Employee Ownership—
A Necessary Addition to the Coronavirus Economic Response

We are in the midst of a pandemic that will define a generation, and on the precipice of an unparalleled economic crisis. Our response must be informed by the lessons from past economic shocks and be rooted in the principles of solidarity, racial equality, and cooperation. **For meaningful and swift action to save jobs and main street businesses, employee ownership must be a central part of the economic response.** Employee ownership addresses the challenges that distressed older business owners face and it preserves critical middle skill jobs. And employee ownership can strengthen and stabilize our communities—ensuring resilience during future economic challenges.

Injecting Economic Democracy into the Economy

While the $350 billion support package for small businesses provides significant forgivable debt and is a lifeline to many, the main street business landscape will be radically altered. This aid package will not be enough for small businesses, and it is likely that future aid will be based on debt with less favorable terms. For the thousands of business owners staring down the face of retirement, it is a daunting task to take on more debt to save their firms. Many will cut their losses and shut down.

These closures will devastate communities and eliminate countless jobs. It will also exacerbate the racial wealth gap. Due in part to the concentration of home foreclosures in minority neighborhoods, the survival rate of black-owned firms was substantially lower during the Great Recession than comparable white-owned firms.[i] **Without an adequate response, we will see a disproportionate number of black- and minority-owned businesses shut down.**

But there is another option – employee ownership. Employee ownership serves as a foundation for businesses throughout the world, in almost every industry, and is a meaningful way for workers to own and control their workplace. This response can interrupt the vicious cycle of wealth concentration and jobless recoveries following economic downturns. While taking on new debt to keep a business afloat may be too much for an owner planning to retire soon, broad-based employee ownership creates a new generation of owners who are ready to make this kind of investment. **Transitioning owners can position their workers to not only save their own jobs, but to begin to grow their wealth in the years to come.**

The Business Succession Crisis

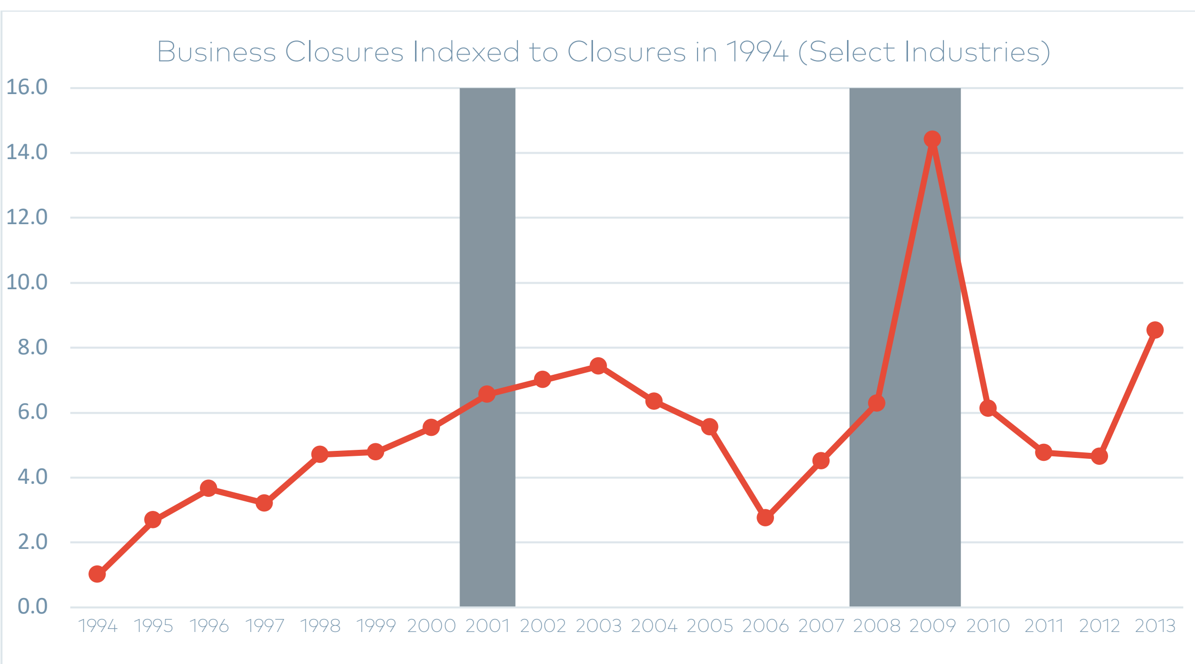
Most small businesses are owned by baby boomers—the first of whom will start turning 75 years old at a clip of 10,000 per day beginning in January 2021. Across the country, 50% of businesses are owned by people aged 55 years or older.[ii] However, an analysis of census data by the ICA Group demonstrates that among closely held businesses with more than 15 employees—businesses that are critical to community health, 77% of businesses are owned by people 55 or older.[iii]

