



# THE CASE FOR EMPLOYEE OWNERSHIP

Why philanthropy and  
government should invest in  
this powerful business model

project  
**{EQUITY}**



*Pictured: Future employee-owners of Adams & Chittenden Scientific Glass Cooperative meet with Shared Capital and Project Equity to discuss their transition loan.*

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## SUMMARY

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**The Case for Employee Ownership** summarizes the evidence that employee ownership, in both Employee Stock Ownership Plans (ESOPs) and worker cooperatives, is a great value proposition not only for businesses but also for workers and communities. The paper is designed to communicate this value proposition to two key public and private sector audiences that are already playing an important role in the movement to scale up employee ownership, but can do much more: local governments and philanthropy. Ten thousand baby boomers are retiring every day, and millions of them own businesses that employ nearly one in six workers in the United States. To retain these businesses and the jobs within them, many organizations are promoting and facilitating employee ownership transitions. This paper aims to educate and inspire public agencies and philanthropic institutions to help these organizations and others to leverage this timely opportunity and to counter the trends toward concentration of wealth and ownership in our society.



### A SLICE OF NEW YORK

An employee-owned pizza shop south of San Francisco  
with two locations in Sunnyvale and Santa Clara / San Jose.

## AUTHOR'S NOTE

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A series of conversations with leaders at the Y&H Soda Foundation between 2016 and 2018 was the genesis of this paper. They repeatedly told me, “This employee ownership thing sounds great. We can see it has impact. But how do we know these aren’t isolated cases? Is the evidence really there? Does it hold true for low-wage workers and people of color? What would it take to prove it?” The Soda Foundation provided funding for Project Equity to explore the latest research in employee ownership and make a case for support. Having done similar research six years earlier, my hypothesis going in was that there was strong, but somewhat outdated data on the benefits of ESOPs and primarily anecdotal evidence about worker cooperatives.



What I found instead is that the evidence base for the benefits of employee ownership has grown substantially in recent years, along with the movement itself, and that important new studies on both ESOPs and worker cooperatives have emerged. ***The case for employee ownership is undeniably strong!***

Word is beginning to spread. Recently a program officer from another foundation told me, “We know that employee ownership works—what we need to figure out is how to scale it.” I agree, and, in fact, that is the work of Project Equity and many of our allies. But most philanthropic and government leaders are not aware of the potential that employee ownership holds to advance their goals for economic development and inclusion.

My co-founder often says that employee ownership is “the best kept secret.” At Project Equity, we are working hard to change that. Our goal with this paper is to make the current research on the impact of employee ownership accessible, and to encourage thought leaders and practitioners of economic development and philanthropy to give this strategy, and its potential to reverse income, wealth and racial inequality, a much closer look.

As we publish this paper in May 2020 at the height of the COVID-19 crisis, we are keenly aware that the world requires new awareness and new actions from all of us in unprecedented times. Even as the world practices social distancing, we know that we are stronger together. In this spirit, we hope that broad-based employee ownership can be an inspiring and growing part of our economy as we navigate this crisis and look to rebuild with more resiliency.

Hilary Abell on behalf of all of us at Project Equity  
May 2020

# ABOUT

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## ABOUT PROJECT EQUITY

Project Equity is a national leader in the movement to harness employee ownership to maintain thriving local business communities, honor selling owners' legacies, and address income and wealth inequality. Headquartered in the San Francisco Bay Area, Project Equity works with partners around the country to raise awareness about employee ownership as an exit strategy for business owners, and as an important approach for increasing employee engagement and well-being. We also provide hands on consulting and support to companies that want to transition to employee ownership, as well as to the new employee-owners to ensure that they, and their businesses, thrive after the transition.

Project Equity's mission is to foster economic resiliency in low-income communities by demonstrating and replicating strategies that increase worker ownership. We are a nonprofit program of Multiplier, a 501(c)(3) umbrella organization.

Learn more at [www.project-equity.org](http://www.project-equity.org).

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## INTRODUCTION

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In December 2019, *The Chronicle of Philanthropy* published an article titled “Grant Makers Face Uphill Battle as they Push for a Kinder Form of Capitalism,” and a year earlier, *Inside Philanthropy* declared Economic Mobility to be the “Hottest New Cause for Mega-Givers.” *The Chronicle of Philanthropy* article quotes leaders of the Omidyar Network, the Rockefeller Foundation and the Ford Foundation speaking to how they are re-thinking our economy. Ford, for example, once the largest foundation in the world and still one of the most influential, has made a seismic shift in its giving by re-framing all grantmaking as “challenging inequality.” The San Francisco Foundation, one of the country’s largest community foundations, has re-framed its grantmaking with a focus on racial and economic equity and added a new grantmaking area for community wealth building. Similarly, in government circles, more local governments are establishing initiatives for economic inclusion or standing offices of equity.

It is easy to see the reasons behind these trends: even before the dire economic crisis brought on by COVID-19, income and wealth inequality, racial injustice and downward economic mobility were truths so obvious that one could visually observe them in most communities. In a growing number of metro areas, ever growing tent cities, populated in large part by working people, were the most graphic example. Gentrification and a growing gap between wages and the cost of living, and between white people and people of color in terms of wages and wealth, had become a common feature of life across the United States.

Without a major shift toward creating and retaining quality jobs and better ways for working people to build wealth, these problems were already bound to persist or worsen. According to September 2019 data from the Bureau of Labor Statistics, six of the ten occupations expected to grow the most over the next decade pay less than \$27,000 a year (Shierholz 2019). And while wages had increased by 14.4 percent since 2006, “real wages” had fallen by 9.6 percent as of the first quarter of 2020, even after adjusting for inflation (PayScale Real Wage Index 2020). In the second quarter of 2020, mass unemployment and other economic shocks hit the U.S. economy, brought on by the global pandemic. Millions of workers who are simply meeting the demand for their labor in fast-growing occupations, or during coronavirus shutdowns, risking their health and safety as low-wage essential workers, are unable to afford basic necessities.

As philanthropists and government leaders grapple with how to address both long-entrenched and newly emerging forms of economic insecurity, there is no better time to consider effective but lesser-known solutions, such as broad-based employee ownership. Many grant makers and state and local governments around the country are taking a serious look at employee ownership, and a number have made significant investments. So, what is broad-based employee ownership, and is there evidence that it can effectively counter these trends? In fact, there is.

**ECONOMIC MOBILITY:**  
Hottest New Cause for  
Mega-Givers



Broad-based employee ownership has transformative effects on employee-owners and compounding benefits to their families and communities. When successful businesses become employee-owned, they create better working conditions, increase rights and agency for workers, and facilitate asset building for employee-owners, while boosting business survival rates and keeping local economies strong.

This paper starts by describing the economic insecurity of low- and middle-wage workers and the changing nature of work, then provides an overview of the substantial evidence that broad-based employee ownership can address these challenges. It demonstrates that the timing is right for broad-based employee ownership. Millions of baby boomer business owners will retire over the next decade or so (the last boomers will turn 65 in 2029), and the majority do not have succession plans. Selling businesses to employees can preserve these owners' legacies and increase workers' access to quality jobs and wealth building. The paper concludes by painting a picture of the immense growth potential for employee ownership and examples of how philanthropy and government can invest in—and collaborate to support—this growing movement and promising strategy to combat poverty and racial and economic inequality.

## WHAT IS BROAD-BASED EMPLOYEE OWNERSHIP?

There are many ways that employees participate as co-owners of the businesses where they work. Stock options, the most common, are usually accessible only to management. In contrast, **broad-based employee ownership** gives *all* employees who meet basic criteria the opportunity to become employee-owners. *When we use the term "employee ownership" in this document, we are referring to broad-based employee ownership.*

The main forms of broad-based employee ownership are:



### Employee Stock Ownership Plans (ESOPs)

An ESOP is a retirement plan that owns all or part of a company on behalf of its employees; ESOPs are the most common form of broad-based employee ownership in the United States.



### Worker Cooperatives

These businesses are directly and wholly-controlled by the employee-owners, who share in profits and elect and serve on the Board of Directors.



### Employee Ownership Trusts (EOTs)

EOTs are a more flexible form of broad-based employee ownership that, like ESOPs, can be adapted to incorporate democratic principles and profit sharing. This model is well-established in the U.K. and newer to the U.S.



## PROBLEM: THE ECONOMY IS NOT WORKING FOR WORKERS

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**Work is changing.** Even before the COVID-19 crisis, our economy and our society were undergoing rapid change, spurring a vigorous conversation about the “future of work.” Much of this conversation revolves around the role of technology and automation, but equally important is the changing social contract that companies—and society—have with workers. Work is becoming more flexible and less secure, more people than ever before work as independent contractors rather than employees, and “regular” jobs (as employees) are less likely to be full-time and provide benefits. While the tech-driven “gig economy” has contributed to the already-growing trend of contract work, employees (or “traditional job holders”) still make up more than 70% of the workforce in this country (McFeely & Pendell 2018).

Workers’ own expectations are also changing. As millennials become the majority of the workforce, they

not only want, but expect, to find meaning at work—not the best fit for the “command and control” cultures of old. Millennials change jobs more often than their predecessors, and opportunities to learn and grow at work often drive their choice to stay or go (Gallup 2016). Beyond just a paycheck, today’s most successful companies give their employees a sense of belonging (Shellenbarger 2018).

In a world where employers offer less security and workers seek greater meaning, employee ownership provides a better value proposition for both. Employers get more engaged employees and, data shows, more profitable and enduring companies; employees get both a culture and a structure where they belong and can be their best.

