

Ramona Schindelheim, WorkingNation editor-in-chief:

You are listening to Work in Progress. I'm Ramona Schindelheim, Editor-in-Chief of WorkingNation. Work in Progress explores the rapidly changing workplace through conversations with innovators, educators and decision makers. People with solutions to today's workforce challenges.

Ownership Works is a nonprofit organization that partners with companies and investors to provide all employees with the opportunity to build wealth at work. Joining me to discuss the organization, why employee ownership is so important and what sparked him to create Ownership Works is founder and chair Pete Stavros. Pete, thanks for joining me.

Pete Stavros, Ownership Works founder & chair:

Thank you for having me.

Ramona Schindelheim, WorkingNation editor-in-chief:

I was wondering for those unfamiliar with this concept of employee ownership, give us a definition.

Pete Stavros, Ownership Works founder & chair:

So employee ownership, the foundation of it is sharing stock ownership inside of a company with all employees, from the C-suite to the most junior colleagues who just joined the company, maybe working on the factory floor. But really when we say employee ownership, we mean more than that. So we mean giving people financial information about the business, helping them understand the business plan and where they're headed, really driving, measuring and managing to a higher level of employee engagement, teaching financial literacy, getting workers more involved in decision making.

So it's really about creating a different kind of culture. We call it an ownership culture. So people feel a different level of involvement in their business, not just through ownership, but through all of these different mechanisms that create a different kind of culture.

Ramona Schindelheim, WorkingNation editor-in-chief:

As an employee, I don't necessarily get a say in how we run the business. The CEO may listen to me, they may not. So in this kind of model, does the employee get to be a part of making some of those decisions?

Pete Stavros, Ownership Works founder & chair:

There's two things that we try and do. We try and get folks to have more say and control over their daily work. So think in a factory, there's a concept that Toyota came up with a long time ago called kaizen, where you put frontline workers more in control of designing their own work. And what you find is that that leads to higher levels of quality and productivity and more engagement by your employees. And by the way, because those employees are closest to the frontline work, they should be in a great position to solve problems and to help design their work in a way that makes it more productive, more efficient and higher quality.

So that's the daily efforts on a frontline basis. And then there are programmatic things that we do at our companies to help people feel a greater sense of control and input. So for example, at a manufacturing company, we may set aside at a plant a million dollars a year for capital investment that the workers would direct. So we would say, "Anything you want to spend the money on, as long as it increases the extent to which you are going to be happy in the workplace. Great." We're not looking for ideas around

more productive machinery. We're looking for things that would make this a better place to come to work.

So in one company, I'm thinking of, one year people voted to move the parking lot. There was a long walk to the plant, they didn't like it and that's what they voted for, and it was going to save them 20 minutes a day of walking there and back. And so we moved the parking lot. But it's oftentimes building onsite health clinics, onsite cafeterias, and one example was air conditioning in the manufacturing plant. There's lots of different things that people vote for, but the idea is really the important part.

Which is giving people more control, more input, making them feel like a real part of the business, not just, "You're a part of our labor pool and we tell you to do." It's more let's engage people as thought partners and see where we can take the business together.

Ramona Schindelheim, WorkingNation editor-in-chief:

One of the concepts too and I don't want to put words in your mouth, but I believe it's part of what sparked you to create Ownership Works. The idea that it's wealth building and it seems to be one of the core concepts there. Talk about how this increases equity and inclusion in wealth in America.

Pete Stavros, Ownership Works founder & chair:

Well, if you look at Federal Reserve data on household wealth and you look at why the top 1% and 10% are in the position that they're in financially versus the bottom 50%. The biggest driver by a mile is the ownership or lack of ownership of stock assets. It's not housing, it's not other assets. It's really ownership of appreciating stocks that has created this massive gulf of wealth inequality, and it's what the folks at the bottom are lacking. Now, I'm always careful to make clear, I do not think this is going to solve all of our problems magically, but this is a way to help the bottom half of the country that does not own much in the way of assets.

It's a way of getting appreciating assets in their hands. So how are you going to get stocks? You either have to come up with a certain amount of savings and invest it. But if people are living paycheck to paycheck, and I know you've seen all the data on the extent to which half the country can't even meet a relatively minor financial emergency. There's not enough savings in that part of our population to have them invest out of pocket. So the other way to get it is to be gifted it at work. Now, one of our... I should have mentioned this earlier when we were defining employee ownership.

One of the core principles is workers are not investing out of pocket. So they're not risking whatever savings they do have and they're not giving up wages or other benefits to get stock. So this is a free incremental benefit. It's a way to participate in the creation of value at your company, and the company's going to get paid back over time when this is done well by having a stronger culture where workers are less likely to quit and are more engaged on the job. But yes, from the perspective of wealth creation, this is not some magic solution, but it will help.

