



Employee Ownership: Economic Development's Best-Kept Secret

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Presenters



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What are economic development & chamber professionals trying to do?

What is your organization trying to do?

Our mission is to **create economic opportunity** by attracting higher paying jobs, expanding and diversifying our economy, increasing incomes and investment, and generating positive growth

Provide opportunities for **economic growth and prosperity**

Improve our economy by **strengthening high-performing industries, diversifying businesses and career opportunities, and fostering a culture of entrepreneurship and innovation**

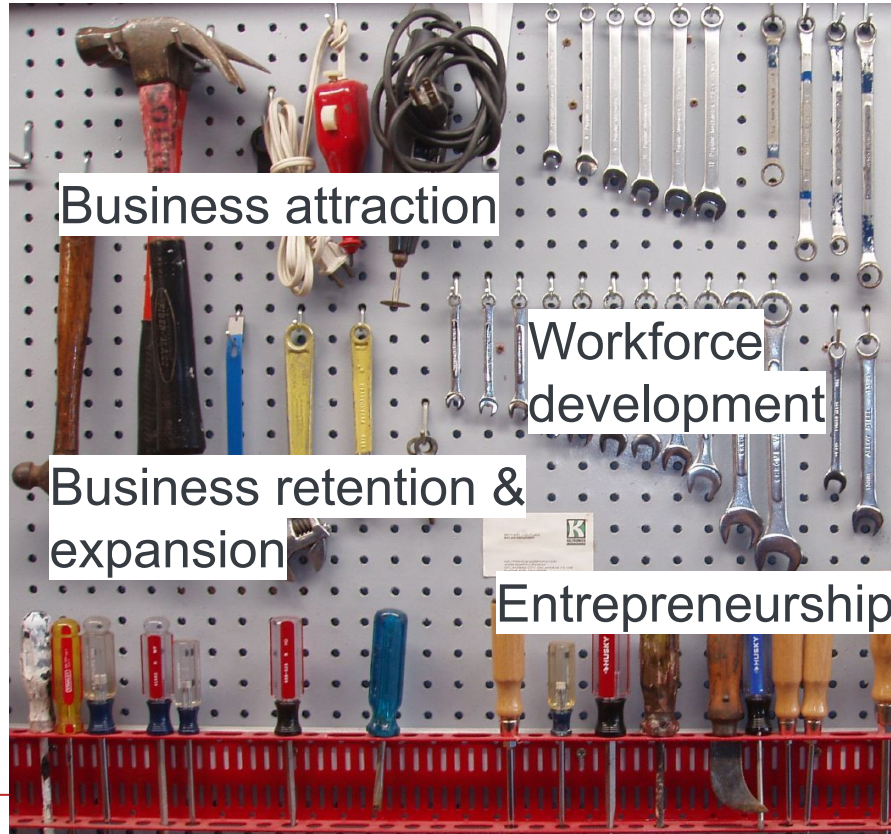
Grow business, activate leaders and build community

Lead our community toward **sustainable economic growth**, advocate a pro-business climate for our members, build upon educational foundations, and establish and execute the community's vision.

Secure opportunities for job creation with existing industries while expanding our job market by actively soliciting new industries to **foster economic growth**

SUPPORT, RETAIN AND ATTRACT BUSINESS

How do you get there?



Employee ownership is a powerful, versatile, & often unknown tool in your toolbox

Improves business &
economic performance

Improves workforce
productivity



Employee ownership

Retains strong, local
businesses

Creates more resilient
local economies

Decreases workforce
turnover

Promotes greater
economic opportunity

What is employee ownership?

A proven business structure in which a broad base of employees owns the business where they work

Employee ownership in Arkansas



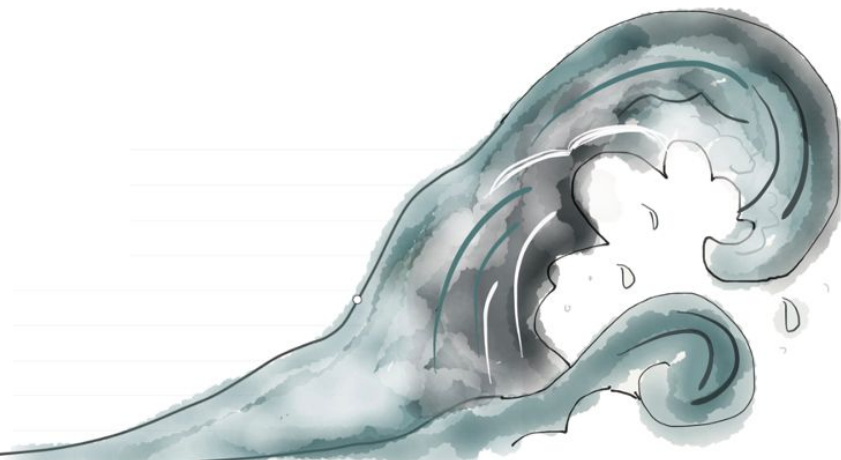
SMITH PALLET COMPANY
QUALITY PALLETS SINCE 1949