**The recovery from the Great Recession of 2007-2009 was uneven at best.** Economic inequality in the United States, especially across racial lines, has been growing for decades, with a sharp increase since the Great Recession. The COVID-19 crisis is exacerbating these trends (Hale 2020). While income growth was distributed

broadly from 1945 to 1973, it became highly unequal from 1973 to 2007. This trend has persisted since the recovery from the Great Recession in 2009. While the economy was strong and official unemployment rates low in the first quarter of 2020 (before COVID-19 fully hit the U.S.), diverse populations had not benefited proportionally from the rebound. From 2009 to 2015, the top one percent of families in the U.S. captured 41.8 percent of all income growth. In 2015, they earned, on average, 26 times as much income as the bottom 99 percent (Sommeiller & Price 2018). The effects of race and gender are dramatic: “As of 2015, relative to the average hourly wages of white men with the same education, experience, metro status, and region of residence, Black men make 22.0 percent less, and Black women make 34.2 percent less. Black women earn 11.7 percent less than their white female counterparts” (Wilson & Rodgers III 2016). White families’ median wealth increased by \$54,000 from 1992 to 2016, while median wealth for Black families remained completely flat (Stewart III & Wright 2019). As a result, a Federal Reserve study shows that in 2016, the median white family had almost ten times the wealth of the median Black family and more than eight times that of Latinx / Hispanic families (Dettling et al. 2017).

The Economic Innovation Group summarizes the recovery from the Great Recession this way:

The post-recession economy has delivered phenomenal economic growth and rising prosperity for degree holders, professional workers, and communities with spending power. But an economy that only works for the college-educated and the places they congregate is not an economy that works.... The median American community has not healed from the trauma of the Great Recession and is ill-equipped to cope with the inevitable next downturn. (Economic Innovation Group 2019)

In other words, the economic boom and low unemployment of the late 2010s simply left behind large swaths of working people, especially people of color. And now the next crisis is upon us.

**Working people are not economically secure.** Our communities are full of hard-working individuals who fight for economic security in the face of low-quality jobs and daunting wage and wealth gaps. Since 2006, “real wages” had fallen by 9.6 percent as of the first quarter of 2020, after adjusting for inflation (PayScale 2020). And six of the ten fastest-growing occupations pay less than \$27,000 a year (Shierholz 2019).

A 2017 article in the *Harvard Business Review* confirmed how the structure of our economy has shifted, putting the squeeze on workers:

In a notable shift from earlier decades, labor’s share of income is no longer constant, but has fallen from nearly 65% in the mid-1970s to below 57% in 2017.... As the share of income channeled to labor has declined, the distribution of income has become more unequal. Since the late 1970s, ...wages have been declining or stagnant for the bottom half of the income distribution. (Shambaugh & Nunn 2017)

As a result of these trends, large swaths of working people across the country are broadly financially insecure, as the COVID-19 crisis makes heartbreakingly clear. A 2017 Harris poll found that nearly 80% of workers in the U.S. reported living paycheck to paycheck (CareerBuilder 2017). In all but one of the 50 largest cities in the U.S., the income needed to live comfortably (50 percent toward necessities, 30 percent toward nonessential costs, and 20

percent toward savings) is higher than the median household income (Huddleston 2018). And, the cost of living challenge crosses the urban-rural divide and affects both low and average earners:

In no state, metropolitan area, or county in the U.S. can a worker earning the federal or prevailing state **minimum wage** afford a modest two-bedroom rental home at fair market rent by working a standard 40-hour work week. ... [And] in only 10% of U.S. counties can a full-time worker earning the **average renter's wage** [emphasis added] afford [the same]. (National Low Income Housing Coalition 2019)

As workers live paycheck to paycheck and struggle with the cost of housing (not to mention education and other essentials), they are not able to save. It is well known that 46% of U.S. families in the United States cannot manage a \$400 emergency expense (Federal Reserve 2016), making them immensely vulnerable to disruptions like the financial crisis brought on by the COVID-19 pandemic.



## RECOLOGY

Recology is a 100 year-old resource recovery company that has been fully owned by its employees through an ESOP since 1986. Today, its 3,800-strong workforce provides services in California, Oregon, and Washington. Pictured: Recology driver, spring 2020.

**Many small businesses, which are also job engines, are at risk as baby boomers retire.** Our country, its workforce, and the face of business ownership were already changing dramatically, even before the COVID-19 crisis. Ten thousand baby boomers retire every day (the oldest boomers turned 65 in 2011), and millions of them own businesses—an estimated 2.34 million companies with employees—that employ 25 million people nationwide (Project Equity 2018). Few family businesses (only 15%) pass on to a second generation, and most business owners do not have succession plans. As a result, many financially healthy small businesses have been closing around the country, while others are bought up by private equity firms or larger competitors. Research shows that locally-owned businesses like these “matter... for local economic performance [measured as per capita income growth, employment growth, and change in poverty], and smaller local businesses are more important than larger local businesses for local economic performance” (Rupasingha 2013).

There is no doubt that the baby boomer retirement wave was already leading to small business closures, job loss and consolidation of wealth. To say that the severe impacts of COVID-19 on small businesses are adding insult to injury is an understatement.

**We need new approaches.** The economic and demographic trends just described paint a bleak picture for our country’s low- and middle-wage workers. Decades of workforce development and asset building strategies for the poor have not “lifted them” out of poverty, and now a global pandemic and economic shutdown have laid bare the complete lack of a safety net for most working people. While many anti-poverty programs focus on individual effort at the expense of structural change, the structure of the economy has become further stacked against workers, with real wages falling while corporate profits have been rising. WealthDaily reports that “since the mid-’70s, wages as a percentage of GDP have fallen 7%, while corporate profits have risen 7%” (Rhyle 2015).

New strategies are clearly needed. One such strategy is to accelerate the use of an approach that is far from new, but is chronically under-utilized in this country: employee ownership. While under-represented, employee ownership is a well-proven means of retaining local businesses and increasing workers’ economic security through a combined quality job and asset building strategy. When workers are also owners, corporate profits no longer accrue to distant outside investors. Rather, a true “win-win” emerges for workers, businesses and communities, one that can help rebuild a more resilient economy.

## SOLUTION:

# BROAD-BASED EMPLOYEE OWNERSHIP WORKS!

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Broad-based employee ownership has been widely practiced across the United States since the 1980s in the form of Employee Stock Ownership Plans (ESOPs) and through worker cooperatives since the late 19th century. It is a substantial part of the economy in several regions of the world including Quebec, Northern Italy, France, and the Basque region of Spain.

There is a rich body of research demonstrating the benefits of broad-based employee ownership for workers, communities, and businesses themselves. This evidence base has grown substantially in the past five years, along with the network of researchers studying the issue. Substantial research has been done on ESOPs in the United States, particularly by the [National Center for Employee Ownership](#) (NCEO) and the [Institute for the Study of Employee Ownership and Profit Sharing](#) at Rutgers School of Management and Labor Relations and its 100+ research fellows led by Professors Joseph Blasi and Douglas Kruse.

Worker cooperatives in other countries have been studied in greater depth than U.S. worker cooperatives, but there is a growing body of stories and hard data that documents the benefits of worker coops in this country as well. Notably, a 2017 national study by the University of Wisconsin's Laura Hanson Schlachter and the [Democracy at Work Institute](#), with 1,147 employees and worker-owners in 82 firms participating, provided an unprecedented level of data on worker cooperatives in the U.S.

**Impact on business performance.** A large body of evidence demonstrates that employee ownership strengthens business performance. The Yale University Press book *The Citizen's Share* by Joseph Blasi and colleagues (Blasi, Freeman and Kruse 2014, Chapter 5), and a study commissioned by the Washington think tank Third Way (Blasi, Kruse and Freeman 2017), present detailed evidence from numerous studies over several decades. And a November 2016 paper by Douglas Kruse cites a meta-study that was later published in the *Human Resource Management Journal* that finds that employee ownership has a small but meaningful positive impact on firm performance: "over 100 studies across many countries indicate that employee ownership is generally linked to better productivity, pay, job stability, and firm survival." (Kruse 2016, citing meta-study published by O'Boyle et al. 2016). Following are some examples of studies showing how employee ownership benefits businesses.

- **Growth, productivity, and profitability.** One key study compared the performance of hundreds of companies before and after they introduced an ESOP to that of similar companies that were not employee-owned to determine the effect of the ESOP. It found that ESOP company sales, employment, and productivity grew more than 2 percent faster per year than would have been expected before the ESOP was introduced (Blasi, Kruse, & Weltmann 2013).
- The Democracy at Work Institute, in its 2013 annual survey of worker cooperatives, found that worker cooperatives across all industries had an average profit margin that was almost 8.5% higher than the average private firm (6.4% vs. 5.9%) (DAWI 2014).

- Corporations with ESOPs had higher average employment growth in the pre-recession period from 2006 to 2008 than the overall economy, as well as faster post-recession growth from 2009 to 2011 (Blasi, Kruse & Freeman 2017).
- **Employee behavior.** Another key study, published by University of Chicago Press and supported by the Rockefeller Foundation and the Russell Sage Foundation, looked at employee surveys of about 40,000 workers in a variety of worker ownership arrangements. It found that employee ownership, when combined with a supportive corporate culture, reduced expected turnover; increased employees' willingness to work hard and help less productive co-workers; and enhanced loyalty to the firm and innovative behaviors (Kruse, Freeman & Blasi 2010).
- **Firm survival.** Several studies have confirmed that cooperatives and ESOPs survive longer than similar companies with more common ownership models. For example, a study of worker cooperatives in Uruguay used a very large data sample and found that "worker cooperatives had a 29% lower rate of dissolution than did conventional firms, and that the higher survival rate is associated with greater employment stability" (Burdín 2014). An earlier ESOP study found that ESOPs were longer-lasting compared to conventional firms of the same size in the same industry without employee ownership (Blasi, Kruse & Weltmann 2013). And in 2019, a longevity analysis of U.S. worker coops found that more than 25% are 6-10 years old, compared to 19% of all U.S. small businesses, and nearly 15% are 26+ years old vs. only 12% of U.S. small businesses (USFWC & DAWI 2020).

**Impact on workers.** Most salient for local governments, foundations and economic development organizations is the impact of employee ownership on individual workers, their families, and communities. Does employee ownership improve workers' economic well-being? Would more employee ownership mean less poverty in our communities? The evidence provides a definitive YES to both questions.

