so it doesn't all go to the employees that happen to be there at the time it goes in perpetuity. And then these tax breaks [INAUDIBLE].

And then the owner can go and get debt from a bank as well so they get some cash up front. Companies like Publix-- I don't know if you know Publix, the grocery chain out in Florida, 200,000 employees, one of the largest privately owned companies in the world-- is employee owned. GORE-TEX is employee owned. Taylor Guitars, which we'll talk about in a minute, is employee owned. Clif Bar.

And so we ask the question, why isn't there more of this? And what we heard was, there wasn't enough upfront capital. So if I'm an owner of a company, I get a choice between, I'm going to sell to private equity, I'm going to sell to my competitor, I'm going to sell to my employee. If I have an advisor, they're going to tell me to do one of the first two things so I'll get more money upfront.

And so an owner will choose one of those paths because of the amount they're sacrificing upfront. However, the employee-owned companies grow faster, and they've been studied for 40 years. These things have been in place for years in the US. They grow faster, they go bankrupt much less often. They are more resilient in recessions. They pay their employees more. So the companies actually perform better versus a private equity-owned company or a publicly-owned company. And so they should be lower risk, and they should be able to attract lots of debt.

And so our objective is say, listen, if we want to take a big shot at something, what we need to do is get more money into this market. We need to make it easier for an owner to say, I'm going to choose to sell to my employees versus selling to private equity. And if we can shift companies away from private equity and towards the employees, we will do wonderful things for wealth inequality. So let's focus on that.

And so what we do is, we work with pension funds to try to find funds for transitioning companies in the US. Our first deal was Taylor Guitars, which we did in December. Taylor Guitars is a 1,200-employee company, the largest manufacturer of acoustic guitars in the US. And we funded it alongside the Healthcare of Ontario Pension Plan. And that was the first time one of these transitions has ever been funded by an institution, who loves this deal because not only is it a great company-- I mean, it really is a great company-- but they got a reasonable rate of return.

It's a long-term investment. So the capital match is perfect right. The company needs a long-term debt. HOOPP wants their money out long term, so that's great. And they can tell the story about how, now, what we have done at HOOPP, where we are a pension fund, preserving wealth on behalf of the 99% have just helped this company transition to their employees. It fits perfectly with what we're to do. And so if we can make that capital flow in that way, we should be able to massively expand the ESOP market in the US. And that's our objective.

One quick interesting thing about the ESOP. It was created by a Republican, a rabid anti-communist in the 50s who said, what we need to do-- if capitalism-- so he saw in the 50s wealth inequality, which is sort of hilarious in hindsight, and he said that capitalism is not going to be able to survive with increasing wealth inequality.

So, he was wrong about that but that's OK, or at least, he's so far has been wrong with that. And he said, OK, well, what we need to do is make everyone a capitalist. Everyone needs to benefit from ownership in society. Everyone needs to benefit from growth of companies. We want to align incentives to an organization.

So he created this as a lawyer in California for a bunch of different folks, and then the Senator got interested and he was able to get it into their retirement act back in the mid '70s. But it stemmed from an "everyone" should be a capitalist" point of view. Since then, it's been bipartisan in terms of its support. Obviously, it's great for workers, and so Republicans and Democrats have continued to make it better over time.

So, anyway, the one thing we think we can do is help fund it with better capital, more capital, to make it easier for [INAUDIBLE]. The other is, we can bring it to Canada. So in Canada, we have no employee ownership trust. We have a bunch of different trusts, none of them-- there's a problem with each of them in trying to do this. We have some employee-owned companies but very, very few.

So [INAUDIBLE] is one of the best examples of them, and Jeff Smith is a massive CEO and the families and transition [INAUDIBLE] to their employees over time is a massive proponent of this. But it has been incredibly hard for him to do it. Both breweries trying to do it, but it's going to take a long time.

[INAUDIBLE] not as accessible because employees need to buy into it as opposed to getting the shares for free, which is what happens to this sort of leveraged buyout for employees that is an ESOP.

