

COMMENTARY

How to Save Jobs and Build Back Better: Employee Ownership Transitions as a Key to an Equitable Economic Recovery

by Rob Brown

A SILVER TSUNAMI'S PANDEMIC SURGE

Prior to the COVID-19 pandemic, Maine was already on the leading edge of what was termed the “silver tsunami,” the looming retirement of aging business owners with no real plan for how to exit their businesses. While half of business owners nationally are over age 50, in rural regions such as Maine, nearly half are over 60. For businesses with more than 15 employees, 77 percent of owners are nearing retirement age (ICA Group [2020](#)). According to national surveys, 79 percent of business owners want to retire within 10 years, 57 percent in less than 5 years, and 33 percent in less than three years (BEI [2016](#)). Research by the University of Maine School of Business ([2021](#)) estimated that Maine has 12,790 small businesses, employing 108,000 workers, where the owner wants to retire in the next several years.

Unfortunately, fewer than one in five business owners have a documented exit plan (BEI [2016](#)), and most don't understand the process or options. Assuming children will take over or they will find a buyer is risky, since successful transitions to the second generation have dropped from 30 percent to 19 percent in recent years (CCFB [n.d.](#)), and only 20 percent of commercial listings actually sell (Seiler Tucker [2020](#)). Too often, the default option ends up being liquidation and closure, and the smaller and more rural the business, the greater the likelihood of that outcome. As a result, business closure

due to owner retirement is the largest single source of avoidable job loss over time (Logue and McIntyre [2008](#)). A study in New York State demonstrated the challenge. An estimated 3,700 businesses close each year due to owner retirement, leading to a loss of 13,260 jobs annually (Sandmel [2019](#)).

EFFECT OF THE COVID-19 PANDEMIC

What, if anything, has changed as a result of the pandemic? In April 2021, research from the Federal Reserve (Crane et al. [2021](#)) estimated that between March 2020 and February 2021 there were at least 200,000 and as many as 400,000 additional permanent business closures. While that is an increase of somewhere between one-third and one-half above what would've been expected in a normal year, it's not nearly the level of closures predicted earlier in the pandemic. Mitigating the overall effect was the fact that the impact by sector was so uneven. For example, permanent business closures in the personal services and restaurant and hospitality sectors were dramatically higher, but other sectors such as building materials and construction had record years.

For workers, this level of permanent business closures in the middle of a severe economic contraction has significant long-term negative effects on their employment prospects. As the Federal Reserve research states, this level of permanent job destruction detaches

workers from the labor market at a time when there are few if any other options for them to reenter. Highlighting Census Bureau Business Dynamic Statistics data, permanent business closure accounts for 49 percent of annual gross job destruction. Exacerbating the prolonged detachment from the workforce for these workers is the fact that skills developed from employment in one hard-hit sector are often not transferable to employment in another, better performing sector.

So, while the worst predictions did not come to pass, “It could've been worse” is cold comfort for business owners who lost their life's work and the millions of workers who lost their jobs. For business owners who did stay afloat through the pandemic, challenges remain even as the economy fully reopens and heats up. According to October 2021 Census data,¹ nearly 60 percent of Maine's businesses are still facing moderate to severe negative impacts from the pandemic, and many are still behind on at least one bill (e.g., rent, loans, or suppliers). Making matters worse, the well-publicized challenges in recruiting workers means many are struggling to get back to prepandemic revenue levels.

While it is too early for definitive data, all evidence points to an acceleration of business owners looking to get out. In my work throughout the Northeast providing introductory exit planning education for business owners and consulting on transitions to employee ownership, I have seen a tripling of

COMMENTARY

requests for assistance and attendance at workshops. Lawyers, accountants, and others who communicate directly with businesses, have told me that they are seeing the same thing—older business owners, already thinking about how to retire before the pandemic, want to develop a plan now.

A recent survey of rural Maine businesses conducted by the Cooperative Development Institute, in partnership with many local and regional chambers and development groups, hints at this acceleration. According to CDI's rural Maine data, 71 percent of business owners are over 50 and 48 percent are over 60. Among them, 68 percent want to retire in less than five years, and 27 percent want to exit in one year. Yet only 16 percent have a plan for how to do that. Among those who have a plan, 21 percent assume they will liquidate and close.