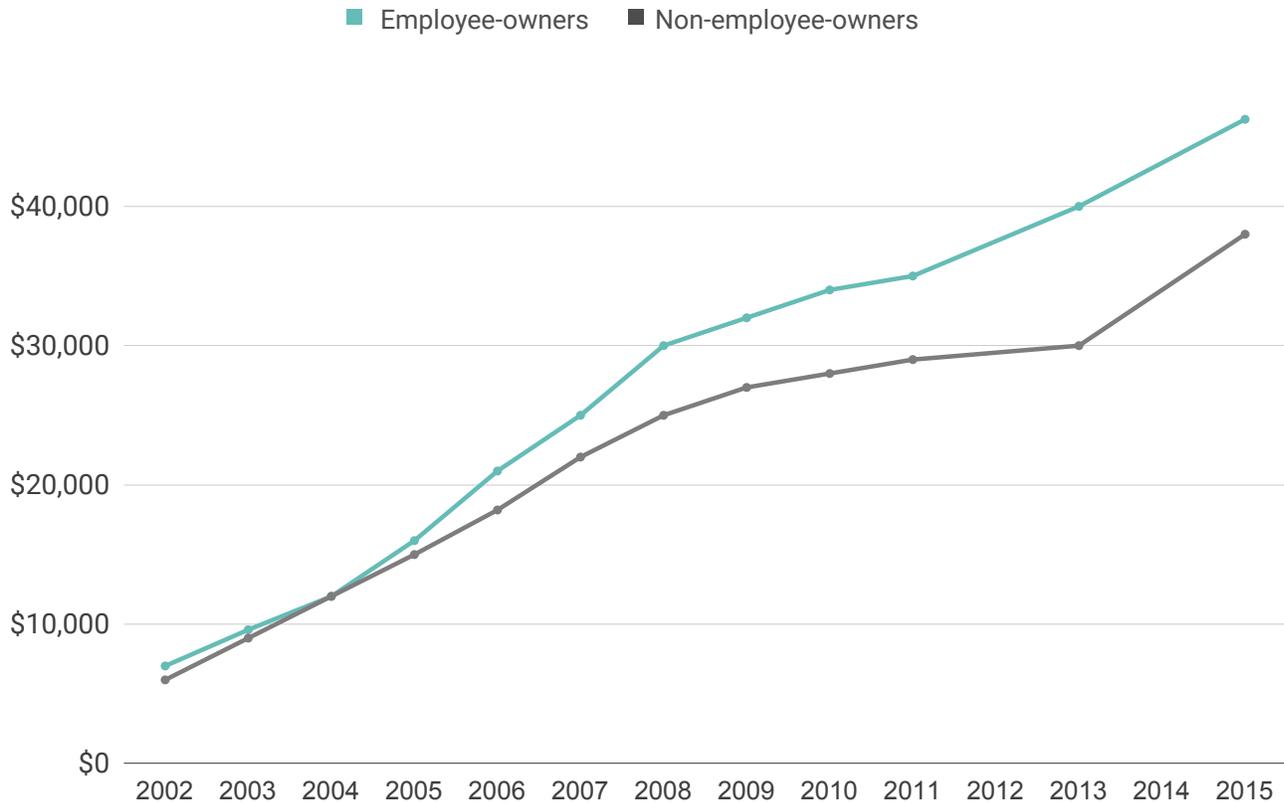
In employee-owned companies, workers experience financial advantages on four levels: equal or better pay and benefits; asset building through profit sharing, retirement savings and shared business ownership; enhanced job security and stability; and well-being and psychological safety. Some evidence for these claims is as follows:

**Compensation and benefits.** Several recent studies and numerous compelling examples of specific worker cooperatives demonstrate that employee-owned companies provide good pay and benefits, and that profit sharing or share ownership add additional opportunities for financial gain and personal and professional development.

### ESOPs

- According to NCEO, millennial workers at enterprises with ESOPs have 33% higher median wages when compared to workers like them at similar companies with traditional ownership structures (NCEO 2017). Notably, wages for the two groups of workers start out at the same modest level, with the wage difference emerging over time as employee-owners continue to work for their firms.
- NCEO also found that millennial workers at firms with ESOPs have access to more benefits than their peers at non-ESOP firms (NCEO 2018; see table p.14).

## EMPLOYEE OWNERSHIP AND WAGE INCOME OVER TIME (currently employed)



Source: [2018 Update on Employee-Owners](#) (NCEO 2018)

Benefits at current or most recent job	Employee-owners	Non-employee-owners
A flexible work schedule	63%	40%
Medical, surgical, or hospitalization insurance that covers injuries or major illnesses off the job	97%	69%
Life insurance that would cover your death for reasons not connected with your job	92%	52%
Dental benefits	94%	62%
Paid maternity or paternity leave	67%	32%
Unpaid maternity or paternity leave that would allow you to return to the same job, or one similar to it	63%	35%
A retirement plan other than Social Security	92%	55%
Tuition reimbursement for certain types of schooling	66%	26%
Company provided or subsidized childcare	26%	6%
Employee Stock Ownership Plan(s)	100%	0%

Source: [2018 Update on Employee-Owners](#) (NCEO 2018)

- A much larger study of employee ownership data from the 2014 General Social Survey found that ESOP employee-owners are more likely to report their fixed pay as being at or above market (Kruse & Kurtulus 2017; see graph p.14).

The positive wage impacts associated with employee ownership are particularly meaningful in the case of formerly incarcerated individuals. New preliminary research suggests that ESOP participation is associated with lower rates of recidivism due to improved labor market outcomes: formerly incarcerated ESOP employee-owners earn approximately 25% more in annual income and work almost 9% more hours per week than formerly incarcerated workers who are not employed by an ESOP firm (Cox in press).

### Worker Cooperatives

The majority of workers surveyed in a 2017 Democracy at Work Institute study of worker cooperatives across the U.S. reported that their pay was "about the same or better" than other workers in similar jobs in their region, and 72% reported that their pay was about the same or better than their previous job. Schlachter (2017) calculated that respondents earned an average of \$2 more in their worker cooperative than at their previous job. In addition, about half of respondents reported that benefits at their current job met their family's needs better than the benefits at their previous job, and another 25% said it was about the same (Schlachter 2017). Survey respondents spanned fourteen industries.

The following data points from worker cooperative leaders in lower-wage industries confirm the positive trends noted above in wages and benefits.

- In the worker-owned green house cleaning businesses formed by the nonprofit WAGES in the 2000s, worker-owners increased their household incomes by 70-80% and accumulated thousands of dollars in savings in the "individual capital accounts" that they held in their businesses (Abell 2014; note: WAGES, or Women's Action to Gain Economic Security, has since rebranded as Prospera).
- Eureka, California-based Restif Cleaning is a worker-owned company providing a wide range of janitorial, house cleaning, window- and carpet-cleaning and related services. It has been a cooperative since the original owner Chris Copple sold it to the employees in 1990, seven years after he launched the company. Restif reports that its janitors' total compensation is greater than unionized janitors working for the county where the company is based, and about twice the going rate for building service contractor employees in its area (Renfer 2019).
- At Cooperative Home Care Associates, a national leader in the fastest-growing job category (and one which is woefully low paid), all new home health aides get fifteen days of Paid Time Off, along with free dental and life insurance. All employees have the opportunity to build full-time schedules, and long-time employees who have been with the company for more than a few years are guaranteed 30 hours of pay per week regardless of actual work schedule—an important buffer against the schedule and income volatility so common in service industries. Those who work at least 100 hours a month are eligible for health insurance through the union (CHCA 2018).

**Asset building.** Worker coops and ESOPs, by definition, enable their employee-owners to build assets through business ownership. In worker coops, members (aka employee-owners) directly own a single membership share, which entitles them to profit sharing and a vote on key issues as defined in the bylaws. In ESOPs, the ESOP trust is a retirement plan that holds shares on behalf of plan participants (aka employee-owners). Many employee-owned companies also allow employee-owners to borrow against their Internal Capital Accounts (in coops) or ESOP accounts to address family emergencies or support other wealth building opportunities such as buying a home or paying a child's college tuition (Boguslaw & Schur 2019). More information on the asset building effects of employee ownership in both kinds of entities follows.

### Worker Cooperatives

In worker cooperatives, the most common form of asset building is "patronage" in which employee-owners share the profits they have generated in proportion to their hours worked. During each profitable year, a coop distributes a

## ASSET BUILDING IN WORKER COOPS: OPPORTUNITY THREADS

Opportunity Threads, a textile manufacturing ("cut and sew") cooperative in rural Western North Carolina, has generated real financial stability for its employees since it started in 2009. Worker-owners earn twice as much, including profit sharing, as they would in many other plants. They have paid time off and own a productive asset that has grown rapidly and successfully for years. The coop has a unique partnership with Self Help Credit Union, which helped members set up savings accounts and establish a special company account that worker-owners can borrow against to build credit and secure mortgages. Several coop members have purchased homes. They also share the wealth, including with some of the workers' communities of origin in Guatemala. In March 2020, Opportunity Threads showed its nimbleness by becoming one of the first plants to switch over to sewing Personal Protective Equipment during the COVID-19 crisis.



*Pictured: Carina Anduaga designs an up-cycled t-shirt blanket for Project Repat at the employee-owned cut and sew facility Opportunity Threads in Morganton, North Carolina.*

portion of the patronage to members' internal capital accounts, which are itemized on the company's balance sheet, and pays the rest (at least 20% by law) in cash to the members. While employee-owners' membership shares do not appreciate (but rather retain their original value), they entitle the owner to patronage. As such, successful worker coops generate assets in two forms: retained earnings and straight up cash, each having its benefits for working people.

The Democracy at Work Institute Worker Co-op Census found that the median patronage distribution among the cooperatives surveyed that provided patronage was more than \$2,300. In addition, the majority of respondents felt confident that they could find \$2,000 within 30 days if needed in an emergency (Schlachter 2017)—a dramatic contrast to the fact that most people in the United States are not equipped to handle a \$400 emergency expense (Federal Reserve 2016).