So we've been working for the last six months to bring employee ownership trust to Canada. They exist in the UK. So the UK brought this in 2014. They've advertised it, they've provided tax incentives for it. And it's gone crazy. So last year alone, almost 100 companies became employee ownership trusts in the UK. We think the same thing will happen here if CFIM just do the study that showed Canadian owners were really interested in this concept. So we've been pushing it, and we were very fortunate. I think timing and all things kind of led to this. But this federal government put in the most recent budget a commitment to explore employee ownership trust.

We think, do, at least in part to, our advocacy. We've had a lot of good conversations with them. And so that's super exciting. So those are our two objectives. We've managed to sort of start down the path on each of those. But if you can instill those types--

These are the structural changes that we need to talk about. If we're going to beat back wealth inequality, we need real structural changes, of which this is a small one. There's so much more we need to do, but this is a small structural change that will, on its own, lead to broadening ownership and less inequality.

MAN: Just as I listened to you talk about this, I can imagine lots of financial benefits for our company, and you touched on some of them being able to attract debt. But I wanted I want to dig into that idea of resilience that you also mentioned. With either companies that you've seen this work or now having done this deal with Taylor, how does it impact the resilience of the company? And how would you define that?

JON SHELL: This won't be a surprise, but ownership matters, and the incentives of owners matter in terms of what happens in a downturn, what happens when an industry struggles. In the guitar industry, for example, Taylor Guitars has gone through ups and downs but has been successful.

Guitar Centers Of America was bought by private equity and laid down with a ton of debt, and has spent 15 years trying to figure that out. So they've been bankrupt, I think, twice in that process.

If you look at the grocery industry, I think there are some very, very large grocers in the US that are employee owned. None of them have ever gone bankrupt. They're all quite successful. Most of them, family owned, the transition to employee ownership.

There have been 12 bankruptcies in the US in grocery since 2015, 11 of them owned by a private equity. The other one was a failed acquisition by Kroger, who just changed the strategy and then abandoned. They're like, oh, we don't need this anymore, we're going to bankrupt. So a bunch of people lost their jobs.

Studies in recessions-- there's been a massive study of the financial crisis. Employee-owned companies massively outperformed in terms of layoffs and bankruptcies. And the reason is, you have people in the organization who are willing to sacrifice in tight time. It's not a mystery, right?

So if the employees own the company and say, OK, we may have to take a lower salary for a period of time but we know that when things come back, we're going to be the ones that benefit, right? For financial owners, who generally don't live in the community, don't care about the community, sometimes have never been to the community other than when they were trying to buy the company, there's just a different motivation.

And so the more our economy is owned by people who don't live in communities, people who don't know the employees of that company, people who don't know the clients and customers, the more we are going to be not resilient. Because the less we are going to sacrifice when things go bad.