Two recent developments also have the potential to accelerate exits. First, many lenders and valuers have adjusted business valuation assumptions to accommodate pandemic-induced losses without requiring the typical three to five years of subsequent profits, so businesses can conceivably regain prepandemic valuations within a year. Second, surveys show both business owners and brokers expect a rise in capital gains and other taxes to be a top driver of business exits (whether sale or liquidation) over the next year.²

WORKERS TO OWNERS: KEY TO EQUITABLE ECONOMIC RECOVERY

Given the ominous pre- and post-pandemic trends, the growing popularity of transitioning businesses to employee ownership makes sense. As an article in *Entrepreneur Magazine* stated, “If you don’t have a solid succession plan in place and plan to put your business on

the market and hope for the best, you’re setting yourself up for disappointment. Employee ownership could offer you an escape route from this predicament.... You’ll be tapping into a pool of ready-made buyers that were right under your nose all along” (Shepard [2018](#)).

But what about the benefits for workers, companies, and communities? If anything, the pandemic’s impact on job security and stability and its acceleration of income and wealth inequality has strengthened the argument for promoting and supporting employee ownership transitions. Helping business owners sell to employees could be a key to an equitable economic recovery.

When workers have a real ownership stake in the company where they work, both the workers and the company realize improved outcomes on many qualitative and quantitative measures. Compared to similar conventionally owned firms, employee-owned companies are more profitable and productive, create more jobs in the good times and lay off fewer workers in a downturn, and invest more in workforce training (Cribben [2020](#); Rosen and Quarrey [1987](#); Walsh et al. [2018](#)). They have lower rates of bankruptcy, closure, and loan defaults (NCEO 2017).

For workers, this means increased wages, benefits, and job stability and security. The beneficial impacts are even more pronounced for low-income, noncollege-educated, minority, women, and young workers. In one recent study (Boguslaw and Schur [2019](#)), low-income, women and minority workers (particularly workers nearing retirement) in employee-owned firms had dramatically higher household wealth, and employee ownership significantly narrowed the gender and racial wealth gap. Another study (NCEO [2017](#)) shows that employee-owned firms were more successful at

attracting and retaining young workers, a longstanding concern in Maine. Tracking 9,000 young workers from age 18 until age 35, the study showed that those working in employee-owned firms saw 33 percent higher wages, 92 percent higher household wealth, and 53 percent longer job tenure. These impacts held true regardless of race, gender, or geography.

Formerly incarcerated workers in employee-owned companies saw lower rates of recidivism, 25 percent higher annual income, and 9 percent more hours worked than similar workers in non-employee-owned companies. Industries that create a disproportionate share of low-wage, insecure jobs and employ a disproportionate share of women and minorities see some of the greatest differentials in wages, benefits and job security for workers in employee-owned businesses (Abell [2020](#)).

To imagine the impact of what could be achieved at scale, an article in the *Harvard Business Review* calculated that if 30 percent business ownership (a threshold at which businesses by most law and custom are considered employee-owned) were extended to all workers through employee-ownership models, household wealth would more than quadruple for the bottom 50 percent of workers, for all Black workers, and for all workers with only a high school degree (Dudley and Rouen [2021](#)).

For many businesses, employee ownership may be the most viable exit plan. The workers whose jobs are at stake are also the most motivated to “keep the lights on.” This strategy could save businesses and jobs and offer workers an opportunity to improve incomes and build wealth through ownership, all while deepening local ownership and control of our businesses and making our economy more equitable and resilient.

COMMENTARY

The potential wave of business liquidation and closure by aging owners poses a threat to our overall economy, and evidence suggests the pandemic has accelerated that threat. At the same time, a chronically weak economy that results in low wages, few benefits, and limited job security for many workers has resulted in precarious livelihoods and exacerbated inequality, and the pandemic has accelerated that problem, too. Public policies that support expanding employee ownership would simultaneously and effectively address both threats.

