



THE CASE FOR EMPLOYEE OWNERSHIP:

Why philanthropy and government should invest in this powerful business model

EXECUTIVE SUMMARY

There is strong evidence that broad-based employee ownership has tremendous benefits for workers, for businesses, and for society. When successful businesses become employee-owned, local economies get stronger, workers' earnings and agency increase, employee-owners build assets, and the companies themselves are more productive and enduring.

Given the changing nature of work and the current context of economic insecurity for low- and middle-income people, proven yet under-represented solutions like employee ownership have immense potential for impact. Employee ownership provides a compelling opportunity for foundations, local governments, and other stakeholders to strengthen communities, combat poverty, promote economic inclusion, and reduce income and wealth inequality.

This paper compiles compelling data from the latest studies on both Employee Stock Ownership Plans (ESOPs) and worker cooperatives to paint a picture of what is really known about the impact of broad-based employee ownership. The result makes a strong case for philanthropic and public sector investment.

Pictured: Employee-owners and employee ownership conversion team from Project Equity and Shared Capital Cooperative at Adams and Chittenden Scientific Glass, Berkeley, CA.

project
{EQUITY}

PROBLEM: TODAY'S ECONOMY IS NOT WORKING FOR WORKERS

Our economy and our society are 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.

Economic inequality in the United States, especially across racial lines, has been growing for decades, with a sharp increase since the Great Recession. For example, a widely cited statistic from 2014 states that whites have 13 times the wealth that Blacks have. Today's economic boom and low unemployment have not generated economic security for the majority of working people. 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. In recent polls by Harris and CareerBuilder, nearly 80% of workers reported living paycheck to paycheck.

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 want to step up and be engaged in the workplace.

In a world where employers offer less security and workers seek greater meaning and a sense of belonging, employee ownership provides a better value proposition for both parties. Employers get more engaged employees and thus, more profitable and enduring companies; employees get a culture and a structure where they belong and are supported and empowered to excel.



Employee Stock Ownership Plans (ESOPs)

ESOPs are retirement plans that own all or part of a company on behalf of its employees, and are the most common form of broad-based employee ownership in the United States.



Worker Cooperatives

These businesses are directly and wholly-owned 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 EO that, like ESOPs, can be adapted to incorporate democratic principles and profit sharing. This model of perpetual employee-ownership is well-established in the UK and newer to the US.

SOLUTION: BROAD-BASED EMPLOYEE OWNERSHIP WORKS

Employee ownership has been widely practiced in the United States since the late 19th century in the form of worker cooperatives and since the 1980s in the form of Employee Stock Ownership Plans (ESOPs). Substantial research has been done on cooperatives in other countries and on ESOPs in the United States that has confirmed many positive benefits of employee ownership models for the firms themselves, for employees, and for communities.