MAN: So in the example of Taylor or others you've seen, what are some of the signs for ownership and management that this is something worth considering? What context does this work?
JON SHELL: So there's a spectrum of ways for employee ownership to happen. From worker co-ops for smaller firms to stock option plans for public companies and DSUs and RSUs at Bank of Montreal, or whatever it is, to tech companies, where there's a ton of stock options and it makes a ton of sense that that's how it works. There's a set of companies that aren't covered by any of that, and that's kind of traditional companies, mature industries owned by private individuals or private groups, families, where there's really no option other than the employee ownership trust to transition to employees.
Companies that choose this path-- these things are all still done at market value. Like, the owners do get their full value over time. Bob Taylor and Kurt Listug are going to get full value for Taylor over time. They're just choosing to accept a longer time horizon.
They tend to be owners who care deeply about their communities, who have been in their communities for a long time, who live in their communities, businesses who have strong cash flows in sort of mature industries where the debt repayment is pretty good or is manageable, and larger employee base. So anything from kind of 50 employees to the public, I suppose, 200,000 employees.
But generally, the median in the US is 90. The median in the UK is around 60. Those are the types of businesses that tend to choose this path.
And if you hear Bob and Kurt talk about it-- Kurt's amazing when he talks about this. He says, listen, I've seen friends of mine in this industry lose their jobs. I've seen my client, these guitar centers, struggle. I've seen Fender struggle under financial ownership. And I'm just not going to do that to Taylor.
He's like, I want Taylor to be around in 200 years or working on all this cool stuff in terms of wood preservation. And we've been in this community for 45 years. We started it out of this record shop down the street, or a guitar shop down the street. And I don't want to sell it. Gibson will buy me in a heartbeat. I don't want to sell to them. I want my culture preserved.
And so for them, all this stuff lined up. And if the employee ownership trust didn't exist, there was no path for them. And so we need to create different alternatives for people with different objectives, and we need those alternatives to have incentives that enable them to work. And that spans a number of different areas, but that's what the employee ownership trust does.
MAN: It's a very compelling case, and you can see why it's been successful in the US, why it's taking off. So aggressively in the UK. So, A, why don't we see it more in Canada? And what needs to change?
JON SHELL: Look, I don't know if there's been any ill intent. I don't think people know about it. I think it's just a matter of-- generally, in the UK and the US, it was sort of a group or a person who said, this is an interesting idea, we're going to start pushing this. And I think that just hasn't happened in Canada yet. So there's a real openness to it. There's not a real--
I think what we had to get past was the idea that we have a bunch of flexible trusts in Canada, so what do we need this for? Why don't you just use some of the trust that exist? And so we had to walk through all the reasons why the trust that exists don't work for this, why you need something specific both to advocate for and to apply policy to incent it.
And so we've kind of got past that, and now we're into a better spot. And what needs to happen-- so three things. One, you need the trust, and the trust needs to have rules associated with it that ensures that employees are taking care of, that the price paid is fair, that it's market value. So there's a bunch of rules

that go along with the trust that need to be set up. So that's a public policy question that we have to do that in law.

Two, you need to incent it in some way. So you either use a capital gains incentive, like they've done in the UK and US, or you find some other incentive. There's a bunch of different options, but sort that out.

And then, three, you need to promote it. So once any tax change happens, all of the professionals in that industry will start to learn about it and want to understand it. And so some of it will happen on its own. But Scotland, for example, does a great job of promoting these things. And the result, there's a lot more than there. I mean, there's states in the US that do great jobs-- Vermont, Colorado, states that have a lot of employee ownership or states that promote it.

So those are the three things we need to do. All of them are eminently doable, and there's a playbook and a path to follow.

MARK HEALY: Is there a history of multiples differing between sort of employee trust and, say, strategic buyers?

JON SHELL: Totally. In this environment, that happens a lot. So there are certain industries where this doesn't work. Just plain and simple. A lot of that is due to other things that hopefully we'll talk about. But in a lot of industries, it doesn't.

So anywhere up to about a 10 times multiple, maybe 11 times a multiple, you can get an ESOP done. Once you get above that, it becomes a real challenge. And so just in this environment, it is a bit challenging, but there are a ton of industries where 11, 12, 10, nine, eight, those multiples actually are real and work where ESOPs work well.

MARK HEALY: Just as we wrap this section up, what is next for you, Jon, on this journey? Like, do you have a next step here?

JON SHELL: As far as SCP is concerned, we're all in on this ownership concept. So we're going to continue to push on the Canadian policy, we're going to continue to do deals in the US. We're super excited about that. They're really fun. They're closing dinner for the closing Zoom call for Taylor Guitars or something like I've never seen in terms of the passion and enthusiasm.

And then we want to broaden this concept of ownership impact. So, you know, there's so many different ways in which the economy is getting owned by a bunch of white dudes. One of those ways is the search fund market, right?