HOW TO RESPOND

President Biden's American Rescue Plan was passed into law this spring, and it is injecting nearly \$1 billion in new state funding to aid Maine's economic recovery, a once-in-a-lifetime investment that could create lasting economic improvement and resiliency for Maine's workers and economy. The benefits that would come from assisting a generation of aging business owners to transition ownership to their employees certainly fits the bill.

Prior to the pandemic, the Mills administration developed an ambitious 10-year economic development strategy (Maine DECD [2019](#)). That strategy is now guiding how the state deploys this federal investment, and priorities include helping businesses grow, be more productive, create more and higher paying jobs, invest in skills training, and retain and attract more young workers. As the research shows, all of these priorities can be advanced by supporting employee ownership transitions.

Economic and workforce development entities, particularly in more rural regions, have been trying to figure how best to respond to the growing concern

Forest Products Sector

Innovative models of cooperative ownership in the forest products sector have been developed in Scandinavian countries, Quebec, and elsewhere. Roughly 20 years ago, Finland invested \$3.5 million to train business and workforce development entities to provide direct worker cooperative development services and technical assistance. In the subsequent years, Finland went from having few worker cooperatives to having one of the fastest rates of yearly growth in worker cooperative development. Of particular interest to Maine, research shows that the prevalence and success of worker cooperatives was greatest in areas of economic distress and high unemployment (Kalmi [2013](#)).

In Quebec, nearly 50 forest products worker cooperatives sustain approximately 3,500 jobs and generate \$250 million in revenues.⁴ Compared to the sector's traditionally owned businesses, they have invested more in new sawmills and upgrading existing sawmills, and have a higher survival rate (Tanner [2007](#)). The success of such worker cooperatives is a result of a robust development ecosystem in the province that includes workforce and management training and business technical assistance.

Some cooperatives were started from scratch, but many were formed by worker buyouts of existing businesses. One example, Boisaco, Inc., is owned by hundreds of millworkers, loggers, residents, and local business owners. Formed in 1984 to take over a sawmill, the cooperative has invested in its growth, diversified its product lines, and now employs over 600 people. In 2008, Boisaco posted a record year, even as an imploding housing market dragged down many companies in the sector. Inspired by Boisaco, hundreds of loggers and millworkers in Wisconsin have formed a cooperative and, with assistance from USDA and state government, are negotiating with Verso to take over a shuttered paper mill. As another example, Ward Lumber, Inc., a fourth-generation lumber and building materials business with 55 workers in New York's North Country, recently completed a transition to a worker cooperative. Support in developing and financing this transition came from many partners, including the Small Business Development Center and a \$250,000 grant from the state to subsidize the buyout and preserve the jobs.

posed by aging business owners and the demand for exit planning guidance. Relatively modest and targeted funding could dramatically and immediately expand the collaboration among and scale of these efforts, which include

- exit planning outreach, education, and technical assistance for business owners;
- assistance for interested owners and their employees in determining business and financial

feasibility for an employee ownership transition;

- assistance in designing and executing a transition for those businesses where it is feasible and desirable; and
- education and training for employee groups in business management, finances, and strategy so they can succeed.

Maine already has a framework to coordinate some of this work. The federal

COMMENTARY

Maine's Tourism Sector

Even as it provides substantial tax revenue to the state, a solid foundation for many communities' economies, and a livelihood for many entrepreneurs, tourism sector jobs are often low-wage, low-skill, and seasonal. However, by offering assistance to those businesses in transitioning to employee ownership, we can couple work in the tourism sector with an ownership opportunity that will improve the quality of that work through better wages and job stability.

