

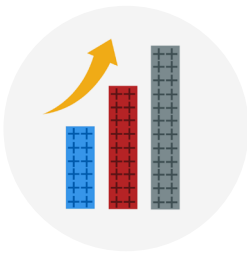
BUSINESS RESILIENCY THROUGH EMPLOYEE OWNERSHIP: THE KAISER PERMANENTE PILOT



EXECUTIVE SUMMARY

Kaiser Permanente took a groundbreaking step to become one of the first healthcare anchor institutions to invest in employee ownership as a way to further their commitment to supporting equitable economic opportunity and community health. The Business Resiliency through Employee Ownership (BREO) pilot initiative, funded by Kaiser Permanente and in partnership with Obran Cooperative and Project Equity, is an innovative approach to strengthening Kaiser Permanente's supply chain and building community wealth through educating and transitioning suppliers into powerful employee-owned companies. Broad-based employee ownership can play a significant role in reducing working poverty, narrowing the racial wealth gap, and boosting wealth and savings power in low-income communities and communities of color.

With \$450,000 in grant funding over two-and-a-half years, Obran Cooperative and Project Equity have conducted widespread outreach to thousands of Kaiser Permanente suppliers



and deployed complementary approaches to transitioning businesses to employee ownership: independent transitions (Project Equity) and transitions through acquisition (Obran Cooperative). Through targeted, high touch outreach to the highest priority suppliers and broad education, including webinars and marketing campaigns, the partners educated over 1000 suppliers and provided in-depth free consultations to 66 unique supplier businesses. To date, two of these companies have transitioned to

employee ownership via acquisitions by Obran Cooperative and their combined 194 employees are now eligible to become employee-owners.

The pilot initiative is also reaching beyond Kaiser Permanente and their suppliers, creating a ripple effect that is strengthening the employee ownership ecosystem. For example, the Healthcare Anchor Network (HAN) is now committed to building upon Kaiser Permanente's work by engaging a cohort of healthcare institutions interested in bringing this employee ownership initiative to their suppliers.



RECOMMENDATIONS

This pilot demonstrates that philanthropic support and thought leadership by anchor institutions can play an important role in scaling employee ownership. The following recommendations provide guidance to anchor institutions on how to strengthen future initiatives with employee ownership (EO) practitioners:



- 1) **Use grant and “patient” investment capital** to support employee ownership practitioners in furthering their reach, attracting business owners, and financing large transactions.
- 2) **Develop robust, centralized supplier databases** that can be shared with EO organizations to facilitate outreach and education to all suppliers within an anchor’s network.
- 3) **Educate internal staff at the anchor institutions** about employee ownership so they can become strategic partners and EO advocates.
- 4) **Advocate for ensuring that businesses** can maintain diverse certifications during a transition to employee ownership.



- 5) **Prioritize outreach to diverse workforces** within target industries to create ownership opportunities for low- and moderate-income and Black, Indigenous, and People of Color workers.
- 6) **Expand the frame of impact spending** by prioritizing EO in the procurement process, akin to the preference for diverse suppliers.
- 7) **Ensure there is adequate time** for project development and implementation.

BUSINESS RESILIENCY THROUGH EMPLOYEE OWNERSHIP: THE KAISER PERMANENTE PILOT

Small businesses, including many of the companies that supply goods and services to anchor institutions, are the lifeblood of the American economy, comprising over 99% of all businesses and employing 48% of all workers. The small business sector faces an impending crisis as baby boomer business owners (who own nearly half of job-creating small businesses) approach retirement without a succession plan. At the same time, American workers' economic situations continue to worsen. Wealth—and the opportunity to build it—is key to economic mobility and security, which is strongly tied to good health. Yet the wealth gap continues to widen as poor-quality jobs and wage stagnation trap low- and moderate-income (LMI) and Black, Indigenous, People of Color (BIPOC) families in working poverty and place the primary building blocks of wealth—home and business ownership—out of reach.



Kaiser Permanente is invested in employee ownership because it increases wealth for employees and the communities where Kaiser Permanente operates.

Kaiser Permanente implemented the *Business Resiliency through Employee Ownership* (BREO) pilot initiative in partnership with Project Equity and Obran Cooperative, to help connect Kaiser Permanente suppliers and their diverse workforce to new wealth-building opportunities by educating business owners about employee ownership and supporting a number of these businesses in transforming to employee-owned enterprises. With \$450,000 in grant funding from Kaiser Permanente, this pilot initiative has raised awareness for over a thousand small business owners and healthcare industry leaders about how employee ownership is a strategy for economic resilience, helped two companies with a combined total of 194 employees transition to employee ownership, and demonstrated the value of incorporating employee ownership into anchor institutions' impact purchasing policies.