Companies that [Project Equity](#) has helped to transition to worker cooperatives are also demonstrating the asset building effects. At Niles Pie Company (see story on page 23), founding worker-owners received substantial profit sharing within six months of the transition to cooperative ownership. In 2019, the coop distributed the equivalent of \$4.50 per hour in cash patronage to worker-owners, out of their 2018 profits. A Slice of New York raised wages within a year of becoming a worker cooperative and switched their year-end bonuses to patronage dividends, generating an estimated 20% increase due to tax savings. This small business distributed more than \$300,000 of 2018 profits to its 35 employees last year.

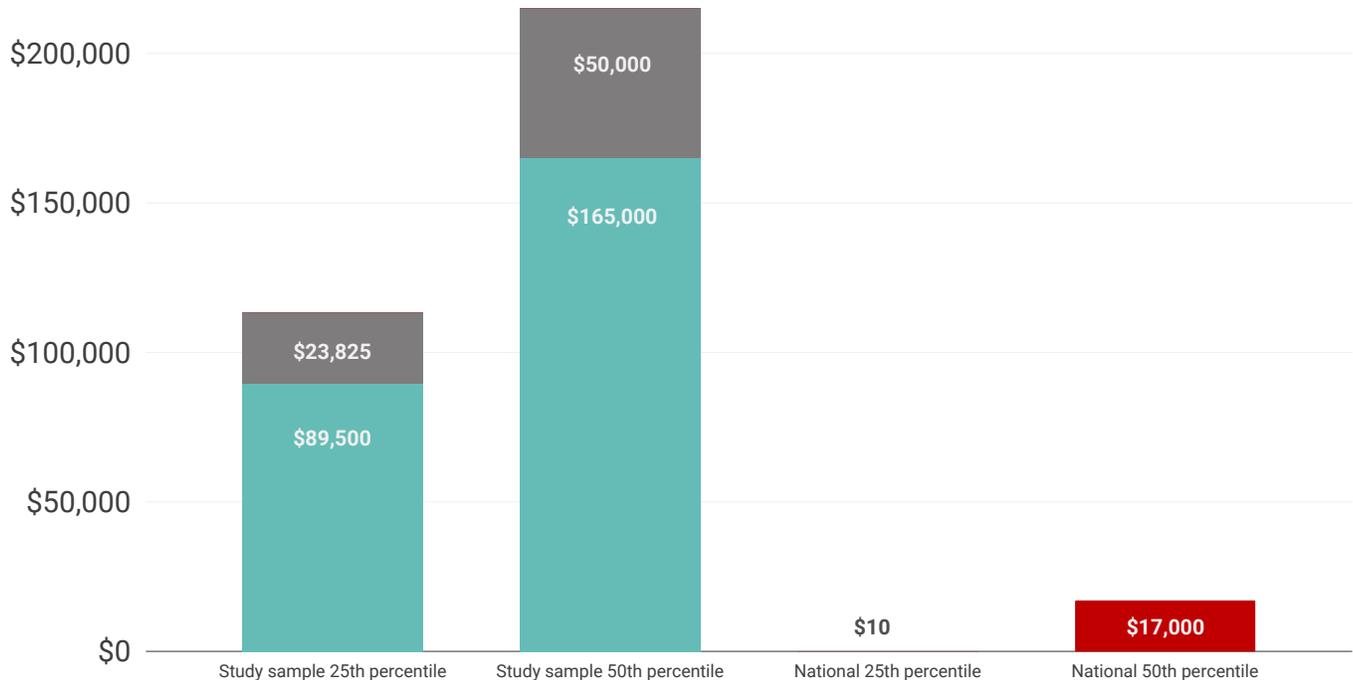
### ESOPs

Generating retirement savings for workers is a hallmark of the ESOP model, and numerous studies have shown that ESOP employee-owners have substantially greater retirement assets than non-employee-owners. In fact, one misconception about ESOPs is that they put employees at risk by putting all their retirement “eggs” into one basket (their company's stock). The data shows, however, that employee-owners not only have greater retirement savings overall, but also are more likely to have 401(k)s, which generally have diversified portfolios, than their counterparts in firms that are not employee-owned. Some examples:

- NCEO estimates that total retirement assets (including ESOP accounts and 401(k)s) of workers at ESOP companies are, on average, 2.2 times larger than those of workers at comparable non-ESOP companies (NCEO May 2018).
- A large study by The Institute for the Study of Employee Ownership and Profit Sharing at Rutgers University analyzed Department of Labor information for more than 6,000 companies with ESOP plans and found that the average employee-owner at closely-held companies with ESOPs had \$142,245 in ESOP retirement assets in 2016 (not including other retirement assets such as 401(k)s) (Blasi 2020). For those with 20+ years of ESOP participation, the average ESOP value was nearly \$250,000. (Rutgers SMLR n.d. and Blasi 2020)
- A groundbreaking study commissioned by the W.K. Kellogg Foundation and published in 2019 further examined retirement accounts among 92 long-time low- to moderate-income employee-owners at 21 firms 16 states. With median retirement savings of \$215,000 in ESOP and 401(k) accounts, compared to \$17,000 in median retirement savings for the average worker nationally, study participants ranked in the 82nd percentile of national workers (Boguslaw & Schur 2019; see graph on page 18).

## ESOP AND 401(K) ACCOUNT VALUES OF EMPLOYEE-OWNERS INTERVIEWED COMPARED TO NATIONAL DATA

■ Study sample ESOP account value ■ Study sample 401k account value ■ National retirement savings (expansive)



Source: *Building the Assets of Low and Moderate Income Workers and their Families: The Role of Employee Ownership* (reproduction of Table 6 in Boguslaw & Schur 2019, p. 13).

- Similarly, a different study of S Corp ESOPs and their 61,020 ESOP participants showed that ESOP employee-owners' average retirement savings was more than double the average American's retirement savings: \$170,326 versus \$80,339. This finding applied across the income distribution, with average retirement savings of ESOP employees making less than \$25,000 a year more than twice the retirement savings of similar workers nationally. As shown in the table on page 19, lower-wage ESOP employee-owners (\$10.00 to \$12.85 per hour) have median retirement savings of more than \$6,500 comprising their ESOP accounts and other retirement savings. This compares to 56 percent of workers in this category who do not have access to any retirement benefits at work, making the median savings for this group \$0 (Wiefek & Nicholson 2018).

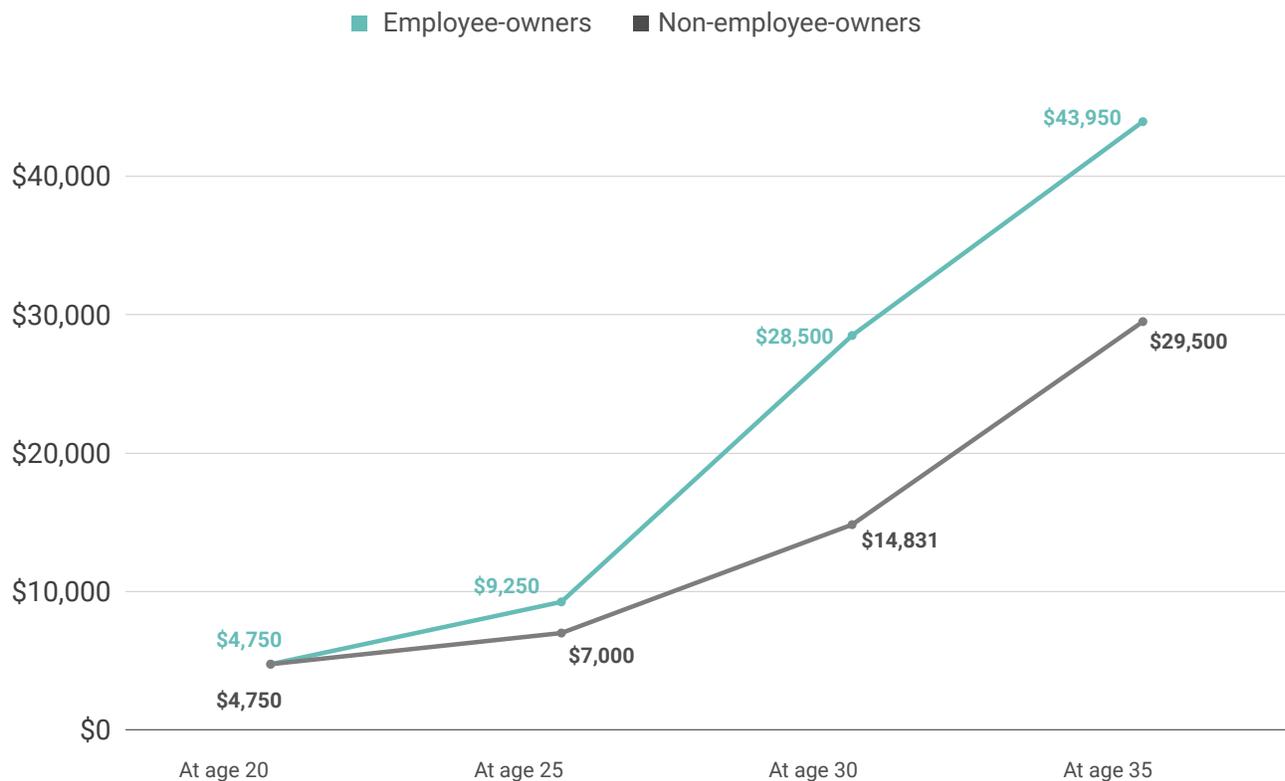
In addition to higher retirement earnings, NCEO's study of millennial ESOP employee-owners found that these workers at age 30 have higher levels of median household net worth attributable to assets like real estate, vehicles, and businesses compared to their peers at non-ESOP firms: \$28,500 versus \$14,831, a 92% difference (NCEO 2017). The graph on page 19 illustrates the dramatic wealth building benefit for young employee-owners over time, without any large pre-existing differences in wealth between employee-owners and non-employee-owners (NCEO 2018).