Why Employee Ownership is especially relevant now

Challenge #1

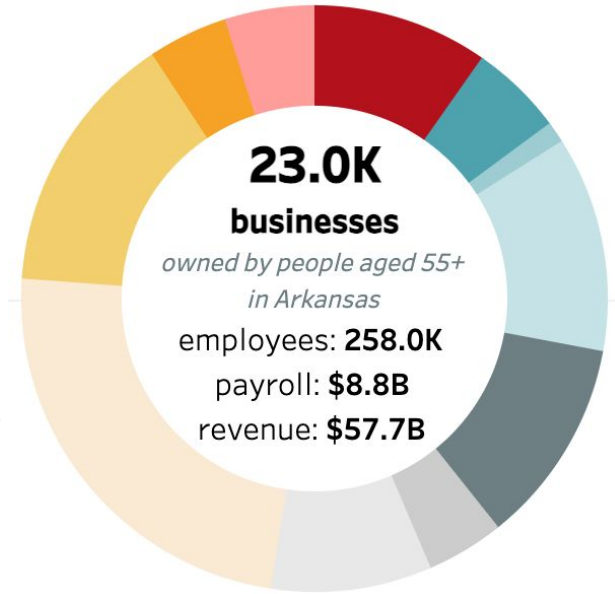
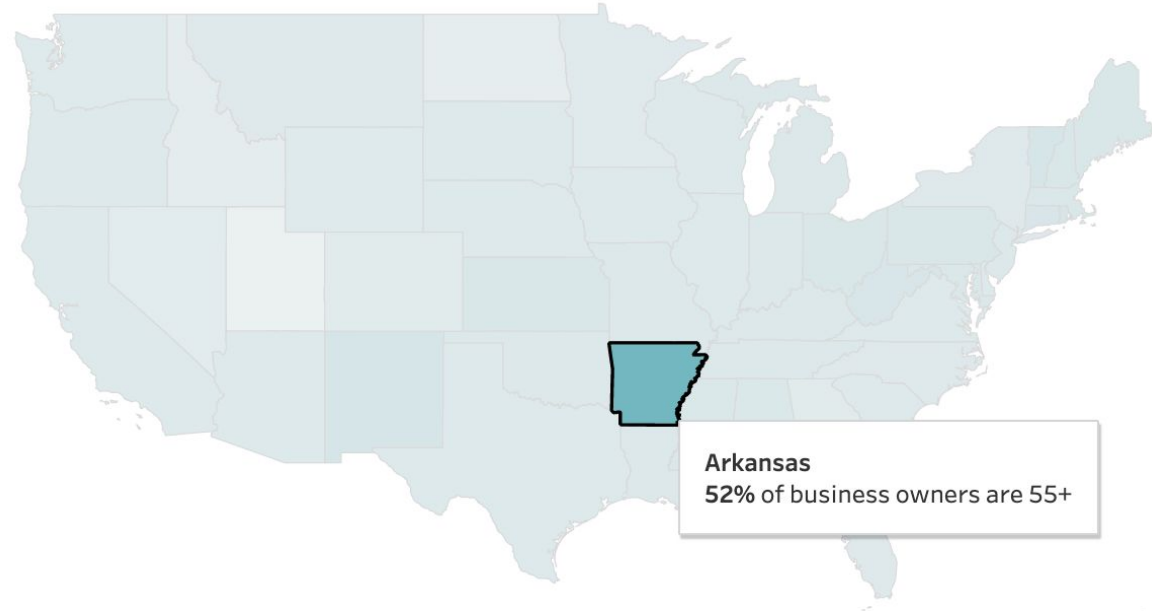
Silver Tsunami



Half of locally-owned businesses across the U.S. have owners at or nearing retirement age

Without an alternative, most of these businesses will close down or be bought for consolidation by out of town competitors.