In ICA's experience, most business owners only begin to seriously consider retirement as they near age 70—which means that almost half of boomer business owners were actively considering retirement as this crisis began to unfold. Only 17% have a written exit plan.[iv] For those with meaningful retirement savings, their stock portfolio just took a life-altering drop.

For many small business owners, however, their business *is* their retirement plan. According to research by the SBA, only 54% of business owners had an IRA or a 401(k) plan, and of those with an IRA, only one third contributed to their plan.[v] In communities of color, the situation is even more dire. In 94% of majority black communities, more than half of small businesses have less than 14 days cash available to cover operations.[vi]

We know, based on data from the Great Recession, that businesses are going to close. **In major metropolitan areas, the pain of these closures will fall disproportionately on low-income workers of color, and when these closures occur in rural communities, the recovery may never come.**

As the chart below demonstrates, a huge spike occurred in the number of businesses that closed in 2008 and 2009 during the Great Recession.[vii] With this latest crisis, however, the age demographics and the sheer scale of the problem make it even more likely that a record number of businesses will close.



The Approach

Employee ownership is good for workers, businesses, and our communities. During economic downturns, employee-owned firms are more likely to stay operational and less likely to lay off staff. Employee-owners have 2.5 times greater retirement savings, are paid 5% to 12% higher wages, and firms with an Employee Stock Ownership Plan see a 4% to 5% increase in productivity in the year the ESOP is adopted.[viii] Employee ownership isn't a panacea for every company in distress—but given the sheer number of firms that must now choose whether to close down or take on more debt, the time for policy action and expanded direct support to preserve these companies is now.

Education and Technical Assistance: The Main Street Employee Ownership Act should be funded. This funding will connect business owners to professionals with the specialized skills to help owners consider their options, including broad-based employee ownership. New partnerships will need to be built to leverage existing networks and expertise and to reach business owners quickly.

On the ground, ICA and other entities focused on employee ownership are positioned to work in coordination with Small Business Development Centers (SBDCs) to conduct outreach efforts and guide businesses through the process. A large community of practice focused on employee ownership already works with firms on succession planning and legacy business preservation to save jobs and support communities. These groups are poised to adapt and accelerate these processes to meet the emerging need.

Employee Ownership Loan Products: We must ensure broad public financial relief packages are inclusive of the needs of employee-owned companies. Specific loan products incentivizing employee ownership, such as relaxing personal guarantees requirements for employee-owned firms, or loan forgiveness for firms that sell to their employees, is a necessary and critical policy response. While these policies would support businesses that foster community wealth building, this focus will also alert business owners in crisis that transitioning their companies is an option. Employee ownership, especially for smaller businesses, is not well known and is wildly misunderstood. Given the impact it can have on stemming the tide of business closures, it is critical that employee ownership become part of our financial response.

Expand the Capital Base for Community development Financial Institutions (CDFIs): Quick engagement with businesses is paramount. And a significant infusion of capital to finance transitions to employee ownership will be critical. The Treasury should quickly expand the capital base of CDFIs, especially for those that already specialize in employee ownership or provide technical assistance to small businesses.

Launch the Employee Ownership Bank: For years, ideas around an employee ownership bank or loan guarantee program have emerged as a way to scale up employee ownership. The time to enact this legislation is now. The employee ownership bank would provide $500 million in funding to provide low interest loans to employees to purchase their company. Other innovations such as the Employee Equity Loan Program[ix] would provide loan guarantees and a secondary market for these loans.

