Building Legacies

Retaining Jobs and Creating Wealth Through Worker Ownership

The Ohio Worker Ownership Network

ABOUT

Publisher

Ohio Worker Ownership Network (OWoN)

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The Ohio Worker Ownership Network (OWoN)

The Ohio Worker Ownership Network (OWoN) is a broad coalition of support organizations across the state of Ohio committed to creating broadly shared prosperity for all Ohioans through the development of cooperative and employee-owned enterprises. OWoN currently has 10 member organizations located in every region and major metropolitan area within Ohio.

KEY TAKEAWAYS

Current Economic Challenges

1. **Wealth Inequality Has Spiked**
Since 1980, the share of income going to the bottom 50% of earners has halved, while the share going to the top 1% has doubled.

2. **Many Workers Face Precarious Employment**
Half of all workers aged 18-64 earn a median annual income of only $17,950. In addition, women and people of color are disproportionately represented in low wage industries, and such industries are characterized by unstable employment.

3. **Baby Boomer Business Owners Set to Retire in Huge Numbers**
In Ohio, baby boomers own 54% of private businesses, or 94,000 firms employing 2.6 million people. More than half of all baby boomer business owners plan to retire in the next decade, but 80% do not have a formal business succession plan. In addition, only 1 in 5 of all businesses put on the market actually sell.

The Worker Ownership Solution

- **Business Continuity**
Employee-ownership provides business owners with an exit strategy that pays fair market value and ensures their legacy, making conversions a powerful tool in addressing baby boomer retirements.

- **Dignified Employment**
Employee owners receive higher wages, have longer tenure, and better fringe benefits, and are 6.2 times less likely to be laid off than those working at conventionally owned companies.

- **Wealth Building**
Employee-owners have between 2 and 10 times more wealth than non-employee owners.

- **Community Stability**
Employee-owned companies are less likely to close, relocate, or lay off workers during economic downturns.

Recommended Actions

State Governments:

Utilize Existing Government Programs

- Direct State Small Business Credit Initiative (SSBCI) dollars to support the creation of new employee-owned businesses and the conversion of existing businesses to employee ownership.

- Expand Ohio Small Cities Community Development Block Grant Programs to fund outreach initiatives designed to educate small business owners about employee ownership transitions.

- Provide JobsOhioWorkforce grants to employee-owned businesses that invest in training their employees.

Create New Initiatives

- Invest in existing loan funds and CDFIs specifically designed to facilitate small-business conversions to employee ownership.

- Establish a revolving loan fund to help finance transitions to employee ownership and fill gaps in current capital structures.

- Create a Feasibility Study Grant Subsidy Program to encourage business owners to explore the employee ownership option as part of their succession plan.

Local Governments and Economic Development Organizations:

Proactively Engage the Business Community

- Create a Legacy Business Registry identifying businesses that anchor communities.

- Engage these businesses to identify their needs, specifically around succession planning and employee ownership.

Partner with OWoN Members

- Partner with local and OWoN members that provide technical assistance to business owners regarding succession planning and employee ownership.

- Create cooperation agreements with OWoN members to target and use philanthropic funds for succession planning, employee ownership transitions, and workforce development.

INTRODUCTION

The last 18 months exposed (and exacerbated) a number of chronic economic problems. Rising economic inequality, precarious work, and the dislocation that comes from business closures have all accelerated during the pandemic. Gender and racial inequalities have also deepened, and negative economic impacts continue to fall disproportionately on the working class, women, and people of color. Meanwhile, the impending retirement of hundreds of thousands of baby-boomer business owners, and the mass business closures that could result, puts a broad-based recovery in jeopardy.

As communities across the state and nation begin to reopen and recover, the need for economic development strategies that treat these common problems as inextricably linked has never been greater. We can no longer view the retention of businesses, creation of good jobs, and the reduction of economic inequality as separate problems requiring separate solutions, a more integrated approach is needed.

Decades of research and experience demonstrate that employee ownership is a proven economic development strategy that can retain and strengthen businesses, create dignified family-sustaining jobs, and provide real wealth-building opportunities for individuals and communities. Studies conducted during the pandem ic show that employee-owned companies have, overall, performed better through the pandemic — they were less likely to close or lay off employees, and more likely to institute safety measures to protect workers. Stated simply, employee ownership must be made central to any economic recovery strategy.

Ohio is fortunate in that hundreds of employee-owned businesses call it home. Yet, to meaningfully address the challenges above, we need to drastically expand the employee-ownership sector. To do so requires thinking differently about the challenges in front of us. Systemic problems require collaborative and imaginative solutions, and a strategy of expanding employee ownership in Ohio must reimagine how collaboration happens between public and private and for-profit and nonprofit organizations. Investments in existing support organizations working in the field (and our communities) are key, as is greater integration and coordination with existing economic development programs across sectors and at all levels of government. Devising local strategies, with input from community officials and other stakeholders, will be essential to not just growing the employee ownership sector, but building a broader economic prosperity for all Ohioans.

The Ohio Worker Ownership Network (OWoN) represents a broad coalition of organizations across the state of Ohio with experience in creating employee-owned businesses. We know our communities, and we have developed direct relationships with business owners, economic development practitioners, public officials, and other community-based organizations. We have helped create numerous employee-owned businesses, developed best practices, and learned lessons in the most meaningful way possible – through real world practice. However, to date, these efforts have been highly localized. To truly move the needle and bring the employee ownership sector to scale, what is needed is a unified approach that pools the resources of multiple organizations and institutions in a more systematic way - and connects existing support organizations to each other.