Why employee ownership?

Broad-based employee ownership gives all employees who meet basic criteria the opportunity to become employee-owners. By increasing employees' agency, incomes, and assets, employee ownership can play a significant role in reducing working poverty, narrowing the racial wealth gap, and boosting wealth and savings power in low-income communities and communities of color. Kaiser Permanente is invested in this work because they understand that employee ownership not only increases wealth for the employees of supplier companies and creates more economic opportunity and security for LMI and BIPOC families in Kaiser Permanente's local markets, it also embeds greater resiliency within their supply chain.



Employee-owned companies report faster growth, lower turnover, and greater recession-resilience, while employee-owners report higher incomes and wealth. Employee ownership also has a positive impact on business performance, and employee-owned companies have experienced fewer layoffs during multiple recessions. For example, a 2020 study by The Employee Ownership Foundation and Rutgers School of Management and Labor Relations found that employee-owned companies were 3–4 times more likely to retain workers at the height of the pandemic than traditional companies, and kept workers safer as well.

The Partners



Kaiser Permanente—one of the country’s largest integrated health systems—has a mission to provide high-quality, affordable health care services and to improve the health of their members and the communities they serve. Kaiser Permanente understands that health and access to economic opportunity are inextricably linked. To support equitable economic growth, Kaiser Permanente has committed to **continually increase spending** with minority-owned, women-owned, and employee-owned businesses and provide grants to organizations that help diverse business owners build wealth for themselves, their employees, and their communities. As a leader in both thought and practice and a powerful ally in the advancement of employee ownership, Kaiser Permanente is one of the first healthcare anchor institutions to invest its resources and leadership time to encourage their supplier companies to consider becoming employee-owned.



Project Equity is a leading nonprofit employee ownership consulting firm and community economic development organization. Project Equity raises awareness of the benefits of employee ownership and guides businesses through each step of becoming employee-owned—from initial education to structuring and financing the transition and supporting new employee-owners. Founded in 2014, Project Equity is on a mission to shift employee ownership from “best-kept secret” to “business as usual” and bring it to scale. The organization’s robust team of employee ownership professionals supports businesses and employee-owners across the country, creating more equitable and resilient communities.



Obran Cooperative is the country’s first worker-owned conglomerate corporation—a group of interconnected businesses that are held under a single parent worker-cooperative entity. Obran’s unique holding cooperative structure allows it to find, acquire and grow profitable small- to medium-size businesses on behalf of its employee-owners. This strategy allows Obran to build pathways to better overall health and financial stability for low-income workers and workers of color. Obran was founded in 2016 by a group of returning citizens in Baltimore City. With active businesses in the staffing, logistics and healthcare sectors, Obran aims to grow its membership by 300% over the next five years through the successful conversion of small- to medium-size businesses under the cooperative.

Outreach approach

Throughout this pilot initiative, Obran and Project Equity conducted outreach and broad marketing to 3500 unique businesses within Kaiser Permanente's supplier network. The partners utilized an outreach approach focused on three different strategies:

- 1) **Connecting:** a targeted, high touch approach to the highest priority prospects through emails, calls, and warm introductions
- 2) **Marketing:** a broad approach to nearly 3000 suppliers on the provided lists through marketing campaigns and webinars
- 3) **Advising:** free confidential consultations with interested suppliers

1000+

suppliers
educated

66

suppliers
advised

2

businesses
transitioned
to employee
ownership

194

employees
impacted

Successes

Education

Education is invaluable to advancing the movement because it builds broad awareness about employee ownership and provides small business owners with knowledge on how to plan for their company's future. Project Equity's awareness raising model has educated over 1000 suppliers. Key strategies included webinars and a marketing drip campaign that boosted engagement with suppliers using a series of targeted emails based on previous interactions with email content.



Consultations

Obran and Project Equity provided in depth consultations, sometimes via multiple conversations, to 66 unique suppliers. Regardless of whether businesses move forward with the transition process, these consultations provide valuable feedback to business owners, such as high-level financial insights and advice on succession planning, and also plant seeds for future exploration of the employee ownership model.