Middle Skill Jobs: Coronavirus and the Hourglass Economy

Some of the first victims of the economic crisis are the workers in restaurants, retail establishments, and other service sectors with large numbers of low paid workers. **As shockwaves ripple through the economy, history shows that the next wave will likely be businesses that employ a significant number of middle skill workers. Lower skill jobs are likely to come back after a recession. But middle skill jobs are often lost forever.**

While low wage occupations made up 21% of the jobs lost during the Great Recession, they made up 58% of the jobs created during the recovery. In contrast, middle skill jobs made up 60% of the losses, yet only 22% of the new jobs. Over the long term, this has created a huge shift. In 1980 middle skill occupations made up over 68% of the jobs in the U.S. but had dropped to 58%.[x] by 2010. Since the mid-1980s, 88% of middle skill job loss occurred within 12 months of the start of a recession.

Middle skill jobs offer a key opportunity for economic advancement, especially for immigrants, African Americans, and other workers who historically faced barriers to employment and financial asset accumulation. These jobs offer above average wages, are more likely to provide benefits, and yet require no advanced degree. When the small specialty service provider, machine shop, or food manufacturer closes, the jobs of sales managers, administrative assistants, and technicians are gone forever. During the recovery, the new jobs that take their places are retail clerks or gig workers. The economy becomes more precarious, and critical pathways to the middle class and opportunities to close the racial wealth gap are eliminated.

While some middle skill job loss is inevitable, many businesses can sustain themselves and maintain these jobs so long as there are people willing to keep the business operating. This is where employee ownership offers up a major opportunity. Small specialty manufacturers, print shops, and distributors of specialty products are rarely acquisition targets of larger operators. It is for exactly these reasons that owners of these businesses are more likely to decide to close up shop when faced with the prospect of taking on more debt or trying to eke out whatever retirement is possible.

An employee buyout, however, ensures that the business stays open—but only if the business owner is aware of this option. These businesses provide a major impact on the local community, providing decent jobs and staving off urban gentrification or deterioration in rural communities. It is essential that actions are taken to identify these businesses and ensure that owners understand their options.

What We Can Do

ICA has already engaged this exact approach in Massachusetts and New York City, and we have worked with firms across the country since 1977. We have helped owners with their succession planning, developed innovative solutions to financing, supported the transfer and growth of employee-owned firms, and provided vital technical assistance and training for owners and workers. In addition to direct assistance to businesses, we also serve as a thought partner, strategic consultant, and service provider to business networks, government, and community-based organizations. **If you own or know of a business that is weighing the option to close because of this latest economic crisis, reach out to the ICA Group—we can help.**

[i] Ron Jarmin & C.J. Krizan & Adela Luque, 2014. "Owner Characteristics and Firm Performance During The Great Recession," Working Papers 14-36, Center for Economic Studies, U.S. Census Bureau. https://www2.census.gov/ces/wp/2014/CES-WP-14-36.pdf

[ii] ICA Analysis of the US Census 2016 Survey of Entrepreneurs. Data available at: https://www.census.gov/programs-surveys/ase/data/tables.html

[iii] ICA analysis of the 2007 Public Use Microsample of the US Census SBO survey. The 2007 data is the latest date for which data with employment size is available. Data available at: https://www.census.gov/data/datasets/2007/econ/sbo/2007-sbo-pums.html

[iv] Business Enterprise Institute. "2016 Business Owner Survey Report," https://www.exitplanning.com/2016-business-owner-survey-report

[v] Lichtenstein, Jules H. "Saving for Retirment: A Look at Small Business Owners," Office of Advocacy U.S. Small Business Administration. March 2010. https://www.sba.gov/sites/default/files/rs361tot.pdf

[vi] Farrell, Diana & Wheat, Christopher & Grandet, Carlos. "Place Matters: Small Business Financial Health in Urban Communities," JP Morgan Chase & Co. Institute. September 2019. https://institute.jpmorganchase.com/content/dam/jpmc/jpmorgan-chase-and-co/institute/pdf/institute-place-matters.pdf

[vii] ICA Analysis of NETS data – national level for five industry sectors (Home Care, Child Care, Grocery, Nursing Homes, Food Manufacturing).

[viii] Statistics from the National Center for Employee Ownership. https://www.esopinfo.org/infographics/economic-power-of-employee-ownership.php

[ix] Richard C. May, Robert C. Hockett & Christopher Mackin (2019): Encouraging Inclusive Growth: The Employee Equity Loan Act, Challenge, DOI: 10.1080/05775132.2019.1668645.

[x] National Employment Law Project. "The Low-Wage Recovery and Growing Inequality," NELP DATA BRIEF August 2012. https://www.nelp.org/publication/4050/