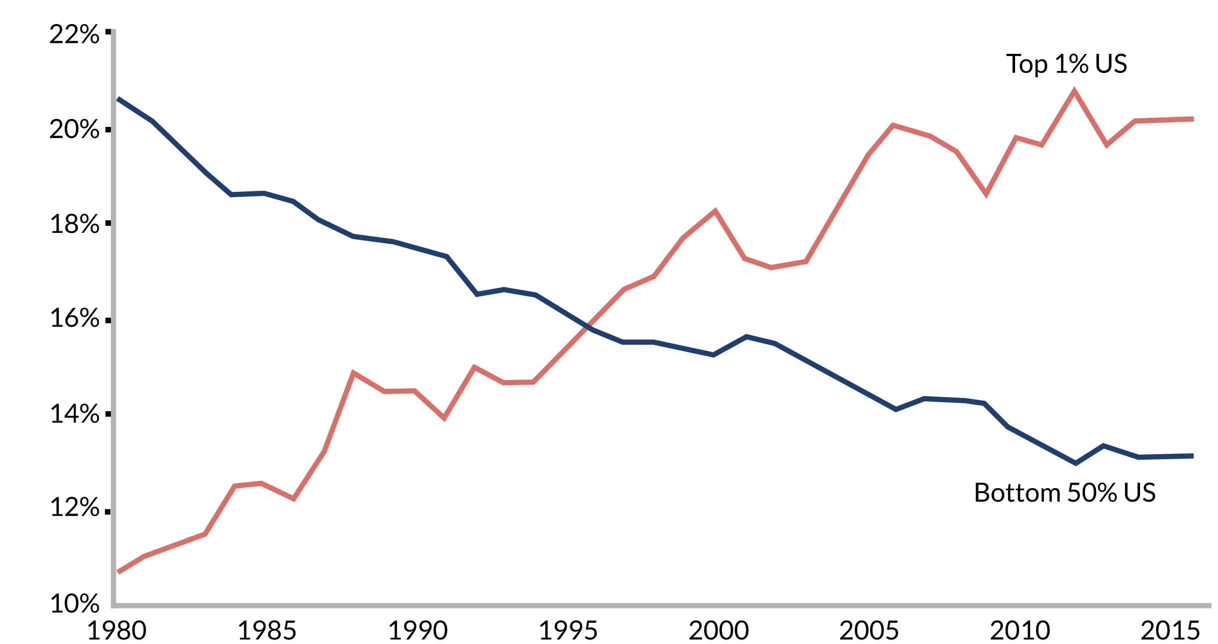
It is this system-wide approach that was the impetus for creating OWoN, a network of support organizations from all regions of Ohio. OWoN will build on our work in our individual communities and expand our engagement with the economic development infrastructure in the communities we serve. The groundwork has already been laid, but we recognize that achieving our goals requires expanding our network's capacity and size by developing formal partnerships with state and local governments, economic development practitioners, nonprofits, and other private sector actors who share the goal of creating an economy that works for all.

THREE MAJOR CHALLENGES

1 Reducing Income and Wealth Inequality

Since the 1980s, income and wealth inequality in this country have increased to levels not seen in over a century. Today, the top one percent of earners receive 24% of all income earned, a share twice as large as the bottom 50% of earners. Wealth is even more concentrated, with the top one percent holding 40% of all wealth in the US, a figure twice as large as the amount held by the bottom 90%.[1] One study found that 1 in 5 households have zero or negative wealth.[2] Disparities in wealth are even larger when comparing across race, with white households holding on average 10 times more than Black or Hispanic households.[3] One study suggests that if the racial divide is left unaddressed, the average wealth for households of color will be 0 by the mid-21st century.[4] Gender differences are just as stark - while the

Share of Annual Income for Top 1% and Bottom 50%, 1980-2015



Source: Facundo Alcaredo, Lucas Chancel, Thomas Piketty, and Emmanuel Saez, *World Inequality report 2018* (Paris: World Inequality Lab, 2017). See https://wir2018.wid.world for data series and notes.

median wealth for a single white male is $28,900, the figure for single Black and Hispanic women is $200 and $100, respectively.[5]

Ohio reflects these national trends. Since 1973, top earners have accounted for nearly 86% of all income gains while the bottom 90% of earners have seen negative income growth.[6] In 2020, the city of Columbus issued a report focusing on improving financial stability amongst its residents. It found that a third of Black and Hispanic households in Columbus had zero net wealth — nearly two times higher than white households.[7] Columbus is not an outlier. A report focusing on small and mid-sized "legacy" cities such as Akron, Dayton, Lima, and Springfield found that poverty and inequality have grown over the past decades. Rural regions such as Appalachia still struggle to close the economic divide.[8]

Economic inequality has broad material and social costs, and has been linked with lower economic growth, eroded social cohesion, poorer health outcomes, and political polarization.[9] However, there are important differences between icome and wealth. Wealth, unlike income, is made up of assets such as savings, stocks, homes, and retirement accounts. Wealth is more stable, and stabilizing, than income, and the lack of wealth creates long-term and systemic problems that impact communities across Ohio. For this reason, the growing disparities in the distripution of wealth are especially troubling.

> *"A third of Black and Hispanic households in Columbus had zero net wealth – nearly two times higher than white households"*

In times of financial stress — as occurs with job and income loss — wealth is a financial backstop allowing for individuals to continue to make rent or mortgage payments, cover utilities, purchase basic foodstuffs, and cover other expenses without falling into debt. In good economic times, wealth allows for investments in education, a home, a comfortable retirement, and even intergenerational transfers of wealth to younger family members. In short, wealth can be the difference between "a family maintaining and strengthening their economic status or flailing in economic security".[10] Any economic development strategy aimed at building back the economy will need to make the creation of wealth-building opportunities central to its program.

2 Provide Stable, Wealth-Building Jobs

There are also troubling trends in labor markets. Despite recent wage growth, wage stagnation has characterized the past four decades for many workers.[11] With deindustrialization and lower rates of unionization, fewer high-paying jobs exist. The number of low paying service industry jobs is growing, and precarious work — non-standard employment that is poorly paid, insecure, unprotected, and cannot support a household — is becoming more common. A 2019 study published by the Brookings Institution found that half of all workers between the ages of 18-64 work at jobs that pay median hourly earnings of $10 dollars, an hourly rate that works out to median annual earnings of $17,950.[12]

The negative effects of precarious low-wage work extend beyond income. These jobs are less likely to provide benefits such as health insurance and retirement plans that build long-term wealth and financial stability. As a recent report by the Institute on Assets and Social Policy finds, "employment benefits are the most direct contributors to wealth-building via the workplace" and in many cases represent nearly a third of total employee compensation.[13]

Lower-paying, service-sector jobs are less likely to provide good benefits and more likely to have been hardest hit by covid-19. Workers in this sector were both more likely to be laid off and more likely to be labeled "essential" during the height of the pandemic, leading to both higher rates of unemployment and exposure to the virus.

> *"The effects of unemployment extend beyond financial security to include psychological well-being, family stability, individual health, and other community effects"*

As women and people of color are disproportionately represented in low-wage industries, the covid-19 crisis has aggravated already existing inequities. Nationally, the Black unemployment rate has been at least two-and-a-half times that of white workers and in Ohio, the difference in the unemployment rate between whites and other racial groups is the 5th highest in the nation.[14]

Because women still shoulder the majority of childcare responsibilities, covid-19-related closures and the general lack of other childcare options during the pandemic resulted in a massive exodus of women from the workforce.[15]

Worker-owners from Sustainergy, an energy efficiency firm in Cincinnati, install solar panels on a customer's roof.