So, search funds primarily, especially in the US, are funds where young white men, generally who went to Harvard and Stanford, funded by other older white men who went to Harvard and Stanford, go out and buy smaller businesses and competing against private equity with a financial structure that is not great. It forces the sale of that company generally in not too long a time and puts a lot of pressure on growth, which may not be right for that company, but that's the way that structure works.

And so there should be ways to make that more inclusive both for people who work in industry and people who are not white men. There's, how do we think about small business? So financialization has driven rollups all over the place, which of course I can talk about and I'm somewhat responsible for, which is reducing pathways to ownership driven by low interest rates, driven by pension funding.

So we want to explore that as much as we can. So there's a couple of things we're really going to do, and then we're going to try to talk more and work more on what are the other ways which we can start to broaden ownership so that we can start to reduce concentration of ownership in the economy.

MARK HEALY: Are you seeing-- you talked about HOOPP. We know a fair amount about HOOPP in this country. Are you seeing other, I would say, larger kind of traditional players? Are they starting to galvanize around this idea? Are they taking interest in this idea in some way?

JON SHELL: Look, I think there's some pension fund interest in this, and there are these impact funds-- I don't know if you're referring to those by some of the larger private equity funds. So take Apollo for example. Maybe they've got a new impact fund. But they pay their people the same, and their expectations on return are the same. So I don't actually understand that.

So if you want a 25% IRR on company X and you have an impact fund where you also want the 25% IRR on a company Y, why didn't you just buy that with the first [INAUDIBLE] fund? What's the difference? This is the point, right? And I think there's a guy called Tariq Fancy. I don't know if you've seen it, he came out swinging against BlackRock. He set up their sustainability practices and came and said it's all a bunch of bullshit.

And so I think there is a lot of branding going on. But I do think there are people within those organizations that genuinely want to do different things, and we just need to give them ways to do different things that don't exist.

And just quickly on the decision making, as someone made the point that in EOTs the workers don't make decisions. That's 100% true, and that's actually a feature.

We love co-ops. Absolutely love them. But they're not a practical way to transition a company that's been governed, you know, hierarchically for 60 years. Can't become a worker co-op tomorrow. It's just not practical.

So so one of the reasons why HOOPP invested, one of the reasons why it's an investable idea, the trust, is that the approach to managing the company doesn't change. So all it does is just benefit those employees more. So that's a good thing for that big part of the economy we're trying to affect.

MARK HEALY: You said a few minutes ago, you've been hard at work on this idea but it's not the only idea out there in terms of what would help with wealth distribution inequality. Can you talk about some of the others? Whether you're involved with them or not, just what are some of the other pieces of the puzzle?

JON SHELL: Look, I think if we want to broaden this, I think there's a general agreement that we have two big problems. One is climate change, and one is wealth inequality. Those are the two big problems we need to solve.

I'm passionate about the climate change stuff, but I don't know much about it. But on the wealth inequality side-- like, if we really want to affect that, it is going to require structural change to how we think about the economy.

There aren't enough EOT type ideas to fix this problem. This problem requires government action. And I think we are slowly starting to see that happen.

So if we think about taxation-- there's, like, a government role and then there's a business community role, and I'll talk a little briefly about the government role and then what I think about the business community. But take tax for example.

Janet Yellen has come out in favor of working on a global level on corporate tax, which I think is wonderful, and I think we've indicated that we're supportive of that in Canada. We don't have a lot of sovereignty over our tax here because of how tied we are to the US. We've done trade deals, we've done deals on capital flows, but we've never done a deal on tax, which is bizarre.

So what's happened is tax competition, which has completely eroded the base. Is there a reason why Google and Facebook have headquarters in Ireland? There's literally no reason other than there's tax competition.

Tax competition is completely destructive, provides no value, and we shouldn't have it if we're going to have a global-- you can't have a globalized economy and allow tax competition. It's insane.

Capital gains tax, we're going to need to think about capital gains tax [INAUDIBLE]. It was brought in to encourage investment. What it encourages right now is the buying and selling of things, and the buying and selling of things is what drives financialization and what drives ownership not being connected to communities, employees.