## WEIGHTED AVERAGE OF MEDIAN ACCOUNT BALANCES BY WAGE

Surveyed S Corps ESOP participants					National data	
Employee hourly wage	Number of employees	Average median age	Average median tenure (in years)	Average median ESOP account balance	Average median non-ESOP retirement balance	Median retirement savings
\$10.00 to \$12.85	21,367	24	1.2	\$4,381	\$2,149	\$0
\$12.86 to \$19.22	11,202	35	4.2	\$27,138	\$7,300	\$0
\$19.23 to \$30.94	9,612	39	5.8	\$42,736	\$17,728	\$5,900
\$30.95 to \$47.01	639	38	12.1	\$74,043	\$36,848	\$3,600
More than \$47.01	7,813	46	8.8	\$209,982	\$109,443	\$251,000

Source: [S Corporation ESOPs and Retirement Security](#) (reproduction of Table 7 in Wiefek & Nicholson 2018, p. 10).

## EMPLOYEE OWNERSHIP AND WEALTH OVER TIME



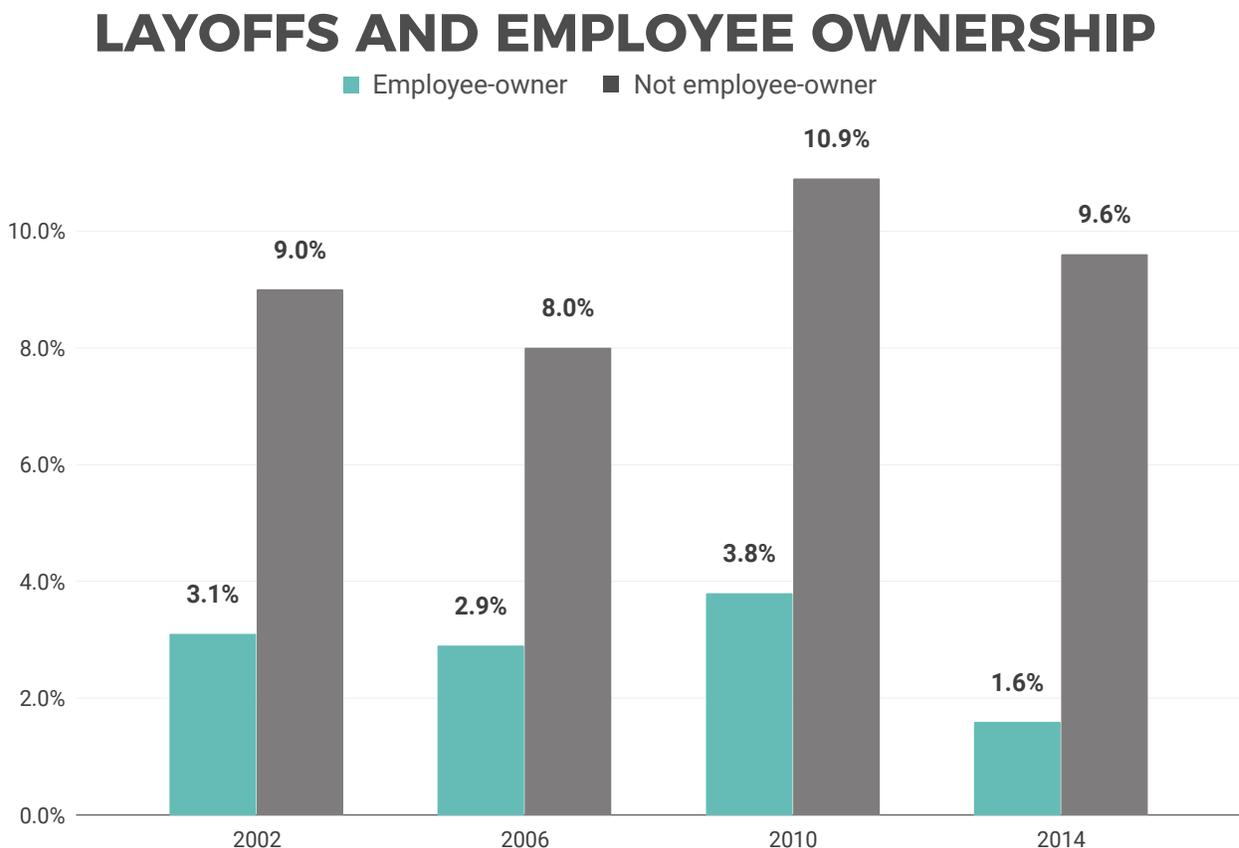
Source: [2018 Update on Employee-Owners](#) (NCEO 2018, excludes respondents with employee ownership benefits at age 20)

As these studies and examples show, both worker cooperatives and ESOPs have powerful asset building effects, including for low- and middle-wage workers and for workers of color (more on this below). It is worth noting that the wealth building impact is driven by three factors:

- The simple fact of broadly sharing a firm's profits, which can be significant even in some businesses in lower-margin industries, as shown in the example on page 17 of A Slice of New York pizza shops.
- Implementing employee ownership in firms in higher margin industries. Many of the ESOP companies in the Boguslaw and Schur study are manufacturing firms, for example.
- Transitioning mature businesses, with established profit margins and quality jobs, to employee ownership. The vast majority of ESOPs are created this way and as more worker cooperatives form through transition (as opposed to startup), wealth building benefits will likely increase as well.

**Job security and stability.** Jobs in employee-owned companies are more stable and secure as evidenced by fewer layoffs, higher employee retention, and greater individual control over schedules.

**Fewer layoffs:** As economist Douglas Kruse found, "Employee owners appear to have greater job security. This is shown by smaller employment cutbacks among employee ownership firms compared to similar firms without



Source: [Does Employee Ownership Improve Performance?](#) (Chart from Kruse 2016). Original data on employees at private firms is from the U.S. General Social Survey, adjusted for tenure, occupation, gender, age, race, and education.

employee ownership over the past two recessions, as well as by employee owners' greater perceptions of job security and lower reports of having been laid off in the past year" (Kruse 2016).

- In 2010, for example, at the height of the Great Recession, 12.3% of non-owners vs. 2.6% of employee-owners were laid off (Kruse & Kurtulus 2017; see graph on page 20).
- The most famous example comes from the Mondragon Cooperative Corporation in the Basque region of Spain which employs approximately 85,000 people in 250 worker-owned cooperatives under its umbrella, and which some have called "recession-proof." During the Great Recession, Mondragon workers across the board took average pay cuts of 5%, with management getting the deepest cuts, in order to avoid layoffs. The few workers who were laid off were hired at other Mondragon companies, resulting in virtually no unemployment among Mondragon workers (Tremlett 2013). Inspired by Mondragon and by their own cultures of solidarity, many U.S. worker cooperatives have a similar practice of prioritizing employee retention during hard times.
- A 2018 study by the National Center for Employee Ownership (NCEO) similarly found that workers at firms with ESOPs have lower involuntary separation rates (6.7%) than workers at non-ESOP firms (16%) (Wiefek & Nicholson 2018). And according to an NCEO analysis of General Social Survey data from 2002, 2006, and 2010, ESOP participants are one-third to one-fourth as likely to be laid off as non-participants (NCEO May 2018).

Longer tenure: In addition to job security, employee-owners experience more stability in their work lives through longer tenure in their jobs and greater control over their work schedules. Longer job tenure is common in employee-owned companies. For example:

- Cooperative Home Care Associates (CHCA), the largest worker cooperative in the United States, has very low turnover among its 2000+ employees, compared to industry average. In 2016, for example, 65% of new hires at CHCA remained in their jobs after one year, as compared to 37% in comparable organizations participating in the national Workforce Benchmarking Network Survey (CHCA 2018).
- As of 2018, NCEO's National Longitudinal Surveys of millennial ESOP participants found that these workers had 46% longer job tenure than their peers in firms that are not employee-owned (NCEO 2018). In NCEO's original comprehensive research report, higher job retention was seen across various sub-groups as well: lower-income workers (11% higher), people of color (36% higher), and parents of young children (44% higher) (NCEO 2017).
- Another 2018 NCEO study similarly found that workers at firms with ESOPs have lower voluntary quit rates over a four-year period (less than 11%) than workers at non-ESOP firms (27%) (Wiefek & Nicholson 2018).

Flexible schedules: Worker cooperatives often prioritize employees' preferences in scheduling, creating more humane and family-friendly workplaces. In these examples from the service and hospitality industries, coop managers accommodate reasonable requests to limit work hours to preferred times, support time off requests, and provide schedules in advance (this basic practice has been largely lost among corporate employers, but it is beginning to make a comeback; McCarty Carino, 2019):

- Natural Home Cleaning and Home Green Home, worker coops created with the help of WAGES (now Prospera) during the author's time as its Executive Director, required a minimum commitment of available hours, but let workers choose their daily start and end times within those parameters.

- A Slice of New York, a pair of South Bay pizza shops that transitioned to a single worker coop in 2017 with Project Equity's help, prides itself on supporting its employees' family and artistic priorities, and adjusts work schedules accordingly.

In the ESOP context, the 2019 study funded by the Kellogg Foundation uncovered similar stories, with several employees describing their employers' commitment to work-life balance and flexible scheduling:

"Lainy," a married white woman with children in her early 40s who works as a machine operator, says: "I didn't expect to be here this long.... Being here actually fit into my lifestyle.... They work more with your family like if you need time off. They're more flexible than some companies." "Rosa," a Latina woman in her 40s who is married with two sons, directly says that she is a better parent because of her experience with employee ownership: "when I think of my sons, I know I am a bit better of a role model because of being an employee-owner." (Boguslaw & Schur 2019)

Stable employment and flexible, more family-friendly schedules and other HR practices directly impact the quality of life of workers and their children. It is one way that employee ownership eases stress and enables parents to more easily access childcare and other services that influence economic well-being.