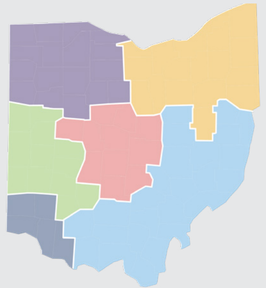
For women of color, who are more likely to be heads of households and to have less wealth compared to their white counterparts, this economic shock hashad an amplified effect on household financial
well-being.[16]

The cascading impacts of chronic under- and unemployment extend beyond financial security and include psychological well-being, family stability, individual health, and other community effects such as higher crime rates.[17]

Taking all this into account, post-pandemic economic development strategies must reflect the face that the workplace is not merely a site of income generation but an important driver of wealth creation. They must prioritize not only the number of jobs created, but the quality of those jobs and how they can increase incomes and provide broad-based wealth building opportunities - for individual workers, their families, and communities.

3 Proactively Addressing the Succession Planning Crisis

The pandemic also devastated small businesses. As lockdowns ensued, millions of businesses had to temporarily close their doors. The National Bureau of Economic Research found that the total number of business owners decreased by 3.3 million, or 22%, in the early months of the pandemic. Like other impacts from -19, decreases in the number of business owners were felt disproportionately by minorities. Black business owners decreased by 41% and Latin American business owners by 32%.[18] Many businesses have since reopened, but according to the Federal Reserve, roughly 200,000 employer firms closed their doors permanently due to the pandemic.[19]



In Ohio, 54% of private businesses are owned by baby boomers. They represents an estimated 94 thousand firms that employ 2.6 million people, have $118 billion in payroll and account for $690 billion in sales.

	Northeast	Southeast	Central	Northwest	West	Southwest
Firms	43 Thousand	8 Thousand	18 Thousand	12 Thousand	11 Thousand	15 Thousand
Employees	967 Thousand	135 Thousand	493 Thousand	272 Thousand	272 Thousand	432 Thousand
Payroll	$43 Billion	$5 Billion	$24 Billion	$11 Billion	$12 Billion	$21 Billion
Sales	$229 Billion	$35 Billion	$153 Billion	$81 Billion	$69 Billion	$124 Billion

The immediate closures sparked increased government support that helped avoid the most devastating effects. However, the closure crisis is far from over. Long before the pandemic, a massive demographic shift within the business-owner community was already underway. Baby boomers are retiring at the staggering rate of 10,000 per day, a phenomenon termed termed the "Silver Tsunami." With baby boomers owning nearly half (2.3 million) of the privately held businesses in the US, the impacts of this shift in both business continuity and wealth retention will have huge ripple effects throughout the economy.

Although more than half of baby-boomer business owners plan to retire in the next decade, striingly few have planned for what will happen with their business. Surveys have consistently shown that 80% of business owners lack a formal succession plan for when they retire, exit, or die.[20] It is not uncommon for business owners to have four fifths or more of their personal assets tied up in their businesses.[21] Without a formal plan, many of these owners will face a succession event unprepared, reducing the chances they will be compensated for years of work, and decreasing business continuity.

Even those owners who have a succession strategy are finding it difficult to find a buyer. Only one third of family businesses successfully pass to the next generation, and less than 20% of businesses that are put on the market sell.[22] For businesses within key service sectors—a group that includes grocery stores, food manufacturing, home care agencies, residential care facilities, and childcare centers—the numbers are more pronounced. A joint report of Citi Community Development and Capital Impact Partners surveyed businesses in these sectors with between 20-100 employees and at least 25 years of operations, and found a closure-to-sale rate of 9 to 1.[23]

"Half of all baby-boomer business owners plan to retire in the next decade but 80% do not have a succession plan"

How large will the impact of closures be? Nationally there are over 2 million baby boomer-owned businesses that employ 25 million people, accounting for $5 trillion in sales and $950 billion in payroll. In the next decade baby boomer owned-businesses across the country — valued at $10 trillion dollars — will change hands, "representing one of the largest transfers of wealth in the nation's history."[24]

Closer to home, 54% of private businesses in Ohio are owned by baby boomers. These businesses represent an estimated 94 thousand firms, employ 2.6 million people, pay $118 billion in payroll, and account for $690 billion in sales.

Every region of Ohio will be impacted. Small businesses are still the backbone of local economies, and keeping them open is key to our shared economic prosperity. If left unaddressed, many of these businesses may simply close their doors, liquidate, or be sold to larger companies resulting in economic dislocation and further wealth concentration.

This historic moment of deepening inequality, work precarity, and massive baby boomer retirements also creates a big opportuntiy—a once-in-a-generation opportunity to invest in our economic development in a way that advances business resilience, job retention and economic fairness. Traditionally these aspects of economic development have been perceived, and addressed as, separate issues. This approach needs to change. The links between economic inequality, wealth-building jobs, and business continuity are real and policy solutions must reflect this.

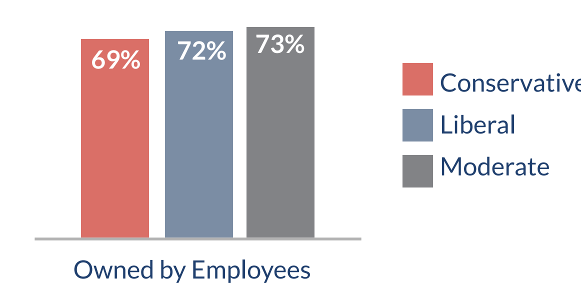
There is a proven strategy to address these interrelated issues, one that rewards business owners for a lifetime of hard work, provides workers with stable employment and opportunities to build real wealth, and keeps local economies thriving: creating more employee-owned businesses by converting existing businesses to employee ownership.

THE EMPLOYEE OWNERSHIP SOLUTION

The business closure and succession planning crisis, precarious low wage work, and economic inequality present challenges that, if not proactively addressed, will continue to have devastating impacts on communities across Ohio. Policies that provide solutions to these problems exist, but very few enjoy broad-based political support.

Even fewer existing policy ideas address these challenges in an integrated fashion. Solutions that focus only on boosting income to reduce inequality often miss the importance of wealth

Public Overwhelmingly Prefers Working at an Employee-Owned Company



Source: Graph created by Professor Joseph Blasi and Professor Douglas Kruse of the Institute for the Study of Employee Ownership and Profit Sharing, Rutgers University School of Management and Labor Relations, 2019.

building and its central role in creating financial stability. Policies that focus only on improving employment stability sometimes miss the importance of engaging directly with retirement-age business owners, whose companies populate local labor markets.