Baby boomers own 52% of privately held businesses with employees in Arkansas



- Industries
- Accommodation & food services
 - Admin & waste management
 - Arts & entertainment
 - Construction
 - Health care & social assistance
 - Manufacturing
 - Other industries
 - Professional services
 - Retail trade
 - Transportation & warehousing
 - Wholesale trade

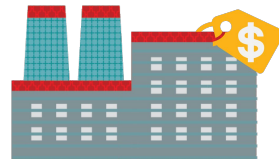
Selling a business isn't easy



Over **half** of business owners in the U.S. are 55 or older



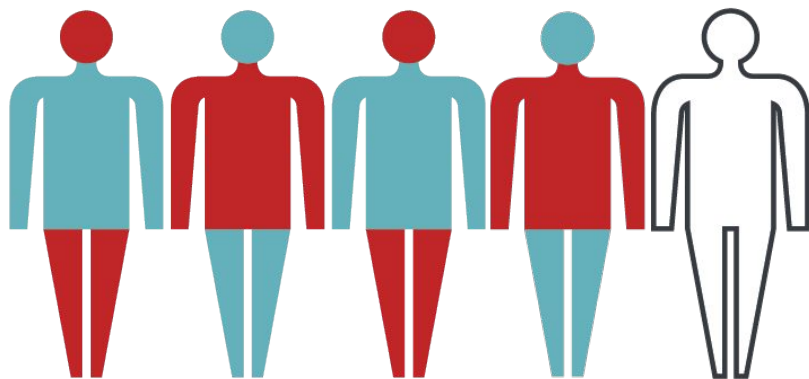
Less than **15%** transition within families



Only **20%** of listed businesses actually sell

Challenge #2

Employee retention



Source: [FRED St. Louis Fed](#), Bureau of Labor Statistics

Last year, workers quit their jobs at the highest rate on record

As businesses search for strategies to recruit and retain employees, employee ownership provides a way to reward and retain employees through quality jobs and shared ownership.