So, are we thinking about capital gains tax in the right way and should we be thinking about it differently? And that's moving faster in the US now than it's moving up here. A lot of things are moving faster in the US now than they're moving up here.

Monopoly is another example of that. You have Lina Khan, who is about to be nominated to the FTC in the US. She's talking about antitrust against a lot of people. It's great. We went away from that for 30 years for bad reasons. We attached it to consumer price, which is nonsense.

In Canada, we are decades behind. So I've actually just read a lot of our guidelines for antitrust, and you'd be shocked at the types of things that they're worried about. Some money was put into that in the budget, but we need to focus on monopoly and the power of oligarchic industries here in Canada.

Digital infrastructures, [INAUDIBLE] so Mariana Mazzucato is an economist in the UK that we need to be paying attention to. She's talking about mission-based programs on behalf of government. I think we need to be doing those types of things to build the type of infrastructure that we need.

And then our support system is a mess. So we. Have transitioned from a full-time employee economy to a non-full-time employee economy. And we haven't made we haven't transitioned any of our system. So if you want to rent an apartment, at least this was true a couple of years ago in Toronto, you needed a letter for your employer. If you worked in the gig economy, I mean, it just was completely impractical child care, works based on full-time jobs, and retirement works based on full-time jobs. We haven't started to transition.

So there's a ton of stuff that the government needs to do to create a more inclusive economy. From the business community side, I have a bit of a challenge here. My challenge is, I think the business community frankly just needs to be an ally and, in some cases, get out of the way and maybe be a bit more humble. I mean, we, in the business community, wait with bated breath for Larry Fink's letter every year. Larry Fink in January of this year was talking. People asked him about regulation and he said, I prefer a capitalist self-regulate. And this is really important, because this is a guy who people look to as one of the main proponents of sustainable investing.

So to break that down, first of all, he's defining capitalists as business people. Like, why? Politicians are capitalists. Bureaucrats are capitalists. The workers are generally capitalists, not the younger workers so much anymore for good reason. But the workers are generally capitalists. So you're creating this distance in a way that doesn't make sense.

And self-regulate, what does that mean? If we want to shift climate change, if we want to shift wealth inequality, business self-regulation isn't going to get us there. And so this is where business, I think, takes a bit of an arrogant approach to this and says, we know what's best, leave it to us and we'll figure it out.

The problem is, you can't come up with a single example of that ever working, not one. You can't find one structural social issue that was solved by the private sector. The private sector is a good actor and an important actor in the economy, in fair markets, but the government is required to make those structural changes. And the business community should be a bit more humble, I think, and be an ally and be supportive of making those changes in a practical way.

And then those dialogues will start again, or start for the first time, between a supportive business community and a government that trusts the business community. So we can actually be practical about how we make these structural changes. So that's my challenge. I think we as business leaders often dismiss government in a way that is very destructive.

MARK HEALY: You talked a fair amount in the last year about, there's a big difference between business doing their job to kind of maximize shareholder returns, which does create wealth, and business having a duty of care for the economy in the society [INAUDIBLE] they operate. Those are two very different things. We're not very good at duty of care.

MAZI RAZ: Thank you for tuning in and listening to this episode. We would like to extend further thanks to our guest host, Mark Healy, and our guest panelist, Jon Shell, for taking the time to share their insights and expertise with us.

The Ivey Academy podcast is produced by Melissa Welsh, Sean [INAUDIBLE] Grant, and Joanna Shepherd. Editing and audio mix by Carole Eugene Park.

If you liked this episode, make sure to subscribe for similar content in the future. If you want to learn more about how employee ownership can help create a more inclusive economy, we've provided resources and links in a blog post on our website. You can also visit iveyacademy.com or follow us on LinkedIn, Twitter, or Instagram using the @iveyacademy to view our upcoming events, services, and programs. Thanks again for listening. We look forward to having you with us for the next episode.