Expanding the employee ownership sector through employee ownership conversions is one strategy that garners widespread political support and is proven to address all three challenges described above.[25] The employee ownership solution creates a willing buyer for a business, enables the business owner to achieve liquidity for a lifetime of hard work, and keeps the business open and its legacy strong. Workers benefit from higher wages, better benefits, more stable employment, and increased opportunities to engage in decision-making and wealth building. Communities benefit through anchoring local businesses and jobs and maintaining the tax base that funds needed public services.

Employee Ownership Today

Broad-based employee ownership is a more common phenomenon than many suspect. Today over 10% of the total private-sector labor force in the US - more than 14 million workers at 7,000 employee-owned businesses - own a financial stake in their company. Most of these worker-owned businesses take one of three major forms: worker cooperatives, Employee Stock Ownership Plans (ESOPs), and Employee Ownership Trusts (EOTs). While each one of these forms has important differences, they are similar in that they provide all eligible employees – not just those in top managerial or executive positions – with an opportunity to benefit from their work and the company's success.

Ohio has one of the more vibrant employee-owned sectors in the U.S. Today there are 298 ESOPs and 16 worker cooperatives throughout the state that employ an estimated 80,000 people. These businesses are located in all regions and nearly every industry. On a per-capita basis, Ohio is a leader, but to solve our most pressing economic problems, more growth is needed.

Types of Employee Ownership

Worker Cooperatives

Are a form of corporate entity which is 100% owned and operated by its employee members. Governance of the cooperative corporation is based on one member-one vote, and profits are distributed based on the amount of work hours provided to the company.

Employee Stock Ownership Plans (ESOP)

Are qualified retirement plan trusts that invests primarily in the stock of the sponsoring company. Participants are paid out for the financial value of the stock allocated to their individual accounts upon retirement, or when otherwise leaving the company. An ESOP can own anywhere from 1-100% of the stock of the sponsoring company.

Employee Ownership Trusts (EOTs)

Are a perpetual trusts that owns the stock of a company, they are governed by a trustee or set of trustees. Employees do not directly own company shares, and the structure is not a retirement plan. Instead, employees usually participate in a profit-sharing plan that distributes annual company earnings.

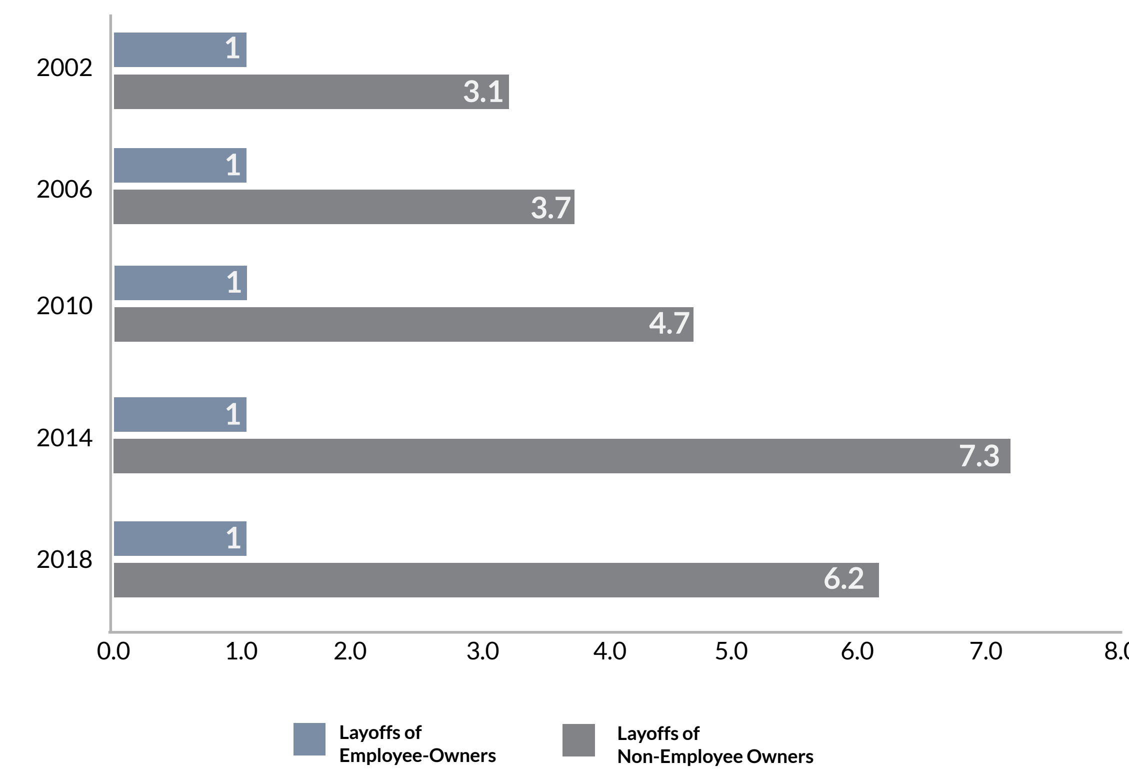
Employee Ownership Provides Stable Jobs and Builds Wealth

Gem City Market, a worker-owned grocery store, provides fresh produce in a food desert in Dayton, Leah Bahan-Harris (left) and Jimmy Robinson (right).

The challenge of low-paid and precarious work is directly addressed by employee ownership. Decades of research demonstrates, repeatedly, that employee-owned companies provide employment stability and opportunities for workers to build real wealth for themselves and their families.