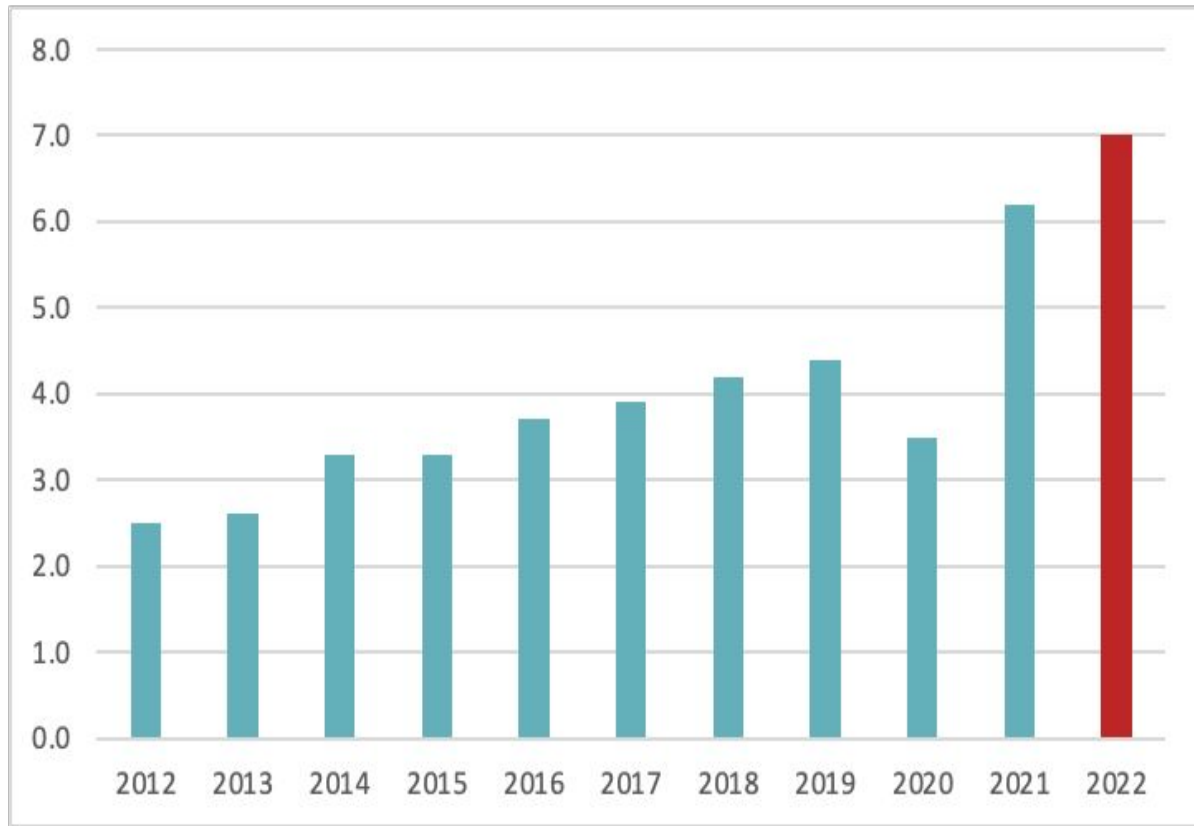


Workforce retention in Arkansas

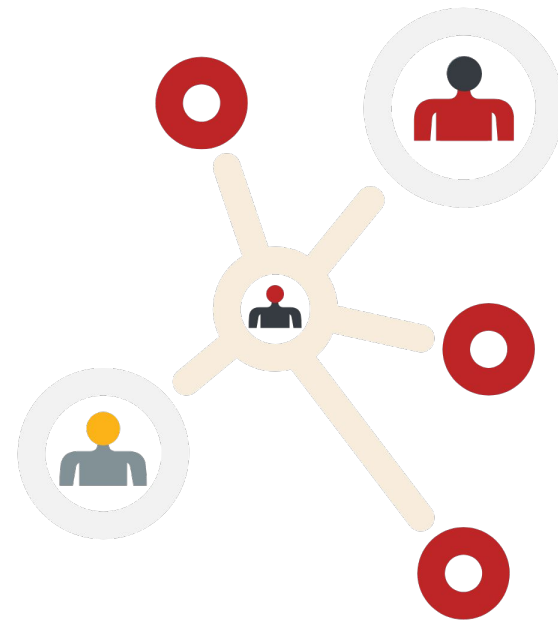
According to BLS, there were **1,156,000** infilled job openings in Arkansas last month (June 2022)

52,000 Arkansas workers quit their jobs in June 2022

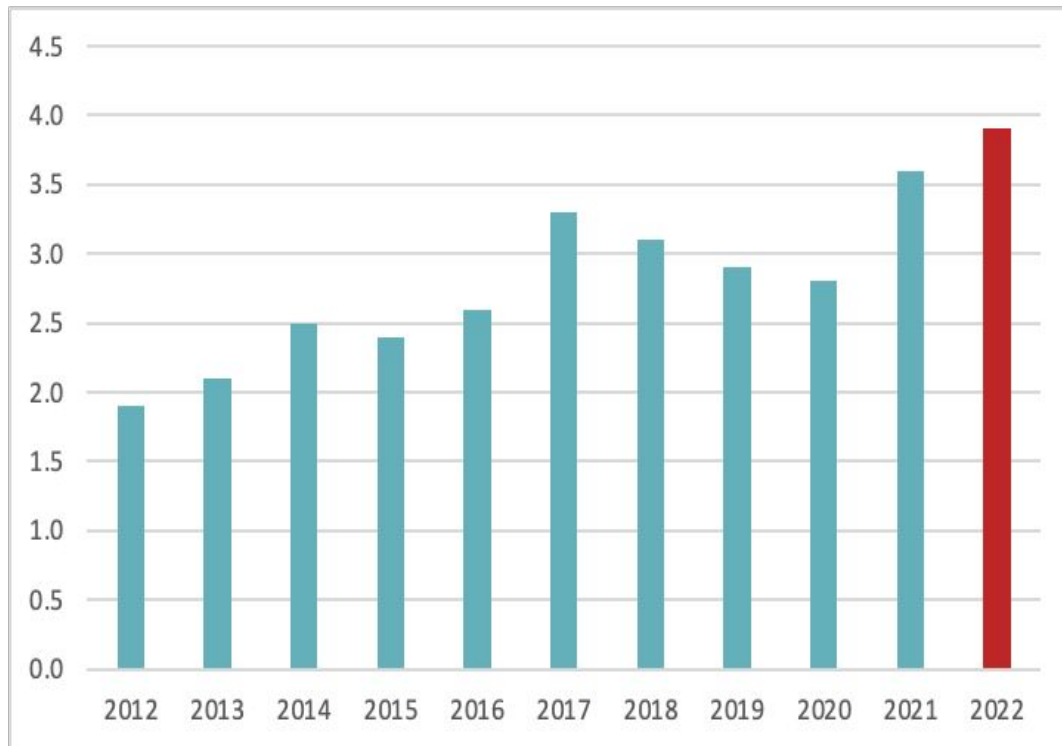
Arkansas job openings rate, 2012-2022



Source: BLS Job Openings and Labor Turnover Survey



Arkansas rate of total quits, 2012-2022



Source: BLS Job Openings and Labor Turnover Survey

Turnover hurts businesses & local economies

\$630
BILLION

Overall cost of
employee turnover
in the U.S.