**Well-being and psychological safety.** The Boguslaw and Schur study also described how employee ownership contributes to employee-owners' overall well-being. Many of the ESOP companies in the study have Health and Well-being committees in which employees participate actively—one concrete strategy to realize such benefits. In addition:

A number of interviewees explained how ESOP ownership decreased their stress, and how their company enhances their quality of work life and work-life balance...."Linda" says the company greatly relieved her stress when her mother was in the hospital by providing a no-interest loan to help with medical expenses, which kept her family from going into debt with credit cards. "Carol," a machine operator who is married with grown children, describes how her job at the ESOP company is less stressful than her friends' jobs at other companies. (Boguslaw & Schur 2019)

Another study that released its preliminary research in 2019 suggests that ESOP participation may be associated with positive mental health outcomes in the form of decreased depression for both formerly incarcerated and non-incarcerated individuals, with larger decreases among the formerly incarcerated (Cox & Clomax 2019). This points to a powerful health dimension of employee ownership that has not been well-studied.

At the 2018 Worker Cooperative National Conference, the author hosted a discussion among employee-owners, who echoed some common refrains about worker cooperatives: "I finally feel I can be myself at work, and that is worth a lot." "I have a voice at work and can influence the direction of the company." One worker-owner at Niles Pie Company, which Project Equity helped transition to a worker cooperative in 2017, described some of the psychological and cultural advantages this way: "I really like the people we serve and the team I work with. No one



## A FAMILY'S FIRST NEST EGG

### SARAH VEGAS' STORY

Niles Pie Company is a pie shop and café with a unique presence as one of the few stops for artisanal food on the 880 corridor south of Oakland, CA, and, since mid-2017, its only worker cooperative. Sarah Vegas is the company's kitchen manager and a founding employee-owner and coop board member. She is also a devoted single parent to 12-year-old Attison.

Due to the irregular hours and low pay in her previous restaurant jobs, Sarah struggled to provide and be present for Attison in the way she wanted to be. It was a turning point in her life to receive a substantial patronage (member profit sharing) check just six months after Niles Pie became a worker coop, with Project Equity's help. One of Sarah's proudest moments was showing the check to Attison and letting him choose something he wanted to buy with a small piece of it. "You had to sacrifice too for me to become a business owner," she told him.

For Sarah, employee ownership means that her small family finally has a nest egg, and that she can balance her career with parenting. For his part, Attison is proud that his mom is an owner and leader in a thriving business.

In February 2020, Niles Pie once again gave patronage checks to its worker-owners. No one could have imagined how important this cushion might be, just weeks before the Bay Area's COVID-19 Shelter In Place order. As an essential business, Niles Pie could stay open, so Sarah and her co-owners decided to keep operating on a take-out basis.

As the company's original owner, Carolyn Berke, tells it "We make scheduling decisions to accommodate families, to alleviate fears, to care for each other. Our staff, our owners, are making decisions based on both what is good for the business and what is good for themselves and each other – because as a worker-owned cooperative, we are the business. And...we're part of the community. Thank you, from the bottom of our collective hearts."



hates each other! ... We don't bring negative energy to our workplace which is really great. And we keep looking forward. Everyone is on the same page—I think that's hard to find these days in many jobs.”

**Impact on communities.** There is also compelling evidence that employee ownership is good for communities in many ways: job creation, multiplier effect on the local economy, savings on government spending, civic engagement, community development, and reducing race and gender inequality, among others.

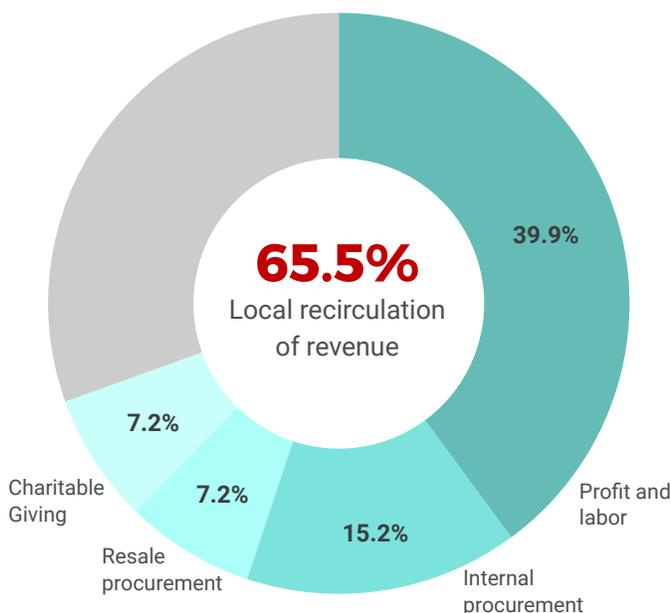
**Job creation.** Corporations with ESOPs had higher average employment growth in the pre-recession period from 2006 to 2008 than the overall economy, as well as faster post-recession growth from 2009 to 2011 (Blasi, Kruse & Freeman 2017).

**Local spending multiplier.** Employee-owned companies are inherently locally owned and, as such, circulate more money into the local economy. The graphic below illustrates this point in one industry that is growing nationwide and in which there are many examples of successful employee-owned companies: food service.

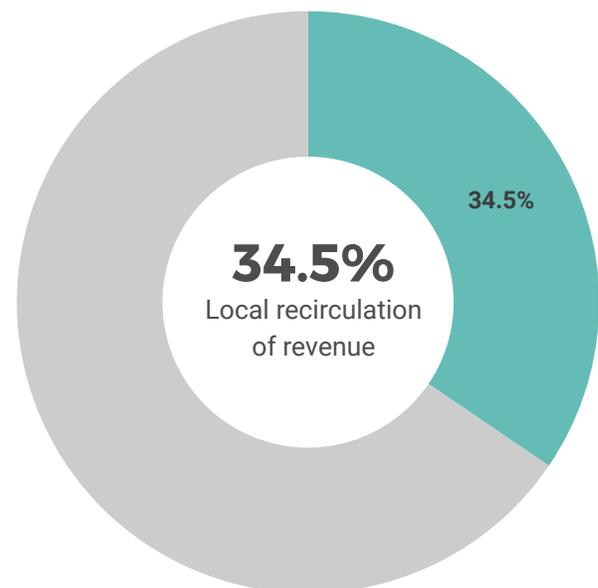
**Reduced government spending.** Employee ownership saves the government money, which can be invested instead in community improvements, social services or to reduce taxes. The job security and lower layoff rates in employee-

## LOCAL BENEFIT OF INDEPENDENT VS. CHAIN RESTAURANTS

Independent Restaurants



Chain Restaurants



Source: Compiled results from nine studies by [Civic Economics, 2012](#) and the [American Independent Business Alliance](#).

owned companies are a prime example of this. Lower job losses among employee-owners, broadly defined as people who hold stock in the company that employs them through ESOPs, Employee Stock Purchase Plans, 401(k)s or similar plans, saved the federal government approximately \$17 billion in 2014 and \$37 billion in 2010, a recession year (Rosen 2015). Taking a closer look at broad-based employee ownership, this study from NCEO and the Employee Ownership Foundation explains:

The implied federal savings from the lower layoff rates for employee-owners [was] approximately \$17 billion for all employee-owners [in 2014] and approximately \$8 billion for ESOP participants alone. These savings need to be compared to the estimated tax costs to the federal government for ESOP-specific incentives, which was \$2.1 billion in 2014, making it clear that ESOPs have been an excellent investment for the taxpayer. (Rosen 2015)

**Civic engagement.** There is evidence that workers in employee-owned companies are more civically engaged, though this issue has not been well studied. In the large 2017 survey of worker cooperatives, respondents had higher rates of volunteerism than the general population, with 46% of worker-owners volunteering vs. 30% of employees who were not owners and 25-30% of the general population (Schlachter 2017 and Schlachter 2019). Also, Joseph Blasi and Douglas Kruse noted an interesting finding from one of their large ESOP studies: in the 2008 elections, citizens with employee stock ownership voted at higher rates than non-employee-owners (73% vs. 63% of non-owners); notably, their votes were “statistically exactly split” between the Democratic and Republican candidates (Blasi & Kruse 2012).

While these studies do not make claims about causality, some scholars believe that an ownership mindset and high involvement culture at work can lead to greater civic engagement or feeling of political efficacy among workers (e.g. Schur, Eaton & Rubinstein, 2005 cited in Freeman 2005; Rooney 1992 cited in Tak 2017). And Tak (2017) argues that cooperatives “might have a higher level of community engagement than other types of associations due to the combined effect driven from the three explicit organizational principles: democratic participation in decision-making, concern for community, and co-ownership.”

**Community development.** Many studies have documented an explicit connection between cooperatives and community development (Bendick & Egan 1995, Nembhard 2014, Zeuli & Radel 2005). In a 1995 paper, economists Marc Bendick and Mary Lou Egan looked at the contributions of 20 worker cooperatives and found that:

Worker ownership and participation enhanced cooperatives’ ability to generate quality employment for people in the community but outside the economic mainstream. They also identified other positive influences of cooperatives on their communities: (1) provision of social services to the workers and their families through the cooperatives’ programs or referrals to other social agencies and (2) participation in joint business strategies in the community or in the industry they belong to. (Tak 2017, describing the work of Bendick & Egan)

There are also examples of ESOPs creating positive outcomes for workers who face barriers to employment and their communities, such as the mental health benefits and higher wages for formerly incarcerated workers mentioned above (Cox in press, Cox & Clomax 2019).

In addition, a study of three towns in Northern Italy, one of the regions of the world with the densest concentration of cooperative businesses, generated compelling data showing a high correlation between employee ownership and other indicators of well-being. The town with the highest percentage of people employed in worker cooperatives scored higher in seventeen of nineteen indices measured, in five broad categories: health, education, crime, social participation, and perception of their social environment (Erdal 2012, cited in Novkovic & Nembhard 2017).