A series of studies that compared employee-owned companies to their conventionally owned counterparts found that ESOP companies paid median wages that are on average 8%-20% higher than their conventionally owned counterparts..[26] One study, which tracked workers between 28-34 years of age, found that ESOP participants received 33% more income than non-employee owners, even when comparing individuals in low-wage industries.[27] Similarly, worker cooperatives in the US provide an average wage of $19.67 dollars per hour, which is significant considering that many operate in low wage sectors and a majority of members are women of color.[28]

Layoff Rate of Employee-Owners vs. Non-Employee Owners, 2002-2018

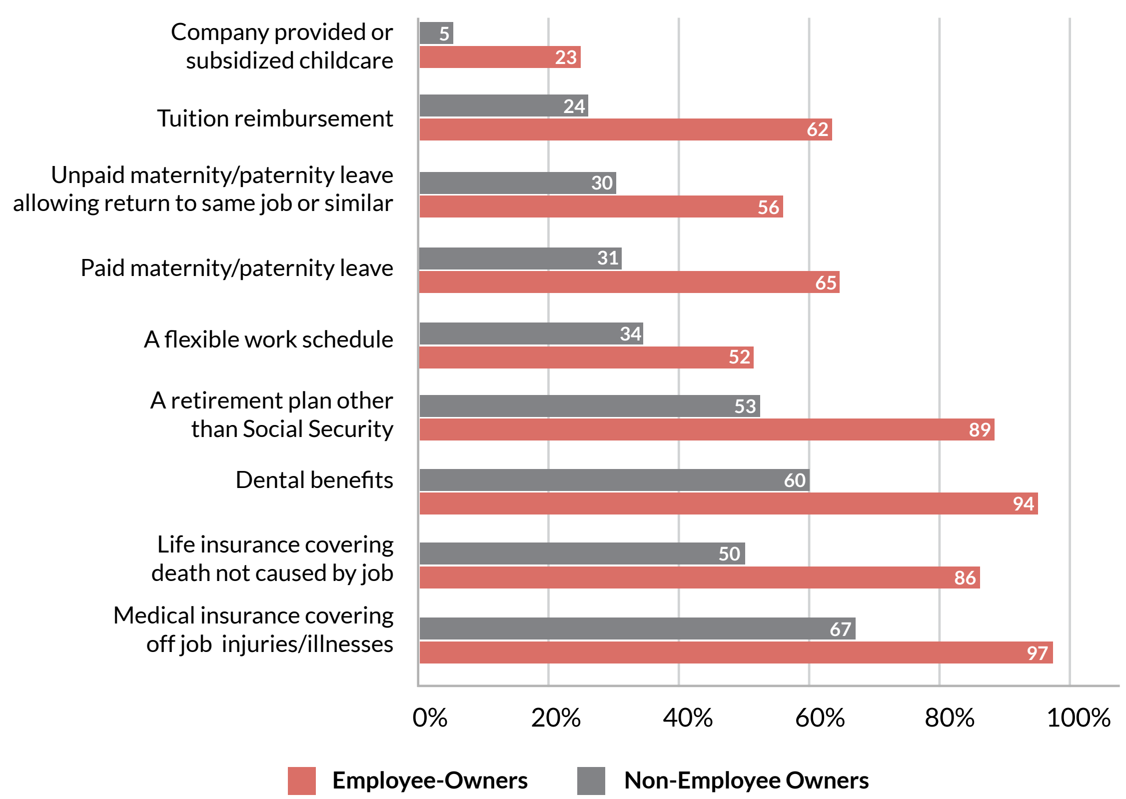


Source: Analysis of data from the General Social Survey by professors Douglas Kruse of Rutgers University and Fidan Kurtulus of the University of Massacussetts Amherst, punlished in *How Did Employee Ownership Firms Weather the Last Two Recessions?*

Wage income is only one part of what makes for a family sustaining job - equally important is job security and stability. Employee ownership gets the job done here as well, with employee-owners enjoying longer tenure at their companies than non-employee owners.[29] Since layoffs have been linked with long-term decreases in earnings that persist even when a new job is found, the importance of job stability for wealth creation cannot be overstated.[30] Since 2002, the General Social Survey has consistently found that employee-owners are far less likely to be laid off than those working at conventionally owned companies - in 2018 they were 6.2 times less likely to be laid off.[31] During the recent pandemic, initial research has seen this pattern continue, with both ESOPs and worker cooperatives experiencing fewer layoffs.[32]

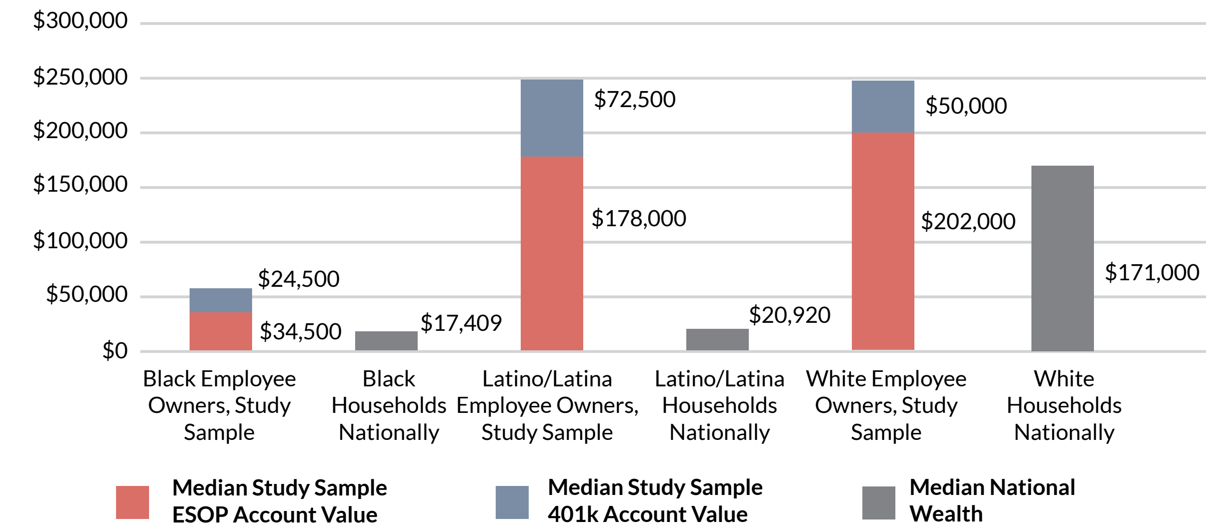
Higher levels of benefits provide both greater financial security (in good times and bad) and more opportunities to build wealth. Here again, employee ownership shines bright. The same study of 28- to 34-year-olds found that employee owners were more likely to receive benefits - including dental and health insurance, flexible work schedules, paid maternity leave, tuition reimbursement, childcare benefits, and job training - even when comparing workers in low wage industries making under $30,000 in wages.[33] TThey also benefit from greater levels of input and participation in company decisions, which builds leadership and communication skills that can be used in other areas of life.