33%

of an employee's
annual salary

The cost of replacing
an employee who
resigned



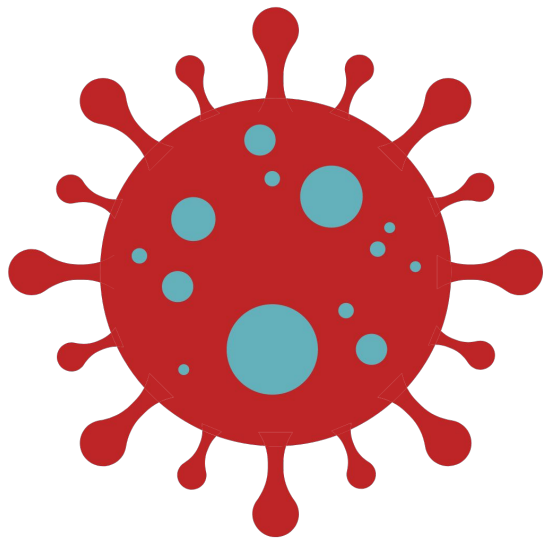
Source: Work Institute, 2020; Emplify, 2020

 **FinancesOnline**
REVIEWS FOR BUSINESS



Challenge #3

COVID impact

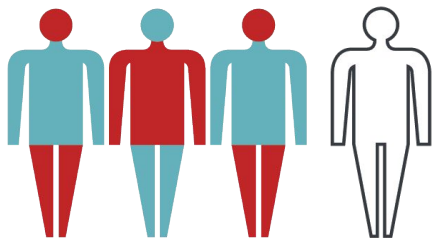


In Q2 2022, **68% of small businesses reported continued concern over the impact of COVID-19 on their business** according to the U.S. Chamber of Commerce Small Business Index.

As local economies rebuild from COVID-19, employee ownership helps businesses recover and helps local economies become more resilient.

COVID recovery through employee ownership

During COVID business shut downs, employee-owned firms were:

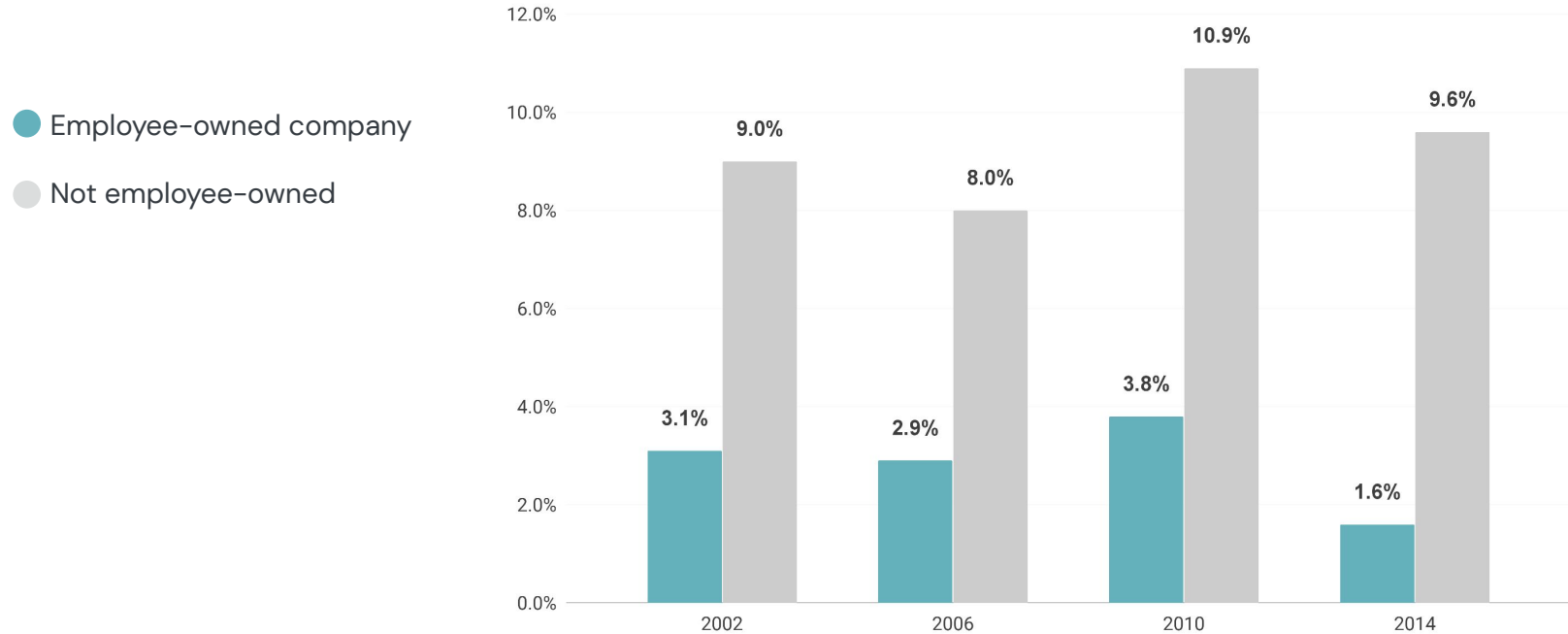


4x more likely to
retain employees



6x more likely to say they
expected to make a full
recovery

Fewer layoffs with employee ownership



Source: Does Employee Ownership Improve Performance?
Chart from Kruse 2016 analysis of US General Social Survey, adjusted for tenure, occupation, gender, age, race and education. [More info >](#)

Ownership culture through the pandemic

“Whereas the world was experiencing an economic downturn, we had a hiccup. We got together and really went after it and we delivered unprecedented growth.... And we made sure we had a place to work—this place that we own. In a world where businesses are literally closing, we worked hard to stay afloat.”