In 1992, for example, Maine's first espresso bar/bookstore was founded in Rockland. Quickly welcomed by the community, it grew rapidly, adding a coffee-roasting business, moving to larger locations, and becoming Rock City Café and Coffee Roasters. By 2010, as Rockland was becoming a national model of downtown rejuvenation, the business had become a vibrant Main Street anchor institution. As the owner began thinking about retiring, she knew that selling it on the open market would likely result in the business being split up. Additionally, she was deeply committed to her employees, many of whom had worked for her since they were teenagers. To preserve her legacy, reward the employees who helped build it, and ensure an adequate retirement income for herself, she decided to transition the businesses to a worker-owned cooperative. With around 35, mostly young employees, the solidarity and resiliency they had built as a worker-owned cooperative has helped them weather the COVID-19 pandemic better than many other food service and tourist-oriented businesses.

As another example, on Deer Isle, employees of three retail businesses—Burnt Cove Market, the Galley Market, and V&S Variety—heard that the owners were thinking of selling the stores and retiring. Potential buyers from outside the community might not have maintained the same levels of jobs and services, and employment opportunities on the island are limited. So the employees, with assistance from a group of advisors, created the Island Employee Cooperative to buy the stores. It's now one of the island's largest year-round employers, the largest worker cooperative in Maine, and second largest in all of New England.

Workforce Innovation and Opportunity Act, the primary source of funding for Maine's entire workforce development system, explicitly identifies outreach, feasibility studies, and training to support employee buyouts as an allowable use of funds. This strategy is now being expanded in eastern Maine by the Northeast Workforce Development Board and its partners, and could quickly be taken to scale statewide.

Small Business Development Centers (SBDCs) are natural partners in this effort, providing business and

financial planning and training for employees in a transition. In fact, the recently enacted Main Street Employee Ownership Act mandates that SBDCs offer services and training that support worker cooperative and employee stock ownership plan (ESOP) transitions, and the national SBDC network is offering training opportunities to advisors so they can better assist these transitions.

Many states are offering or considering tax and other incentives for selling a business to the employees. Around 18 states, with varying levels of public

funding, have established employee ownership centers to provide education, training, and technical assistance for businesses considering employee ownership.³ In Maine, recent legislation to implement both strategies was passed unanimously by the legislature's Taxation Committee, House of Representatives and Senate, after two years of careful deliberation, but the legislature then failed to fund it (Maine Legislature, 129th Session, LD 1520). Since the American Rescue Plan put \$10 billion into the State Small Business Credit Initiative, and the US Treasury was directed by Congress to use some of the funding to support state employee ownership centers, those plans can be revived.

Family Development Accounts are special savings accounts for low- to moderate-income people to save money for specific purposes, like starting or buying a business. Historically, FDA savings were matched, so there was a strong incentive to save. In the past, Maine offered a tax credit to encourage private citizens to contribute to FDA programs, so matching funds are available to support low-income workers' savings, but this incentive was eliminated by the previous administration. Restoring funding for this incentive to contribute to FDA match programs would leverage substantial additional private funding. These funds would be particularly helpful to employees saving to build equity for a worker cooperative transition.

TRANSITIONING TO AN ECONOMY THAT WORKS FOR WORKERS

Employee ownership transitions address two critical challenges facing Maine. First, they reduce the threat of lost jobs as aging business owners either liquidate and close or sell the business for relocation out of the community or

COMMENTARY

state. Second, employee-owned companies improve wages, benefits, job security, and stability for workers and improve company performance and resiliency.

The policy options listed above are a sampling of ideas and resources that can be aligned to pursue an innovative strategy to preserve small businesses and jobs in the short term while building wealth for communities and individual workers over the long term. Supporting employee ownership transitions is also cost effective—from a public policy perspective, it is oftentimes much cheaper to save existing businesses and jobs than to replace them once they're gone.

Throughout Maine, there are grocery stores, cafés, coffee roasters, construction companies, energy companies, farm businesses, manufacturers, insurance agencies, and many other types of businesses that are owned by their workers. They are a model for how an economy, even in the face of unprecedented threats, can be made to work for working people and their communities.

NOTES

- 1 <https://portal.census.gov/pulse/data/>
- 2 <https://www.bizbuysell.com/news/bizbuysell-2021-first-quarter-insight-report/>
- 3 See more at <https://eoxnetwork.org/statecenters/> or <http://becomingemployeeowned.org/stories/>.
- 4 <https://www.fqcf.coop/english/>

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