Benefit Packages of Employee-Owners vs. Non-Employee Owners



Source: Wiefek, N. (2017, May). Employee ownership and economic well-being: Household wealth, job stability, and employment quality among employee-owners age 28 to 34. National Center for Employee Ownership. https://www.ownershipeconomy.org/wp-content/uploads/2017/05/employee_ownership_and_economic_wellbeing_2017.pdf

ESOP and 401k Values of Employee-Owners vs National Wealth Averages



Source: Boguslaw, J. & Schur, L. (2019). *Building the assets of low and moderate income workers and their families: The Role of Employee Ownership.* Institute for the Study of Employee Ownership and Profit Sharing. https://smlr.rutgers.edu/sites/default/files/rutgerskelloggreport_april2019.pdf

Employee owners are more likely to have multiple retirement plans than non-employee owners, and employee owners have retirement savings 2 times larger than national averages ($110,000 vs $80,000).[34] Stable employment and better benefits have the dual effect of preventing wealth depletion during bad times and facilitating wealth creation during good times.

The defining feature of broad-based employee ownership is that it provides employees of all managerial levels a financial stake in the company. The value of this stake varies from company to company but in all cases it is meaningful. In 2018 the median individual ESOP account was $134,000 while worker cooperatives had an average of $10,000 in their individual bank accounts.[35] Both figures are impressive as nearly 40% of workers surveyed by the Federal Reserve report they would not be able to cover a $400 expense.[36] Moreover, broad-based forms of employee ownership provide a financial stake to employee owners through company contributions, which further enables wealth generation that otherwise would not occur.

Just as important is the impact on low-income workers. The largest study of its kind, which included interviews with 195 employee-owners from 21 companies across 16 states, found that low-income employee owners held median retirement balances of $215,000 (compared to the national median of $17,000) while Black and Latinx employee owners had retirement balances that were respectively 3 and 12 times larger than national averages for these groups.[37] The same study also found that those working at employee-owned companies were more likely to receive financial education and internal advancement opportunities, as well as report lower levels of work-related stress.

> *"Black and Latinx employee owners had retirement balances that were respectively 3 and 12 times larger than national averages for these same groups"*

Taken together, the financial opportunities, employment stability, and leadership development opportunities offered by the employee ownership model allow workers to build assets that enable individuals and families to move from just making ends meet, to managing life's challenges and still be able to plan and invest in the future.[38]

Employee Ownership is a Powerful Succession Planning Tool

Building a successful business can be an all-consuming experience for business owners. For many, success as an entrepreneur is wrapped into their very being and sense of who they are. Often the workers who helped them build the business become a part of their family. For these types of business owners, selling the business to an outside buyer, only to see it change hands again – and sometimes be dismantled and sold for parts – is not an option. Furthermore, children are often not as willing, or able, to take over the business from Mom or Dad as they might have been 20 or 30 years ago. Employee ownership provides a viable and flexible option for these situations.

With a sale to employees, business owners not only are able to get a fair-market price for their business, but they can create a foundation for increased growth and success. By providing employees an "ownership stake" and combining that stakewith opportunities for employee participation in decision making, employee-owned companies create a culture linked to better business performance. Employee-owned companies have been found to be more profitable and productive, with higher sales rates than conventional companies.[39]

Maintaining business continuity also has stabilizing effects for the community by decreasing the economic shocks that come with business closures and layoffs.

> *"With a sale to employees, business owners get a fair-market price for their business and create a foundation for increased growth and success"*

Research shows that employee-owned companies are half as likely to go bankrupt or close for any reason - even during economic downturns.[40] For example, during the 2001 and 2008 recessions, companies with broad-based employee ownership were less likely to close, and they laid off workers at half the rate of their conventionally owned counterparts. [41]

Employee ownership provides stability and certainty. Because employee-owned businesses are less likely to fail, and more likely to provide dignified work with generous benefits, they can act as a stabilizing force in communities, ensuring that legacy businesses can continue to grow and thrive.

Zeke Coleman, worker-owner of Our Harvest Cooperative (a farm and local-food distribution cooperative), unloads crates from a refrigerated truck in Cincinnati.

Employee Ownership can Reduce Economic Inequality

Since employee-ownership provides stable, well-paying jobs that offer wealth-building opportunities, it follows that expansion of employee ownership would lead to reductions in both income and wealth inequality. However, is this actually the case? While no single employee-owned company creates a utopia, the research says broadly that the answer is a resounding yes.

First, on average, pay ratios between management and shop-floor employees tend to be more equitable in employee owned companies, so income inequalities within the company are reduced. Second, employee ownership broadens the distribution of financial assets across all income groups, further reducing disparities.[42]

> *"If every business in the US became 30% employee-owned, the median wealth of the bottom 50% of Americans would quadruple"*

Unlike policies that focus on remedying income inequality alone, employee ownership also decreases wealth inequality. Importantly -and this is sometimes overlooked - ownership of productive assets provides not just wealth, but income - usually in the form of dividends and capital gains - which disproportionately go to high-income households.[43] Over the past 30 years, the "composition of personal income has shifted away from wage income to capital income".[44] Working people are therefore trapped in a cycle of falling behind. Employee ownership, by increasing (and broadening) wealth as well as income, tackles economic inequality in all its forms.

How big would the potential reduction in economic inequality be from expanding employee ownership? A 2021 study published in the Harvard Business Review asked that same question and found that if every business in the US became 30% employee-owned, the median wealth of the bottom 50% of Americans would quadruple, and Black households would see their median wealth jump from $24,000 to $106,000.[45] However, expanding the employee ownership sector requires proactively addressing barriers that prevent the growth of the employee ownership sector.

100% employee-owned since 1980, Fastener Industries in NE Ohio has been an industry leader in the fastener manufacturing, and in building wealth for their employee owners.

HOW TO EXPAND EMPLOYEE OWNERSHIP

1 Education and Awareness

One of the biggest barriers to expanding the employee ownership sector is that many business owners are not aware that this option exists. The same can be said of many local economic development officials who work with small businesses on a day-to-day basis as well as elected officials who represent a given community.

2 Low-Cost Technical Assistance

Even those who know about employee ownership are often unsure where to access reliable and actionable information regarding the process of transitioning and whether their company is a good fit for such a change. Selling a business to employees can be a complicated process that has many moving parts and understanding this process can be overwhelming. As a result, business owners may often put off such an exploration until it is too late.

3 Access to Capital

Some businesses may be ideal candidates for employee-ownership but may not have easy access to capital needed to carry out the transition successfully. This is especially true of businesses with 20 employees or less. When this occurs, many business owners do not know what institutions to turn to and the process of exploring employee ownership can die out.

4 Access to Knowledgeable Advisors

Deciding that a conversion to employee ownership is an option worth pursuing is only the first step. To finalize the transaction requires professional valuation experts, attorneys, and investment bankers. There are knowledgeable advisors that can guide business owners through the process of selling their company. However, identifying these advisors requires time, a resource that many business owners do not have.