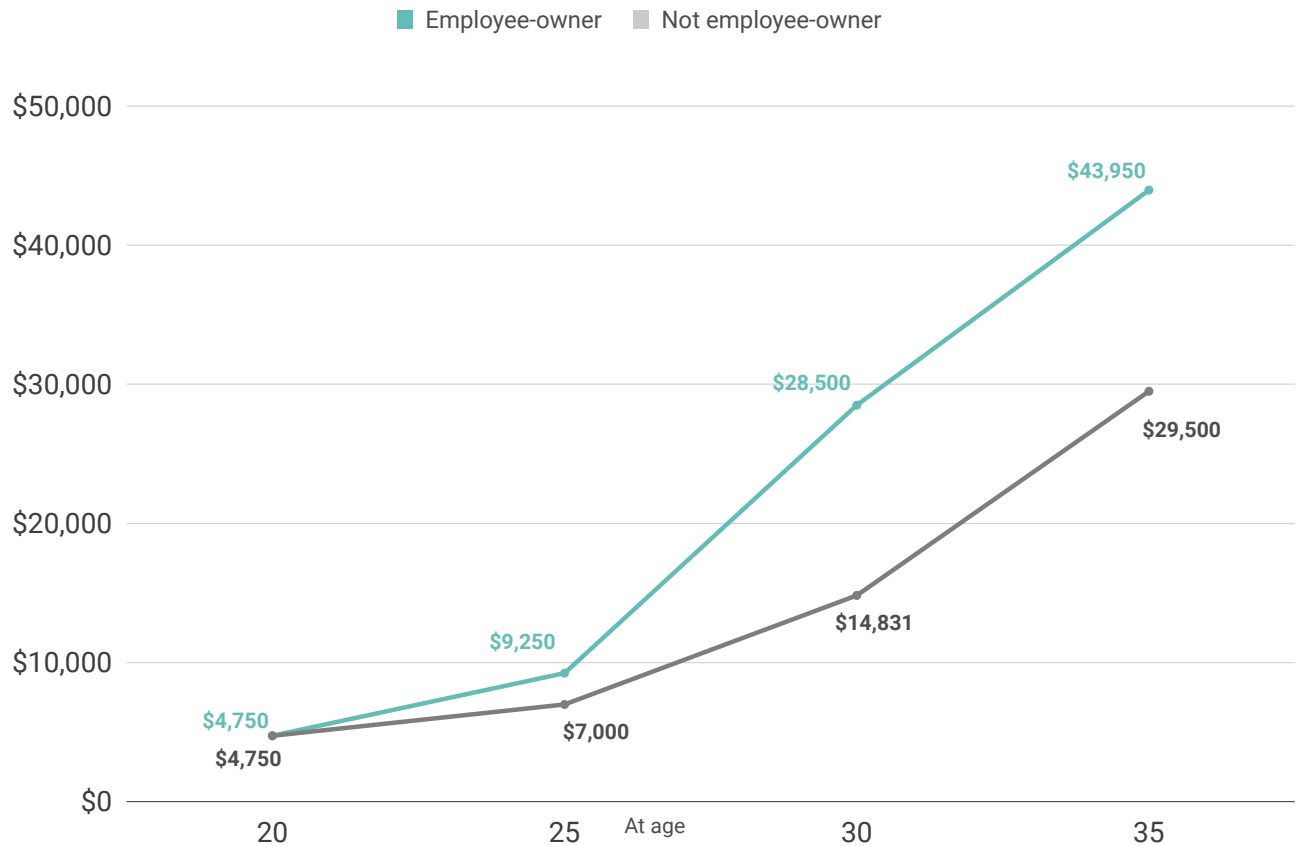
Impact on business performance. A large body of evidence demonstrates that employee ownership strengthens business performance. One study compared the performance of hundreds of companies before and after they introduced an ESOP to that of similar companies that were not employee-owned. It found that ESOP company sales, employment, and productivity grew more than 2% faster per year than would have been expected before the ESOP was introduced (National Center for Employee Ownership). Similarly, a report by the CASS business school in London found that employee-owned enterprises reported productivity levels that were 9–19% higher than levels in traditionally structured similar businesses. And the Democracy at Work Institute, in its 2014 annual survey of worker cooperatives, found worker cooperatives in several industries to be 2-4% more productive than peer companies that were not employee-owned.

Impact on workers. Most salient for foundations and economic development leaders is the impact of employee ownership on individual workers, their families and communities. Does employee ownership improve workers' economic wellbeing? Would more employee ownership mean less poverty in our communities? The evidence provides an affirmative answer to both questions. In employee-owned companies, workers experience financial advantages on three levels: enhanced job security and stability; equal or better pay and benefits; and asset building through profit sharing, retirement savings and shared business ownership.

Jobs in employee-owned companies are more stable and secure as evidenced by fewer layoffs, and higher employee retention. For example, several studies found that, during the Great Recession, employee-owners were five or more times less likely to be laid off than employees who did not share in ownership (Rosen, Kurtulus & Kruse). In addition to job security, employee-owners experience more stability in their work lives, through greater control over their work schedules. This predictability and autonomy directly impact workers' quality of life and, in some cases, their ability to secure childcare and other factors linked to economic wellbeing.