And we've done this at our firm more than 30 times at Ownership Works, it's got to be, I don't know, 80 or 90 times. So we're talking about six figure number of workers across all of these companies participating in wealth creation and some of the outcomes are really powerful. We've sold companies where factory workers, we've done this many times, make a hundred percent of their income or more, and sometimes a lot more. We've had outcomes where factory workers are making hundreds of thousands of dollars, plural. Truck drivers making almost a million dollars.

So we've had really good outcomes, but even when it's not a blowout home run success, we still find ways in most cases for workers to develop an amount of wealth that is meaningful.

Ramona Schindelheim, WorkingNation editor-in-chief:

Can you walk me through the process? I'd love to understand how you might identify these companies. Do you do it with a partner? And then when you come in, is that the first thing on the table? "We're going to make you a part of this company. You're going to be an owner."

Pete Stavros, Ownership Works founder & chair:

So from an investment perspective, we're looking at companies that are fundamentally good businesses, so solid market positions, but where they're not fully optimized. There are ways to accelerate the growth, take more market share in their market, maybe expand into new markets, be more productive, more efficient, et cetera. So that's what we're looking for. Good businesses where there's more to do with the company. And then yes, day one, that is part of the announcement.

We're buying the business, we're investing in the company and we're going to make everyone an owner. And we're going to roll out this program centered on employee ownership and employee engagement. And as you can imagine, day one, it's not like there's a big celebration. There's a lot of questions, some confusion, a lot of skepticism. And so this is a multi-year effort of building trust, making people feel respected and heard. As I've said, giving people more say in their work, more information on what's going on in the company.

And over a period of many years when this is done well, then value can be created, cultures can change, but this is a long-term effort and it's got to be the top priority for the leadership team. This is not like one of 10 things that they're doing. This has to be the number one thing we are doing is we are going to engage employees in a different kind of way, and that is going to help us achieve all of our other objectives, which are secondary to this primary one of treating our people differently.

Ramona Schindelheim, WorkingNation editor-in-chief:

I think the trust issue is probably something... It's just part of our society. That it's always workers versus employers, and that must be a hard one to get past.

Pete Stavros, Ownership Works founder & chair:

It is because this has been going on for generations. It's not like in the last few years there's been some... I know there's a lot of press now around conflict between unions and management, labor and management. This has been going on forever. This is where the labor union movement, why it began, was workers felt abused. There was all this conflict and workers needed to unite to get some decent treatment and have a chance to get somewhere and not to mention, to be safe on the job. So that's the thing that we always counsel our CEOs on is, "Don't expect that we announced this and everything's fine.

This is going to be a multi-year effort." It's going to be very difficult and it doesn't always work. It's not like you just follow a few simple steps and the culture changes. This is difficult. This is an investment, and investments are not certain to deliver the results you hoped for. But I can tell you when it has worked and when leadership teams have done a great job, it has been pretty magical.

Ramona Schindelheim, WorkingNation editor-in-chief:

So for the company that you come into and you approach and say, "Hey, we'd like to come in. We're buying. This is what we want to offer to the employees. We see that there's value." What about that original owner that you're approaching? Do they have their own apprehensions?

Pete Stavros, Ownership Works founder & chair:

Not really. And keep in mind, after we purchase the company, obviously the old owner doesn't really have a say so even if the old owner were to believe, "I don't believe in employee ownership and all this culture change stuff and employee engagement." Now it's...

Ramona Schindelheim, WorkingNation editor-in-chief:

They don't have the say.

Pete Stavros, Ownership Works founder & chair:

Now we own the business and we have a responsibility to the employees and to the shareholders, our investors to create value. And we just think this is a core part of doing that, to have a culture where people feel trusted and respected and valued and included, and they have a stake in the outcome.

Ramona Schindelheim, WorkingNation editor-in-chief:

Give me an example of the kind of company that you might be investing in, you may go in and do this model in.

Pete Stavros, Ownership Works founder & chair:

It can be any kind of company. We started this in industrials with manufacturing businesses. And the idea there was manufacturing businesses often have as much as 80% of their workforce as hourly employees in manufacturing plants and distribution centers. And that 80% of the workforce determines your quality, on time delivery, cost, productivity, scrap. They're doing all the work and in most companies, they hate their jobs. So it's this weird situation where the majority of the workforce who are critical, can make or break your success, don't like the company that they work for.