5 Ongoing Training and Education

Once in existence, employee-owned businesses face unique challenges that differ from conventionally owned businesses. Executive and shop floor employees must educate themselves on how employee ownership can be used to achieve the greatest impact for companies, employees, and communities alike. Doing so ensures that newly created employee-owned firms remain employee owned. There are best practices that are connected to increased firm performance and worker satisfaction, but these may be difficult for a single company to both research and implement without assistance.

HOW OWoN MEMBERS HELP

The key to any expansion effort is increasing awareness about the benefits of employee ownership for business owners, economic development agencies, public officials, and the broader public. Examples of OWoN Member awareness efforts include Co-op Cincy's Co-op U and Power in Numbers programs which are intensive 14-week training and education programs for entrepreneurs to learn about and develop worker cooperatives. The Ohio Employee Ownership has partnered with local governments and chambers of commerce to carry out succession planning events for business owners, and Evergreen has partnered with Cleveland's municipal government and consulted with numerous other organizations regarding the use of employee-ownership as an economic development strategy.

Subsidized or low-cost initial technical assistance for business owners is a key component of a successful transition to employee ownership, especially for smaller businesses. Exploring whether employee ownership is the right choice, while working through the details, allows business owners to make an informed decision prior to incurring large professional service fees, which often act as a deterrent. Network members such as Co-op Cincy, Co-op Dayton, The Ohio Employee Ownership Center, and CFAES Center for Cooperatives are already providing such assistance to businesses interested in employee ownership.

Support from organizations that help determine which model is appropriate and provide information on available capital options can better ensure successful transitions. Both Co-op Cincy's Business Legacy Fund and Evergreen's Fund for Employee Ownership are loan funds that provide access to capital and hands-on advisory services to help structure and complete transitions.

Working with organizations have spent the time building networks of experts and service providers, , which result in more (and better) conversions. The Ohio Employee Ownership maintains a professional member network of over 100 advisors with expertise in every facet of employee ownership.

Continuing education and training s, and peer-to-peer networks, enable existing and newly formed employee-owned businesses to learn from experts - and each other - and achieve the greatest success. OWoN members provide ongoing education in a variety of ways. Networks such as the Ohio Employee Ownership Center's Employee-Owned Network and CFAES's Appalachia Cooperates Initiative provide ongoing education and training programs to existing businesses. They also publish useful training resources such as Co-op Cincy's Worker-Owner Workbook and CFAES's Co-op Mastery workbook.

PattyCake Bakery
www.pattycakebakery.com
Business Type: Vegan bakery
Location: Columbus, Ohio

In 2013 PattyCake Bakery converted from a sole proprietorship to a worker cooperative when owner and founder Jennie Scheinbach sold the company to employees. Founded in 2003, the business operated for 9 years before the conversion, but Scheinbach always intended to convert the business to a worker cooperative once there was a team in place that was on board with shared ownership. When that time came, Scheinbach realized she needed institutional support and access to knowledgeable advisors to make the transition happen. The Ohio Employee Ownership Center (OEOC) assisted Pattycake by providing information on how the business could adopt the worker cooperative structure and by connecting Pattycake with an attorney and accountant who had expertise in worker cooperatives. The transaction was structured so that the selling owner received 30% of the value of the business in the initial transaction with the remaining balance being paid off over time in the form of a note. Today, Pattycake continues to operate and has 8 worker-owners. The business continues to thrive and recently has purchased and moved to a new and larger space.

Berry Insulation
www.berryinsulation.com
Business Type: Insulation and weatherization
Location: Cleveland, Ohio

Founded in 2010, Berry Insulation provides energy assessments and retrofits that improve efficiency for residential and commercial buildings. Founder and selling owner Martin Berry's journey to employee ownership began when he started contemplating a succession plan for his business. A solid business with 15 employees, the company was still small enough that finding an outside buyer was difficult, and no single successor within the business existed. Berry wanted to ensure that the business would remain open and continue to serve both the employees and customers, but like many small business owners, he did not see a path forward. That is until Berry met with representatives of the Fund for Employee Ownership, which is run by the Evergreen Cooperatives. The Fund offered advisory services to transition the company to employee ownership, and the transition was made possible in 2020 when the Fund provided a loan to the new worker cooperative to acquire the company, helping overcome the barrier that so many selling business owners face – access to capital. Evergreen continues to support the new cooperative by offering education and training to the employee-owners regarding worker cooperative management. Now that the conversion is completed, Berry is staying employed by the new cooperative to ensure a smooth business transition until he retires. Today, Berry Insulation has 15 employee-owners.

Successful Transition to Employee Ownership

Shine Nurture Center
www.shine-childcare.org
Business Type: Child Daycare Center
Location: Cincinnati, OH

When her children were little, Katie McGoron was frustrated by the lack of high-quality child-care options in Cincinnati. McGoron saw an opportunity and founded Shine Nurture Center, a daycare center where children could play outside, eat healthy food, and be respected as humans. Shine has become a successful business since its founding in 2015, with 12 workers and a waiting list that typically includes more than 70 families. Now that the business has a strong foundation and a good team of employees, Katie wants to return to school to complete her doctorate in Psychology. She is excited to sell to her workers so that Shine can continue offering its important services in the community. Through Co-op Cincy's Business Legacy Fund program, Shine is transitioning to worker ownership in Fall 2021. A Seed Commons loan will allow McGoron to sell the business to her employees through a leveraged buyout, with McGoron receiving two-thirds of the estimated value upfront. She will receive the remaining amount over a 5-7 year period. McGoron is prepared to stay on in a part-time role to ensure that Shine's transition to worker-ownership is successful.

OHIO WORKER OWNERSHIP NETWORK

Employee-ownership support organizations are integral building blocks to any effort aiming to expand the employee ownership sector. These organizations serve as institutional intermediaries capable of connecting business owners, economic development practitioners, and expert service providers while helping to educate and train all of them about employee ownership. They raise awareness about employee ownership to the broader public; provide unbiased advice and technical assistance regarding the ownership transitions; connect business owners with relevant advisory professionals when they are needed (and not before, saving time and cost); and advise companies (and new worker-owners) on how to run their new employee-owned company successfully once the transaction is complete. In doing so, support organizations play a vital role in decreasing the informational hurdles and opportunity costs that stymie the growth of the employee ownership sector.[46]

There are already support organizations located throughout the state of Ohio, and their numbers are growing. These organizations take different forms, and their focus varies depending on the needs of their area. Many are locally focused nonprofit organizations such as Co-op Cincy, Co-op Dayton, and Evergreen Cooperatives, all of whom facilitate the creation of new employee-owned businesses in local communities by linking business owners with information and access to resources, including capital. Others like the Ohio Employee Ownership Center at Kent State University and CFAES Center for Cooperatives at Ohio State University are university-based outreach centers that provide education, research, and technical assistance across the state. Still others are smaller grassroots organizations whose goal is to raise awareness about the benefits of employee ownership and cooperation. This group includes Co-op Nelsonville, Co-op Columbus and the Center for the Creation of Cooperation.