Chuck Holding, employee-owner



Challenge #4 **Economic insecurity**



Despite our best efforts at economic development, many U.S. workers are economically insecure with little to no assets or opportunities to build wealth.

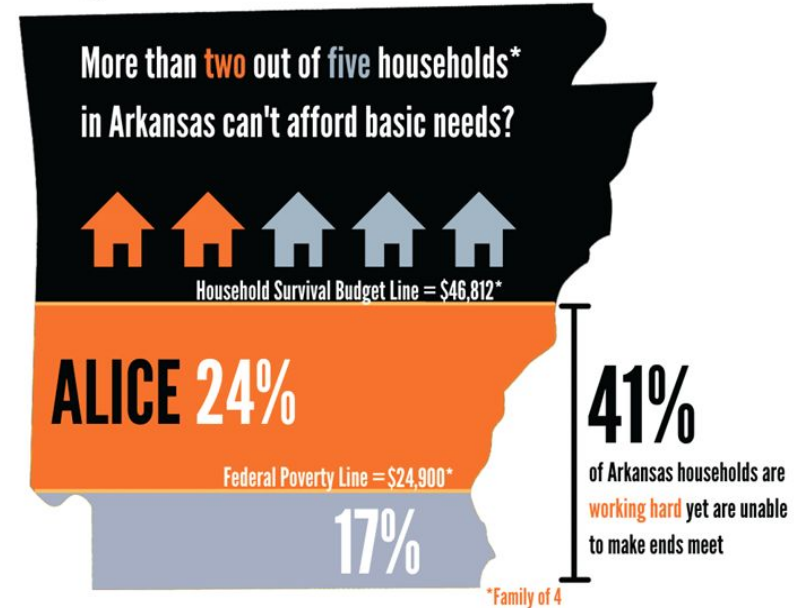
Employee ownership gives frontline workers access to often out-of-reach opportunities to build assets and wealth

Arkansans work hard to make ends meet

According to Entergy Arkansas and the Winthrop Rockefeller Foundation's *ALICE in Arkansas* report, 46 percent of working Arkansans struggle to afford housing, childcare, food, transportation, and healthcare.

Source: [ALICE in Arkansas](#)

Did you know...



WHO IS ALICE?

Asset Limited, Income Constrained, Employed



Benefits of Employee Ownership

Triple win of employee ownership



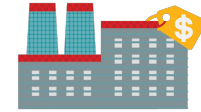
Benefits to businesses

- Higher productivity and growth
- Lower employee turnover
- Improved longevity, lasting legacy



Benefits to workers

- Access to business ownership
- Ability to grow assets & wealth



Benefits to communities

- Business retention, growth, & resiliency
- Increased local spending
- Community wealth building

Employee ownership

is good for business

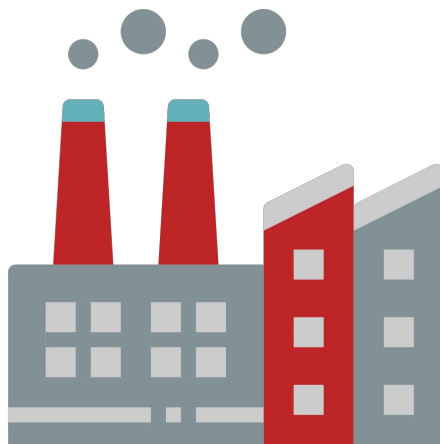
Profit margins



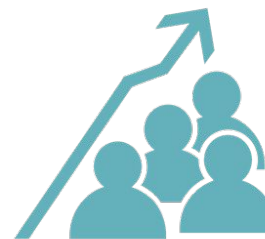
8.5%

higher than peers

Democracy at Work Institute



Sales and employment



Grows **2%**
faster per year

National Center for Employee Ownership

Employee ownership

is good for business

- **Lower turnover:** Workers at employee-owned businesses have **46% longer job tenure** than their peers in firms that are not employee-owned (NCEO 2018).
- **Higher productivity:** Employee-owned enterprises reported **productivity levels that were 9–19% higher** than levels in traditionally structured similar businesses (Lampel, Bhalla, Jha 2014).
- **Higher profits:** Employee-owned firms have an **average profit margin almost 8.5% higher** than the average private firm (DAWI 2014).
- **Greater resilience:** In 2020, during COVID business shutdowns, employee-owned companies were **less than half as likely** to lay off employees and **6 times** more likely to say they expected to make a full recovery (Employee Ownership Foundation/Rutgers study 2020).