In their 2005 article “Cooperatives as a Community Development Strategy: Linking Theory and Practice,” Zeuli and Radel highlight the ways that cooperatives develop members’ skills and leadership:

The cooperative contribution to human capital development (education, skills, and experience) may be its most substantial community development impact.... Cooperatives build local human capital through member education and leadership opportunities on the board of directors. Educational opportunities are often extended to directors, employees, and members who do not serve on the board, and are provided in areas beyond the core business (Torgerson 1990); a duty to educate members is a traditional cooperative principle.... Annual meetings are another educational opportunity.... (Zeuli & Radel 2005)

**Reducing race and gender inequality.** There is anecdotal and research-based evidence that employee ownership can counter inequality across gender and racial lines. Cooperatives in the housecleaning and home care industries, for example, have increased the power and financial stability of women, mostly women of color, in these sectors where workers’ rights are barely protected and helped them gain autonomy and leadership in their families and communities. And employee ownership transitions, such as that of Niles Pie mentioned previously, often transfer business ownership from a white founder to a racially diverse workforce.

Boguslaw and Schur’s important research took a close look at gender and racial breakdowns in the data they collected from long-time ESOP participants. While they note that women and people of color have shorter tenure, and therefore show less progress in asset building, than men and whites in the sample, the data is nonetheless very promising.

Their study compared the ESOP account value of low-and moderate-income workers to the median wealth of single workers nationwide, with even more dramatic results. The authors justifiably conclude that “ESOPs do not eliminate gender and racial wealth inequality, but they significantly narrow the gaps.”

Until recently, most of the research on employee ownership in the United States has focused on firm performance. The recent studies cited in this paper from the Institute for the Study of Employee Ownership and Profit Sharing, the National Center for Employee Ownership, the Democracy at Work Institute, and others make critical contributions to understanding the impact of employee ownership on individuals and communities.

## WEALTH COMPARISON BY GENDER AND RACE

Gender and race	Median wealth of single U.S. workers	Median retirement accounts of LMI employee-owners surveyed		
		ESOP	401(k)	Total
	<b>Total</b>			
Black women	<b>\$200</b>	\$32,000	\$23,000	<b>\$55,000</b>
Black men	<b>\$300</b>	\$180,000	\$52,000	<b>\$232,000</b>
Latina women	<b>\$100</b>	\$143,500	\$100,000	<b>\$243,500</b>
Latino men	<b>\$950</b>	\$200,000	\$70,000	<b>\$270,000</b>
White women	<b>\$15,640</b>	\$172,000	\$53,500	<b>\$225,500</b>
White men	<b>\$28,900</b>	\$323,500	\$37,500	<b>\$361,000</b>

Source: *Building the Assets of Low and Moderate Income Workers and their Families: The Role of Employee Ownership* (Data from Table 10 in Boguslaw & Schur 2019, p. 24).

# NOW IS THE TIME TO CHAMPION EMPLOYEE OWNERSHIP

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Several conditions make advancing employee ownership a timely and critical strategy for preserving small businesses and embedding economic resiliency and equity in the nation's post COVID-19 economy.

**Worker economic resiliency and security.** COVID-19 has laid bare not only the injustice and human costs of income inequality and wealth consolidation, but also the economic risks. With the majority of workers lacking any savings or safety net, we must embrace structural solutions—like employee ownership—that counteract the trends of the last 40 years and put our country on a path to greater economic resiliency, security and participation.

The many studies and stories cited throughout this paper demonstrate that employee ownership is a proven pathway to high-quality jobs and business ownership for people who would not otherwise access these important opportunities to build economic resiliency and wealth. This is especially critical for workers who lack a high school or college education, have trouble accessing capital (this challenge is well-documented for women and people of color) and face discrimination or barriers to employment.

**Small business preservation.** Our country is facing two simultaneous small business crises—the most urgent precipitated by COVID-19, and the other caused by the huge demographic shift of retiring baby boomers (many of them business owners) known as the “Silver Tsunami.” Employee ownership transitions are an important strategy for preserving small businesses that make our communities vibrant, yet find themselves in serious danger of closing or being acquired in ways that further concentrate wealth and eliminate jobs.

Project Equity's [national study](#), based on census data, estimates that 2.34 million businesses with employees are owned by retiring baby boomers, with these companies employing roughly 24.7 million people nationwide (Project Equity 2018). Project Equity analyzed this trend on a regional level between 2017 and 2019 and found:

- In the nine county San Francisco Bay Area, it is estimated that there are more than 63,000 boomer-owned businesses that employ 626,000 people and generate \$36.6B in payroll and almost \$150B in sales. See the story on page 30 for a closer look at how the risk and opportunity of the Silver Tsunami are playing out in the city of Berkeley.
- In the seven counties that make up the Twin Cities region, a joint study with Nexus Community Partners estimated that boomer-owned businesses employ nearly 320,000 people, with 48,000 in the manufacturing industry alone. These manufacturing jobs circulate more money back into the local economy.
- The trend is significant in rural areas as well. In the small towns of Whatcom County, Washington, for example, the study sponsored by the Whatcom Community Foundation estimated that more than 700 businesses are over twenty years old, and they account for 72% of small business revenue and employ 2 in 5 workers.

With around 85% of business owners lacking succession plans, only 15% of family-owned businesses passing on to the next generation, and an estimated 10-30% of listed small businesses finding buyers, most of these companies will either quietly go out of business or get sold to out-of-area buyers. The COVID-19 economic crisis is bound to accelerate the pace of business closures and opportunistic business acquisitions that further consolidate wealth. Even experienced owners who have weathered multiple recessions may choose to throw in the towel rather than lead their business through another downturn.

Employee ownership transitions introduce a new buyer to the market—the workers who have built the business, alongside the owner. By selling to employees, business owners gain financial liquidity, protect their legacies, and unleash the power of shared ownership to increase employees' economic security and agency, further strengthen their companies, and shore up local economies. Despite all the unknowns at the time of this paper's publication, many believe that employee ownership can be a solution to retain a meaningful number of these businesses and the jobs they created.

**Harnessing the momentum.** The nation's last economic crisis—the Great Recession—stimulated new and greater interest in employee ownership among the general public, federal, state and local governments, philanthropy, and the nonprofit sector. For example:

**Federal policy:** The Main Street Employee Ownership Act became law in August 2018 and is the first federal legislation on broad-based employee ownership in decades. The Act is already inspiring a number of innovative initiatives among Small Business Administration and Small Business Development Center staff to encourage employee ownership. While it is an unfunded mandate, the ultimate impact of which must be proven, the Act provides a focal point for engaging new actors and an important stamp of legitimacy.

**State and local government engagement:** Since New York City and Madison, Wisconsin made multi-million dollar investments in employee ownership in 2015 and 2016 respectively, more city and local governments have gotten interested in supporting worker-owned cooperatives and business retention through employee ownership. As one example, Project Equity, as of early 2020, has partnerships with six cities or counties in the San Francisco Bay Area, Southern California, and south Florida, and is seeing significant interest from other municipalities and counties. The states of Iowa, Missouri, Vermont, Massachusetts, and Colorado are among those currently promoting employee ownership (more on page 34).

**Emerging networks:** Several new collaborative efforts and networks have launched in recent years to elevate employee ownership. These include, among others: the Workers to Owners Collaborative, convening technical assistance providers and lenders involved in worker cooperative transitions; Cooperatives for A Better World, promoting the cooperative model; CertifiedEO, raising

## THE COVID-19 ECONOMIC CRISIS

is bound to accelerate the pace of business closures and opportunistic business acquisitions that further consolidate wealth.



## A CREATIVE PARTNERSHIP TO RETAIN BOOMER-OWNED BUSINESSES IN BERKELEY



*Pictured: Jordan Klein (left), Economic Development Manager for the City of Berkeley, talks with a participant at the Berkeley Business Success Forum in 2019.*

Through its partnership with the City of Berkeley, Project Equity has analyzed how the Silver Tsunami may affect one city. The study found that one in five Berkeley small businesses are 20 or more years old, posing a high retention risk. Older businesses are likely to be owned by baby boomers who are nearing retirement, and most have not planned for the future of their businesses.

These legacy businesses have an outsized impact on the local economy: there are 13,000 individuals—30% of Berkeley employees—who depend on these businesses for their livelihood, and these companies generate approximately 60% of the annual revenue

earned by businesses in Berkeley. Retaining these businesses through employee ownership can prevent the loss of thousands of jobs and keep the local economy strong.

Project Equity, in coordination with the City, is reaching out directly to these businesses and offering city-subsidized feasibility assessments. The transition of a long-time manufacturing company in West Berkeley, Adams & Chittenden Scientific Glass, to a worker coop, and the support of Berkeley's City Council, are helping to generate interest and build momentum.

brand awareness for employee-owned companies; and the [Employee Ownership Expansion Network](#), supporting the formation of new state employee ownership centers.

**Foundation champions:** Over the last half decade, big name grant makers like the W.K. Kellogg Foundation, Citi Community Development, Surdna Foundation, and the lesser known Kendeda Fund have invested in employee ownership transitions and cooperative development. More recently, others such as the Open Society Foundations and the JP Morgan Chase Foundation have made grants. In addition, many regional and local foundations are supporting organizations working in this space and becoming champions for community wealth building, including through employee ownership. These include, for example, the Y&H Soda Foundation and The San Francisco Foundation in the Bay Area, and the Whatcom Community Foundation in Bellingham, Washington.

Harnessing this momentum to accelerate the growth of broad-based employee ownership will help turn the tide on inequality. Philanthropy in its many forms, government at all levels, and employee ownership practitioners and all have critical roles to play.

*Pictured: California Solar Electric Company, based in Grass Valley, California, completed its employee ownership transition in 2019. It is the first worker cooperative in Nevada County.*



## OPPORTUNITY: PHILANTHROPY AND GOVERNMENT HAVE CRITICAL ROLES TO PLAY IN EXPANDING EMPLOYEE OWNERSHIP

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The case for broad-based employee ownership is strong, and it is only getting stronger. The impact data and research cited above—much of it from the last four years—collectively confirm strong positive impacts for frontline low- and middle-income workers and workers of color and across different forms of employee ownership, including ESOPs and worker cooperatives.

Now is the time for greater philanthropic and public sector investment to fuel the growth of the employee ownership movement. With the Silver Tsunami and the COVID-19 economic crisis threatening to further deepen inequality, we must accelerate strategies that reduce it. A growing number of organizations that promote and facilitate employee ownership, leaders in employee-owned companies, and frontline employee-owners are all stepping up to support the expansion of employee ownership through a variety of innovative strategies. The philanthropic and public sectors are each uniquely positioned to help practitioners scale employee ownership transitions to keep good businesses alive and thriving, and to integrate employee ownership into the economic recovery and the field of community economic development.