Ohio's employee ownership support organizations have made a real impact in their communities by creating new employee-owned startups, transitioning existing businesses to employee ownership, and engaging local stakeholders. However, these efforts are to date largely fragmented. The goal of expanding the employee ownership sector requires that existing support organizations create a formal network across the state and build organizational capacity through the sharing of information, resources, and best practices. Taking these steps is necessary to create an economic development infrastructure that can bring employee ownership to scale in our state.

It was this insight that led to the creation of the Ohio Worker Ownership Network (OWoN). Over the course of the last year, the individual employee ownership support organizations throughout Ohio have convened multiple meetings, developed shared resources, and managed multiple training programs for one common purpose: build the support and technical-assistance capacity needed to grow the employee ownership sector in Ohio. The creation of OWoN is only a first step. To fulfill our mission requires developing partnerships with state and local governments, economic developers, and nonprofits committed to building a more resilient economy.

MEET THE NETWORK

Co-op Dayton is a non-profit organization committed to building economic power from the ground up in Dayton, Ohio by developing a network of worker-owned cooperative businesses that create good jobs and foster ownership culture. We help launch co-operatives by supporting feasibility and business planning, connecting with communities and stakeholders, creating financial and governance models, and assisting in capitalization strategies.

Co-op Cincy creates an interconnected network of worker-owned cooperatives that sustain families. We lead boldly in co-op education and culture-building, conducting co-op development courses for start-ups, helping existing businesses transition to worker co-ops, amplifying the movement through a national conference, and publishing co-op development and culture-building books used across the country.

The Fund for Employee Ownership is a loan fund at Evergreen Cooperatives that acquires small- to medium-size businesses and converts them to employee ownership by way of the worker cooperative model, creating quality jobs and retaining businesses in the process.

Ohio Employee Ownership Center is an outreach center based at Kent State University that assists in the development and maintenance of employee-owned companies. We provide technical assistance on succession planning and employee ownership transitions, develop and implement education and training materials for employee-owned companies, and maintain a network of 70+ employee-owned companies and an additional network of 100 + professional advisors.

Co-op Nelsonville believes that worker-ownership is a powerful means of capitalizing on the already-present qualities of resilience, creativity, and community identity present within our rural Appalachian region. With the decline of coal and other extractive industries, we believe that our small city of 5,000 has new opportunities to create an ecosystem of worker-owned businesses. We believe that building a cooperative culture is vital for a sustainable and inclusive economy.

Center for the Creation of Cooperation is a nonprofit with the mission to enhance the ability of organizations to cooperate for their mutual benefit. Current projects include the Athens Energy Institute, the RePower Network, and the Green Schools initiative, all of which aim to increase renewable energy use through facilitating public education, engagement, and advocacy.

Cleveland Owns is a nonprofit incubator of cooperative enterprises. We organize multiracial, grassroots cooperatives that enable member owners to build wealth and power. We provide business development support, governance guidance, and community-organizing strategy for five cooperatives in Northeast Ohio working in solar, food justice, broadband internet, and collective purchasing, and we engage with 60-plus active leaders and over 100 other involved residents.

CFAES Center for Cooperatives The College of Food, Agricultural, and Environmental Sciences Center for Cooperatives at Ohio State supports cooperative learning, applied research, and development in Ohio and beyond. Developers assist entrepreneurs exploring the co-op model with education, business planning, resource linkages, and more with a special focus on food, agriculture, and rural communities.

Co-op Columbus aims to engage and empower the Central Ohio community to cultivate collective power and wealth. We strive to expand economic solidarity by supporting worker-owned and shared-equity cooperatives in order to mitigate the chronic social and economic challenges affecting the most marginalized and underserved members of our community.

Junction Economic Transformation Center is a program of the Junction Coalition that provides business counseling, cooperative and business development, cooperative education, and community economic development. Services are available to individuals in the greater Toledo area and focused on African American and women business owners and entrepreneurs.

SUPPORT THE NETWORK, EXPAND EMPLOYEE OWNERSHIP

Recommended Actions

State Government:

Raise awareness

- Fund an Office for Employee Ownership within the state government that provides support and resources to organizations in the state that educate the public on employee ownership.

Fund qualified outreach and technical assistance focused on transitioning businesses to employee ownership

- Direct a portion of the State Small Business Credit Initiative (SSBCI) allocation to fund technical assistance on transitioning business to employee ownership.
- Expand the usage of Ohio Small Cities Community Development Block Grant Programs, specifically the Neighborhood Revitalization Grant Program, to include the funding of education and outreach for small business owners focused on employee ownership.
- Create a Feasibility Study Grant Subsidy Program to encourage business owners to explore the employee-ownership option as part of their succession plan.

Broaden access to capital to be used for business transitions to employee ownership

- Invest in existing loan funds that service small-business transitions to employee ownership
- Create a revolving loan fund designed to help finance transitions to employee ownership and fill gaps in current capital structures.

Provide support for training and education programs for existing employee-owned businesses and employee-owners.

- Provide funds (through JobsOhio Workforce Grants) to employee-owned businesses who invest in training their employees

  - Business literacy
  - Management skills
  - Safety and technical training
  - Leadership development
  - Communications and Human Resources

Local Government, Economic Developers, and Other Business Support Organizations:

- Create a Legacy Business Registry that identifies anchor businesses within communities
- Engage anchor businesses to identify their needs, specifically around succession planning and employee ownership
- Partner with OWoN organizations to provide technical assistance and other services for local business owners, including regarding succession planning and employee ownership
- Create cooperation agreements with OWoN members to target philanthropic funds supporting succession planning, employee ownership, and workforce development programs.

OWoN Member Contact Details

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Building Legacies

Retaining Jobs and Creating Wealth Through Worker Ownership

The Ohio Worker Ownership Network (OWoN) exists to grow the employee ownership sector in Ohio - through the sharing of resources and expertise -in order to build a better future for all Ohioans.