Employee ownership

means quality jobs



33% higher wages



53% longer job tenure



92% higher household
net worth

Based on a 2017 study from the National Center for Employee Ownership

Employee ownership

means quality jobs

- **Enhanced job security and stability:** 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).
- **Increased assets & economic mobility:** By definition, worker coops and ESOPs enable employee-owners to build assets through profit sharing, retirement savings and/or shared business ownership. Participants in a 2019 study reported median **retirement savings of \$215,000 in employee ownership businesses, compared to \$17,000 in median retirement savings for the average worker nationally**, (Boguslaw & Schur 2019).
- **Equal or better pay and benefits:** Workers at employee-ownership businesses have **higher median wages** when compared to workers like them at similar companies with traditional ownership structures (NCEO 2017).

Employee ownership

creates strong local economies

When a company is sold through a conventional acquisition, what happens to ...

- The jobs
- The tax base of the local jurisdiction
- The professionals who serve the firm (their accountant, lawyer, banker, insurance agent)



When a company is sold via employee ownership, the business stays where it is

- The jobs stay, the tax base stays
- And the other local businesses keep their supplier, customer, partner

Employee ownership

creates strong local economies

- **Creation of quality jobs:** Employee-owned companies 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**.
- **Increased civic engagement:** Employee-owned companies are more civically engaged with **higher rates of volunteerism and higher voter turnout** (Blasi, Schlachter).

Delta Pipeline, Inc.



“Our culture really is about how to create ownership, how to create a culture of organization and community that revolves around relationships and people, and how to inspire people to perform not for themselves but to perform for the organization as a whole.”

Craig Danley
CEO
Delta Pipeline, Inc.

Delta Pipeline, Inc. transitioned to employee ownership in 2017.

Adams & Chittenden Scientific Glass



“When it came time for us to think about succession, the thought of finding someone to buy us out—given our distinct manufacturing niche—seemed improbable.”

Tom Adams,
Co-founder

Adams & Chittenden Scientific Glass manufactures laboratory glassware and glass tools for scientific and industrial uses since 1993.

The Local Butcher Shop



“Selling to the employees and sustaining the legacy—without having to change our employee structure, change any farmers or ranchers, and continue to keep our community serviced with well-sourced meat—was a no-brainer.”





















Monica Rocchino,
Former owner

The Local Butcher opened in 2011 and provides seasonal, locally-sourced, sustainably-raised, fresh meat from trained chefs and butchers.



How it works

Understanding business succession options

Options	 Preserve legacy	 Market value	 Tax benefits	 Retain employees
Sell to family members				
Acquisition				
Employee ownership				
Close down operations				

Unique benefits of employee buyouts



Owners can achieve
a fair sale price



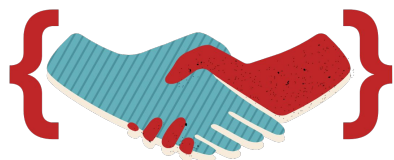
Owners retain influence on
pacing and exit timeline



Preserve existing company
legacy, culture, and assets

Based on a 2017 study from the National Center for Employee Ownership

How it works



Sale price and deal terms are finalized

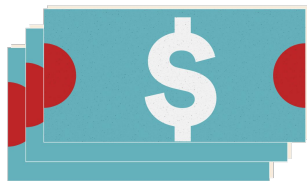


Transitioned employee-owned business obtains a loan



Loan is paid off over time through future cash flow

Financing the sale



30% - 50%
owner financed



50% - 70%
**CDFI* / bank
lending**



Employee buy-in
*a nominal part of the sale price and only
in a worker coop*

**Community Development Financial Institution*

Flexible capital for businesses transitioning to employee ownership

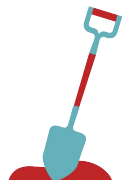
- A path to employee ownership with less barriers
- Transaction financing or working capital tied to employee ownership milestones



Project Equity's Transition Process

STEP 1 EXPLORATION

One-on-one consultations with business owners to educate them on employee ownership and explore how it support their goals