Newcomers to employee ownership no longer have to go it alone; they can join a growing network of funders, local, county, and state governments, practitioners, and advocates who are building the effectiveness and mainstream impact of broad-based employee ownership for the benefit of workers and communities.

**Philanthropy.** Support from foundations and corporate donors has been critical to enabling leading nonprofit employee ownership practitioners and advocates to gain traction and demonstrate the potential for employee ownership, especially the strategy of transitioning successful businesses. These philanthropic leaders can now encourage and mentor other funders considering employee ownership as a grant making area, and grant makers and donors new to the field can learn from the investments made to date.

The following examples, while just a few among many, illustrate the variety of ways in which philanthropic entities are engaging:

**THE CASE FOR  
EMPLOYEE  
OWNERSHIP**  
is strong, and it is  
only getting  
stronger.



- The Kendeda Fund made a \$24M investment in democratic employee ownership conversions—a “big bet” that supports four organizations aiming to “transform how the public and private sectors—including investors—approach small business succession, retention, and legacy preservation” (Philanthropy News Digest 2019).
- The W.K. Kellogg Foundation funded critical research on the impact of employee ownership on communities of color (Boguslaw & Schur 2019, NCEO 2017) and has made grants to help a number of leading employee ownership organizations grow. Several of its grantees, including the Democracy at Work Institute through its Shared Equity in Economic Development (SEED) Fellowship, Project Equity, and [Sustainable Economies Law Center](#), are working with local governments around the country to integrate employee ownership into their economic development strategies. Along with others, like the [ICA Group](#), [The Working World](#), and [Nexus Community Partners](#), these groups are using Kellogg funding to facilitate employee ownership in communities of color.
- The Whatcom Community Foundation in northern Washington state is advocating for a statewide employee ownership center and worked with Project Equity to raise awareness about how baby boomer retirements may affect the small towns of Whatcom County, the city of Bellingham, and counties across Washington state.
- Citi Community Development has been investing in employee ownership since the mid 2010s and is supporting innovative initiatives in its local markets, including Chicago, Washington D.C., Miami, and Los Angeles. As two examples, its support of the SEED Fellowship, and of the four-way collaboration between its Southern California office, the City of Long Beach, the Local Initiatives Support Corporation (LISC-LA), and Project Equity, show how local governments, philanthropy and nonprofits can work together to advance employee ownership.

**State & Local Government.** The lack of awareness of employee ownership and its benefits is a major barrier. By integrating employee ownership into economic development agendas and dedicating funding to employee ownership initiatives, states, cities and counties can raise the profile of this important economic resiliency strategy, make technical assistance and financing available, and help build demand for employee ownership within the private sector.

A number of localities around the country are actively engaged:

- Cities including [New York](#) and [Madison](#) launched and funded ongoing employee ownership programs that are inspiring other cities to undertake their own efforts.
- Inspired by the leadership of two Bay Area cities (Fremont and Berkeley), other Bay Area governments, including the City and County of San Francisco and the South Bay city of Santa Clara, have new employee ownership initiatives. San Francisco’s focuses on encouraging its legacy businesses to transition to employee ownership.
- In other parts of the country, [Pittsburgh](#), [Boston](#), [Long Beach](#), [Minneapolis](#), Newark, Miami-Dade County, Los Angeles, L.A. County, Durham, Philadelphia, and Austin are examples of local governments that are currently supporting or have supported employee ownership with a range of strategies.

State governments are also involved, some continuing their longstanding support of employee ownership and others just getting started:

- Both [Iowa](#) and [Missouri](#) reimburse 50% of the cost of an employee ownership feasibility study, then provide a 50% reduction in state income taxes on the gain from the sale of stock to an ESOP.
- Through its Agency of Commerce and Community Development, [Vermont](#) provides annual funding for the Vermont Employee Ownership Center, and the Governor has proclaimed October to be [Employee Ownership Month](#) each year since 2017.
- [Colorado](#) established a Governor's Commission on Employee Ownership, set up a fund to pay for technical assistance for employee buyouts, and is simplifying the legal steps.
- [Massachusetts](#) recently revived a program to educate business owners through its state-funded employee ownership center.
- California created a California Worker Cooperative statute to ease worker coop formation (one of several states to take this step), and the governor's Future of Work Commission recently committed to "exploring opportunities to support worker ownership and increase worker role in governance (e.g., through worker-owned co-ops or worker representation on boards)" (California Future of Work Commission 2020).

From a policy and government engagement perspective, employee ownership has the distinct advantage of being one of the rare strategies that appeals across the political spectrum, and the governors mentioned above come from both major political parties. With lack of awareness being perhaps the greatest barrier, government efforts should prioritize education of agency staff and the business community as well as policy mechanisms and programmatic opportunities to advance employee ownership.

In January 2020, the Center for American Progress released a report, *Building Workers' Wealth in Cities and States: State and Local Policies to Support Employee Ownership and Broad-Based Profit-Sharing*, with these recommendations:

- Establish an office of employee ownership and broad-based profit-sharing to increase government knowledge of these strategies and to provide outreach and technical assistance to businesses;
- Use public financing to facilitate employee ownership conversions, including removing barriers in existing loan and loan guarantee programs;
- Encourage government contractors and government-supported tech startups to share ownership and profits with their workers. (Walter 2020)

The fact that many cities and states are investing public funds in employee ownership strategies like these is important for two reasons beyond the work they directly support: it is a key legitimizing factor and it points the way to more substantial public sector investment that will be important for scale in the long run.

**Working together across sectors.** Today, state and local governments face dire budget shortages due to COVID-19, creating impediments to new initiatives and anything not deemed essential. Some governments will surmount these obstacles and prioritize employee ownership, given the important role it can play in preserving local businesses and tax bases. But others will need public-private partnerships to advance employee ownership.

Philanthropy has often provided risk capital to create proof-of-concept before the public sector invests in promising new ideas. This is especially critical today. Long Beach, California provides a current example of how a charitable business contribution facilitates a city government's engagement with employee ownership.



*Pictured: Evan Edwards of Project Equity (left) at an event in Long Beach. Representatives of Citi Community Development, LISC-LA, and the City of Long Beach also spoke.*

## PHILANTHROPY AND CITY GOVERNMENT PARTNER FOR IMPACT: AN EXAMPLE FROM LONG BEACH

Local governments can help legitimize employee ownership and embed it within broader economic development strategies, while charitable partners bring resources that can be leveraged to advance employee ownership in alignment with a municipality's larger economic and inclusive economy goals. In Long Beach, California, the collaboration between Citi Community Development's Southern California office, the City of Long Beach, the Local Initiatives Support Corporation (LISC-LA) and Project Equity shows how local governments, philanthropy and nonprofits can work together to advance employee ownership.

At the time of publication, Citi Community Development's funding has enabled Project Equity to complete a comprehensive analysis of legacy businesses in the city of Long Beach, which has a high concentration of manufacturing and logistics & shipping jobs. Project Equity has initiated outreach, begun partnering with local organizations, and generated media coverage that has led to employee ownership consultations with a number of local businesses. Project Equity has also trained the economic and workforce development team at the city of Long Beach.

## A MANDATE FOR THE MOVEMENT: FOSTER ECONOMIC RECOVERY & RESILIENCE BY WORKING TOGETHER TO SCALE EMPLOYEE OWNERSHIP

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No one knows how the next 18-24 months will unfold, but we do know that, as a nation, we must not repeat the mistakes of the Great Recession by allowing further wealth consolidation during the COVID-19 economic recovery. We need bold, new strategies to counter the impacts of small business closures and job losses on families and local communities, especially communities of color who are so hard hit by COVID-19; and we must forestall opportunistic acquisitions of distressed businesses in ways that enrich the wealthiest and leave frontline workers even farther behind.

Our hope is that those who aim to build equity and resilience into our economy will be inspired by the evidence presented here to join the movement to transform employee ownership from a well-kept secret to a scalable strategy for economic inclusion and resilience.

How will we get there? To accelerate the many benefits of employee ownership in both the short- and long-term, we will need to:

- Build alliances, galvanize resources, and attain mindshare that employee ownership has not previously enjoyed in this country.
- Grow the engaged ecosystem of advocates and skilled practitioners with support from philanthropy, government, the private sector, and local communities.
- Create and advance a strong employee ownership policy agenda, especially to rebuild with resiliency post COVID-19.
- Invest first-and-foremost in scale-oriented approaches, such as transitioning successful companies (including those that are negatively affected by COVID-19 but have strong future prospects) to employee ownership, and developing new policies and strategies to incentivize employee ownership within small business lending programs, private equity transactions, public finance programs, and tax policy.
- Rely on evidence-based practices and success factors (as described in, for example, Abell 2014, Corcoran & Wilson 2010, Josephs 2019, Silva n.d.), especially for startups and in industries that will be radically changed by COVID-19.
- Test and validate our scaling strategies and pursue a genuine shared agenda for learning and innovation.
- Measure not only the outputs but also the outcomes of our efforts to ensure that they can create and sustain quality jobs and build wealth for those who need it most.

Government, philanthropy, the business community, and all who care about economic inclusion must do everything in our power to ensure that the COVID-19 crisis does not embed inequality deeper into our economy but that we rebuild with greater equity and resilience. We will need to think big, take risks, and work together. Employee ownership has proven its value—now, let's do the work to unleash its power and take it to scale.

*Pictured: employee-owners from Chicago's New Era Windows Cooperative. Clockwise from top left: Arizona Stingley, Rafael Martinez, Alberto Ocegueda (with Arizona) and Ricky Maclin. New Era's transition in 2012 from a 30-year-old window business was financed by The Working World.*



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# THE CASE FOR EMPLOYEE OWNERSHIP

Why philanthropy and government should invest in this powerful business model

May 2020

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