Transitions

Obran successfully transitioned two businesses to employee ownership using their acquisition approach: Courier Corporation of Hawaii (CCH) was acquired in March 2022 and Apollo Home Healthcare in December 2022, consisting of approximately 60 and 134 employees, respectively. To date, 50% of CCH employees have chosen to become members of Obran Cooperative, and Obran is actively conducting a membership drive with Apollo employees. Upon acquisition, all employees received a 1% wage increase and new benefits including



expanded medical coverage. Obran creates wealth-building opportunities for employees and sustains jobs by supporting the continued growth of the small businesses within their cooperative, regardless of whether employees choose to become employee-owners.

Institutional engagement

Kaiser Permanente's investment in this employee ownership pilot inspired the **Healthcare Anchor Network (HAN)** to mirror Kaiser Permanente's example and encourage other healthcare institutions to collectively scale the initiative. As of Spring 2023, there are at least four HAN members that have committed to furthering this work by partnering with Obran and Project Equity to promote employee ownership education and transitions to a broader list of suppliers.

Lessons Moving Forward:

How anchor institutions can support employee ownership

Philanthropic support and thought leadership by anchor institutions can help scale employee ownership. Building from the lessons of the *Business Resiliency through Employee Ownership* pilot, the following recommendations describe opportunities to strengthen future partnerships between anchor institutions and employee ownership (EO) practitioners.

Increase capital access through patient investments and grants

Access to affordable capital can be a hurdle for transitions to employee ownership. Anchor institutions can develop debt and equity funds for promoting employee ownership through patient capital. Healthcare anchor institutions are ideal impact investors because, by increasing access to quality jobs through employee ownership, they can improve upstream community health in the communities where they work. Kaiser Permanente's investments in affordable housing and economic opportunity through the **Thriving Communities Fund** offers a model for this type of impact



"As an entrepreneur, if there is a legacy I can leave, it's that my employees, their families, and my community as a whole are thriving because of what we built. Enabling my employees to become owners of our business will make us stronger."

Nick Smallwood, CEO and former owner of Corporation of Hawaii (CCH)

fund, which can be adapted to help scale employee ownership. In addition to debt and equity capital, anchor institutions can provide grants for educational programming, business outreach, pipeline development, and business service support, as Kaiser Permanente has done for this pilot initiative. Grants can fuel growth of the employee ownership movement by enabling nonprofit EO practitioners to build momentum and demonstrate the potential of employee ownership.

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Provide large, high quality datasets

Access to a large, high-quality dataset of anchor suppliers would broaden the pipeline of companies exploring employee ownership and facilitate education to generate long-term demand. This requires that anchor institutions create and maintain a robust, centralized database for all suppliers that can be shared with partners. Ideally, this data would include: contact name, title (ideally owner), and email address; supplier spend category; supplier address, city, state, and zip; founding year or age of business; and number of employees. Lastly, supplier spend data is also valuable because targeting larger companies can drive greater impact. However, even without robust data EO practitioners can enhance and find data using specialized, online databases, as they did for this pilot.

Engage internal staff

Given that employee ownership is likely unfamiliar to most suppliers, anchor institutions play a key role in building a bridge between the EO practitioners and the suppliers by providing warm introductions. For this to be possible, procurement staff need to understand the benefits of employee ownership and why it matters to their institution. Anchor institutions can also advocate for EO practitioners to present at conferences where they could engage suppliers.



Partnering one-on-one with Kaiser Permanente representatives in both the Impact Spending and Community Health Departments has been key to gaining momentum for this initiative. By collaborating with single points of contact familiar with Kaiser Permanente's procurement process and community health goals, the EO partners were able to be more strategic about planning impactful next steps.

Include diverse suppliers

The goals of employee ownership and minority- and women-owned business enterprise (MWBE) certifications (and procurement preferences for MWBEs) are synergistic: both aim to support business growth and build wealth among groups that have been historically marginalized. However, there are

several factors that contribute to tension between diverse business certifications and establishing or maintaining employee ownership. Throughout this initiative, diverse certified business owners expressed concern that they would lose their certifications if they transitioned to employee ownership given the complexities of the certification process and the limited understanding of employee ownership among certifying agencies. Kaiser Permanente and other anchor institutions should advocate for making it simpler for employee-owned companies to maintain or gain diverse certification.

Focus on diverse workers



A primary goal of this pilot is to create ownership opportunities for low- and moderate-income (LMI) and Black, Indigenous, People of Color (BIPOC) workers, and the emphasis on diverse-owned companies did not always support this outcome. Future outreach should not be limited to, or necessarily even focused on, diverse suppliers. Future efforts should include all suppliers in target industries, as the workforce demographics are most influenced by industry than by ownership demographics.