And all the Gallup data substantiates that. That 70% of Americans basically don't like their job. The results are certainly worse for blue collar employees. So we figured what if we could change that? What could we do for workers? What could we do for company cultures and ultimately for our investors if we could change that? The fact that we started with manufacturing businesses did lead some to say, "Well, it works there." Because did have a lot of success with it, but it's not going to work with a media business or a healthcare company or a financial institution.

But just look at what we've done recently. We bought Simon and Schuster, the book publisher from Paramount, and we rolled this program out. The CEO Jonathan Karp, who is not only the leader of the company, but I'd say the spiritual leader and is a well-known book editor. And I think has the hearts and minds of the employee base, is a big believer in this, was super excited to roll it out and is in the process of building this ownership culture. And it's going to work. They're going to stand up this division of Paramount up on its own. It'll be its own entity with its own culture.

And he's doing all the things that we'd like to see our CEOs do around information sharing, financial information sharing. He's working on ways to give people more of a voice in the company and all the things that you need to do over time to build this ownership culture. It's not going to happen day one. This is going to take time, but I think he'll get us there. And I've seen this work, as I said, across all the sectors that we invested. We're now doing this in Europe and selectively in Asia. So it's not just a US phenomenon. And I think this has a real potential across the entirety of the economy.

Ramona Schindelheim, WorkingNation editor-in-chief:

And you and I have a shared history, I want to say not shared together, but we both have fathers who worked hourly jobs. My dad was in manufacturing, yours was in construction. And I think we also both saw what would go on there. Sometimes there'd be a union involved and maybe you get a raise every three or four years, but I think it was hard to build wealth. If you had an hourly job, you're not going to have those assets that some other people have. How much of that influenced this decision for you as well?

Pete Stavros, Ownership Works founder & chair:

For sure. I mean, that was the original interest I had in profit sharing ownership, finding ways for workers to build wealth was definitely my dad. So my dad was a construction worker in Chicago, earned an hourly wage for 40 years. My mom until I was born was a secretary and then retired. So there were two things that happened. One, I saw my dad struggle. I think when he retired, he was making \$15 or \$20 an hour, and he did not like the fact that he couldn't build wealth but also that there was this misalignment of incentives.

If you earn an hourly wage, you get paid for hours, not productivity. And that kind of drove my dad crazy, the fact that he and his employer were not aligned.

Ramona Schindelheim, WorkingNation editor-in-chief:

If I'm not wrong, I think you've been co-head of US private equity at KKR for quite a while. What made you decide to found Ownership Works? What did you see? What sparked you?

Pete Stavros, Ownership Works founder & chair:

Well, I had been doing this as an investor back to 2010. We started talking about it publicly as a firm after we had had some successes and had enough data to understand how it was going and enough experience to feel comfortable talking about it publicly. So maybe we started talking about it in 2017 or something like that. And then I started getting phone calls from other investors, companies, CEOs asking for help, wanting to try this program at their companies. A, I needed help because I had my day job and there were a lot of incoming calls.

B, we felt as a firm that there was real value in collaboration. If we could get more people working on this together, we would've more experiments running. As I've said many times, this is very difficult. We don't have all the answers, but if we had more smart people working on it together, we would make faster progress. I saw an opportunity to get different voices around the table. So if you look at who really founded Ownership Works, you had around the table investors, banks, professional service firms, pension funds, union leaders. It was a very eclectic group.

And all of them saying the same thing of, "If we could get this right and figure it out, this could really matter." The timing of the founding coincided with COVID and with George Floyd. There was a real recognition that the economy was unfair. If you think about COVID, for example, all the frontline workers who had to risk their health to get the rest of us food and goods and staff the supermarket chains. There was a brief mention of hazard pay, and in some cases it actually happened, but not for long. But there was, I felt, a realization of, "Hey, this really is not terribly fair."

All the white collar folks work from home. The frontline workers who have no stake in the outcome have to go to work and risk their health. And then the murder of George Floyd, I think, was this awakening to racial inequities in our economy. If you look at a company that does have racial diversity, as much as we are all trying to improve diversity up at the top of the organization, the diversity today is still stacked in

the bottom. And so you may see a company that's 40% Black, for example in Tulsa, Oklahoma, and the majority of that is in the hourly workforce where ownership does not typically travel.

So there's all this stuff happening in the country, and then in my small circle, people wanting to do more of this and us seeing a value to collaborating. And so that was kind of the idea of the timing's right, there's a need for this. Let's start this and see how far we can get.

Ramona Schindelheim, WorkingNation editor-in-chief:

That was my interview with Pete Stavros, the founder and chair of Ownership Works. I'm Ramona Schindelheim, Editor-in-Chief of WorkingNation. Thank you for listening.