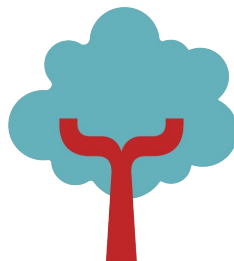
STEP 2 FEASIBILITY

In-depth assessment to understand if a transition to EO could be successful



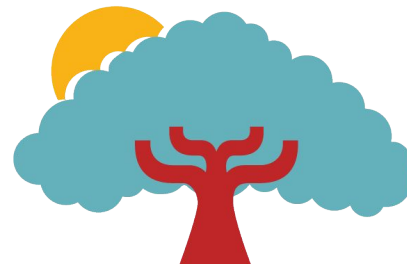
STEP 3 TRANSITION

Structuring and executing the transition to an employee-owned entity



STEP 4 THRIVE

Training and assistance to new employee owners to ensure the business thrives



Employee ownership

Readiness factors

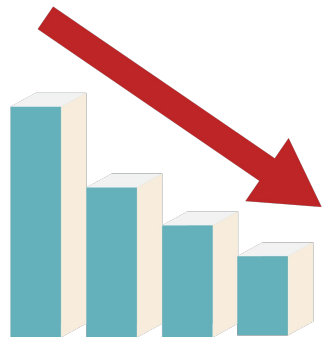
- ✓ **Profitable company**
In good financial health for the past 5 years
- ✓ **Stable size + strong team**
Sizable employee base with core group of experience team members
- ✓ **Proven track record**
Established business with years of experience





Employee Ownership quiz

True or false?



Selling to employees requires accepting a lower selling price.

False!



A fair sale price is established by debt capacity, just like in a bank-financed sale to an individual.

True or false?



Employees will have to “pay out of pocket” to buy the business.

False!



Employees are not obligated to finance the transaction. Usually it is completed through a leveraged buyout.

True or false?



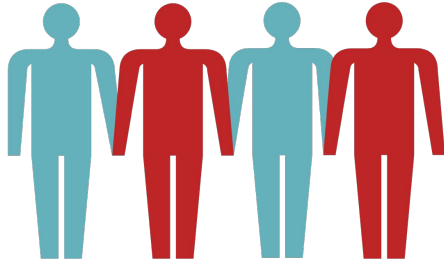
Selling owners can remain strategically involved after the transition.

True!



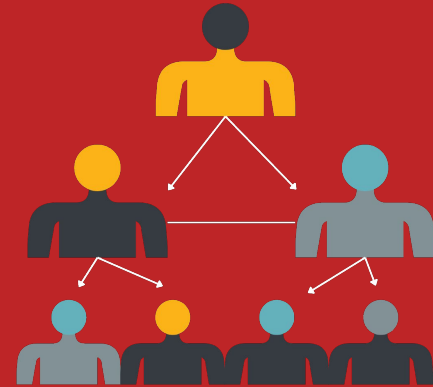
Selling owners have many options to stay involved in the business.

True or false?



All employees will be managing the business equally.

False!



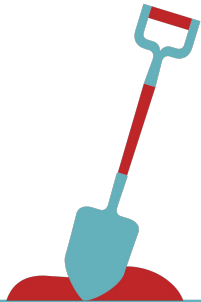
Management can stay in place or strategically shift to ensure a robust operational structure.



How economic developers & chambers can advance employee ownership

How we build resilient local economies with **Employee Ownership**

STEP 1



Assess the opportunity

STEP 2



Build awareness

STEP 3



Demonstrate impact

STEP 4



Embed into systems

Practical ways you can support businesses that want to explore employee ownership



Use the City's platform to raise awareness of employee ownership as an option among local business owners and business-serving organizations & firms



Track and report on longstanding / legacy businesses



Incorporate succession planning (inclusive of employee ownership) within BR&E services



Integrate employee ownership into small business touch points



Support or subsidize businesses that want to employee an employee ownership feasibility assessment



Train economic development team on how to talk about employee ownership with local businesses

How we can partner



Collaborate with us on a local awareness building informational campaign (language for your website or newsletter, local advertising, press releases, etc.)



Co-host a webinar or event with us to educate local businesses on employee ownership, train your team on how to talk about employee ownership, and education local business-serving organizations & firms on how it works



Refer business owners to schedule a call with one of our advisors (which your team is welcome to join) – email sarah@project-equity.org or go to <https://project-equity.org/free-consultation/>

WE OFFER
**free business
advisory calls**

To business ownership wanting to learn
more about employee ownership

PROJECT-EQUITY.ORG/free-consultation

- General info and how it works
- Employee ownership and the
business owner's goals
- Readiness factors for an employee
buyout



Na Young Ma
Owner of employee-owned Proof Bakery



Employee-owned solar manufacturing & installation business, Cal Solar

Learn more

PROJECT-EQUITY.ORG

E-mail:

sarah@project-equity.org

{ **Project Equity** }

Questions & discussion



Thank you!

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