Include employee ownership in impact spending commitments

In addition to prioritizing diverse-owned businesses, anchor institutions should include employee ownership in impact spending commitments. Formally committing to doing business with employee-owned companies not only generates more interest and trust among business owners in employee ownership transitions, it creates a more resilient supply chain.

In 2021, Kaiser Permanente signed the **Healthcare Anchor Network's (HAN) Impact Purchasing Commitment (IPC)**, an initiative that Kaiser Permanente and HAN spearheaded. Through the IPC, Kaiser Permanente and 11 other health systems committed to increase their collective spend with minority- and women-owned business enterprises and local, sustainable, and employee-owned, cooperatively-owned, and/or nonprofit-owned enterprises by \$1 billion by 2025. The IPC can inspire and support anchor institutions to incorporate employee ownership into their impact purchasing strategies through specific tactics such as: measuring baseline spend with employee-owned suppliers; developing relationships and strategies to bring in new employee-owned suppliers over time; factoring employee ownership into purchasing decisions and RFPs (e.g. scoring points); and helping companies maintain diverse business certifications in the event of an employee ownership transition.

Set a realistic time frame

Ensure there is adequate time at the start of the project to develop the working relationships between partners, clarify roles for each partner, and develop internal processes for how each will approach the work before launching supplier outreach. With these foundations established, the partners can engage with the various stages of transitioning a supplier to employee-owned including outreach, consultations, feasibility studies, and deal structure design. For future efforts, a three-year time frame is recommended.

Case Study: Courier Corporation of Hawaii

Nick Smallwood, owner and founder of Courier Corporation of Hawaii (CCH), always wanted his legacy to reflect his values, and specifically he wanted to leave his business to his employees. However, in logistics, margins are tight, and in Hawaii expenses are high, so Nick knew employees could not afford the price tag, let alone the 20% downpayment for a transition loan. That changed when he received a call from an Obran Corporate Development Representative.

Over the next 6 months, Obran realized that in this Kaiser Permanente vendor they had found a business primed for employee-ownership and a leader who was excited about scaling ownership across Hawaii and the United States. Ultimately, Obran was able to leverage their bespoke capital facility, Obran Acquisition Fund I, along with seller financing in order to acquire CCH, bring on 33 new employee-owners, and employ Nick as the new head of Obran Logistics.

Since the acquisition in March 2022, the main focus has been on creating relationships with the new employee-owners and redundancies for business systems. Obran deployed a rigorous financial education program to make sure all new employee-owners understood CCH's business model. In addition wages increased 1% for all employees at the time of acquisition and 1% for employee-owners when they elected to become members of the cooperative. Obran has further supported CCH with working capital and a part-time business consultant who has supported business growth by unveiling hidden efficiencies and increasing the number of clients.

03/22

transition
date

60

total
employee-
owners

33

new
employee-
owners*

2%

raise for
employee-
owners

*As of Spring 2023, 33 of the 60 employees became employee-owners of CCH

Case Study: Apollo Home Healthcare Case Study

Trupti and Tejas Kotecha built Apollo Home Healthcare (Apollo) over five years with a focus on quality service and business efficiency. Having built the company to a high valuation, they decided that it was time to sell the business and spend more time with their family and young children, and as such engaged a sell-side broker. Obran Corporate Development sourced this opportunity through a pre-existing relationship with the broker and began engagement towards a transition in May of 2022.

The relationship with Kaiser Permanente along with the tax deferral benefits of selling to a cooperative helped move the opportunity forward. In December 2022,

Obran officially acquired Apollo Home Healthcare and converted the business to employee ownership. Apollo employees immediately received a 1% wage bump and increased benefits, including enhanced medical coverage, an additional dental plan option, and access to vision and life insurance for the first time. Obran also covers 80% of premiums for all employees, and 100% for those who choose to join the cooperative. The additional plan options and membership premium coverage means employees can boost their coverage at no additional cost.



The Apollo team

12/22

transition
date

134

total
employee-
owners

1%

wage
increase for
all employee-
owners

100%

medical
coverage for
employee-
owners

Thank you!

Project Equity and Obran Cooperative would like to acknowledge Kaiser Permanente for its visionary leadership, financial support, and multi-faceted partnership throughout the *Business Resiliency through Employee Ownership* pilot initiative. Thank you for taking an innovative approach to strengthening your supply chain and building community wealth through your commitment to employee ownership.