Further, several recent studies and numerous real examples from worker cooperatives demonstrate that employee-owned companies provide reliable pay and benefits, and that profit sharing or share ownership afford additional opportunities for individual asset building. Worker coops and ESOPs, by definition, enable their employee-owners to build assets through business ownership, specifically in the form of direct share ownership (cooperatives) or indirect ownership in the form of a retirement plan kept within the ESOP Trust (ESOPs).

EMPLOYEE OWNERSHIP AND WEALTH OVER TIME



SOURCE: National Center for Employee Ownership. www.ownershipconomy.org/research/2018-update/

The National Center for Employee Ownership's 2018 Update on Employee-Owners shows wealth building benefits for young employee-owners, age 20 to 34, in the chart above. In addition, a 2019 study confirmed that people of color working in ESOPs have substantially more wealth than their peers nationwide (Boguslaw and Schur), indicating that employee ownership can help reduce the racial wealth gap.

Impact on communities. Employee ownership has a multiplier effect on the local economy, reducing the required level of government spending, and increasing civic engagement. Employee-owned companies are inherently locally owned and thus circulate more money into the local economy. Further, by reducing layoff and unemployment rates, employee ownership saves the government money, freeing up resources that can be invested in community improvements and social services. This savings to the government in the year 2010 alone is estimated at \$37 billion (Rosen)! Finally, employee-owners are more civically engaged, more likely to vote, and more active as community volunteers (Blasi, Schlachter).



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

Long Beach, Miami and others are embracing employee ownership as a strategy for business retention and racial and economic equity. These early supporters are now inspiring and mentoring others to invest in employee ownership. Cities and foundations no longer have to go it alone; they can join a growing movement to promote the effectiveness and sustainable impact of broad-based employee ownership for the benefit of businesses, workers and communities.

OPPORTUNITY: THE TIME IS NOW FOR EMPLOYEE OWNERSHIP TO GROW!

Employee ownership has been gaining momentum since the Great Recession due to public dissatisfaction with mainstream business practices and growing inequality in income and wealth. This emerging interest is well-timed and inspired in part by the risk and opportunity presented by the huge demographic shift known as the “Silver Tsunami.” Ten thousand baby boomers are retiring every day, and, with no succession plans, their businesses have a high likelihood of closing or being sold to out-of-area buyers. There is an immense opportunity to tap the “Silver Tsunami” to transition boomer-owned businesses to employee ownership. But there is much work to do to accelerate the growth of broad-based employee ownership to take advantage of the current demographic opportunities and turn the tide on inequality. Employee ownership practitioners, philanthropy, and local governments all have critical roles to play.

National funders such as the Kendeda Fund, the W.K. Kellogg Foundation and Citi Community Development, and many local foundations, have made significant investments to enable employee ownership practitioners to gain traction and demonstrate the compelling case for employee ownership conversions. Similarly, cities such as New York, Madison, Berkeley,

DID YOU KNOW THAT:



More than 100 studies link employee ownership to better productivity, pay, job stability, and firm survival (Kruse 2016).



The median wealth of Latinx ESOP employees is almost 12X that of Latinx households generally, and Black ESOP employees have roughly 3X the median wealth of Black households nationwide (Boguslaw and Schur 2019).



While nearly half of Americans cannot manage a \$400 emergency expense (Federal Reserve 2015), most worker coop employees believe they could find \$2,000 in an emergency (Schlachter 2017).



Lower job losses among employee-owners saved the federal government approximately \$17 billion in 2014, and \$37 billion in 2010, a recession year (Rosen 2015).

Learn more about the proven benefits of employee ownership.

Visit project-equity.org/about-us/publications/
to download the full white paper,
available May 2020.

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ABOUT PROJECT EQUITY

Project Equity's mission is to foster economic resiliency in low-income communities by demonstrating and replicating strategies that increase worker ownership. For more information please visit www.project-equity.org.

ACKNOWLEDGEMENTS

We are grateful to the Y&H Soda Foundation for proposing the idea of this white paper and funding its development.

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A SLICE OF NEW YORK

A recently converted employee-owned pizzeria with locations in San Jose and Sunnyvale, CA.