

Benefits of Worker-Owned Cooperative Business Development for Low-Income Residents in Michigan

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Abstract

Introducing incentive and support programs for worker ownership in Michigan can preserve local jobs as business owners retire and increase wealth-building opportunities in low-income communities statewide. Although there is ample research to support the economic and social benefits of work ownership, more research on the public perception of worker ownership from both business owners and employees and small business technical assistance providers is needed to create successful state and city worker ownership initiatives. This research project will leverage the Detroit Community Wealth Fund as the state's only loan fund that finances democratically owned and operated cooperative businesses and the only cooperative business incubator.

Keywords: Wealth-building, employee ownership, jobs, economic development

Research Objective

The objectives of this research are to 1) comprehend public opinion of employee ownership and, within that, worker ownership, 2) propose language and communication about worker ownership, and 3) suggest strategies for policymakers and technical assistance providers to advance worker ownership to expand worker-ownership initiatives to increase wealth for low-income earners In Michigan.

A Critical Time for Expanding Employee and Worker Ownership in Michigan

There are several reasons why expanding employee and worker ownership is critical right now. First, research by Project Equity (2023) shows that owners over 55 years of age own half of the privately held businesses with employees in Michigan. 85% of business owners still need a succession plan, and when the time comes to sell their businesses, one out of four businesses sell. Fortunately, Michigan is already a national leader in employee ownership. Grand Rapids is one of nine U.S. markets for the total number of certified employee-owned companies and Employee-Owned Stock Ownership Plan (ESOP) per capita. Zeeland, with six ESOPs, or one per 920 residents, ranks as having the highest density in the U.S. for employee-owned companies. Among them are design and engineering firms Disher Corp., Extol Inc., Innotech Corp., Inontime Inc., and Ventura Manufacturing Inc. There are 181 ESOPs with 43,000 employee ownership participants in Michigan and over 15 active Worker-Owned Businesses in Michigan. In the US, there are 6,500 ESOPs with 14 million participants.

Employee Ownership in Michigan Compared to the US

	Employee Ownership Participants	ESOPS	Worker-Owned Businesses
Michigan	43,000+	181	15
United States	14,000,000	6,500	400

Second, Michigan needs to attract talent. At the Mackinac Policy Conference in 2023, Richard Florida presented a research report titled, "Michigan's Great Inflection: A Strategy for the Age of Technology and Talent." In it, he stressed that "Michigan must take advantage of the opportunity to deepen its focus on economic development to retain, attract, and generate talent" and that "the state must enhance its strategies for generating, retaining, and attracting the talent required to compete in this new economic environment."

Third, businesses still face the impact of Covid-19. According to an MEDC Small Business Survey in 2022, the top challenges for business owners include hiring and retaining local workers and the need for more revenue.

Lastly, our economic system only works for some people. Like the US, Michigan faces a racial wealth gap, which has increased from 4.34% in 2020 to 4.52% in 2021. The per capita income in Michigan in the last 12 months is \$34,768, 13.1% of Michigan residents are in poverty, and 25% of Michiganders also qualify as Asset Limited, Income Constrained, Employed (ALICE).

There is the opportunity to save many small businesses, significantly shorten the path of economic recovery, and create a foundation for a truly resilient and equitable economy by supporting the transition of companies to employee and worker ownership in Michigan.

Key Informant Interviews

There were three main components to this research. The first were key informant interviews: Roy Messing, Director of State Center Operations for Michigan Center for Employee Ownership; Deb Olson, Founder of Center for Community Based Enterprise; Zarin Kresge, Director of Recruitment, Certified Employee Owned; Vikesh Chandrashekhar, Project Manager, University of Michigan Economic Growth Institute; and Eduardo Cabral, Founder of Relay Capital.

All those interviewed indicated the opportunities for expanding statewide collaboration for employee and worker ownership, increasing visibility through branding and marketing, streamlining the due diligence process for buying and transitioning businesses, and working with local communities and business owners to create locally relevant options. Overall, education for employee and worker ownership for business owners, employees, the public, and technical assistance providers was a theme needed to generate statewide incentives and promote policy.

Surveys

Surveys were distributed to the general public, targeting business owners, employees, and technical assistance providers to small businesses (See Addendum A). Positive impressions of employee ownership included better working conditions, better pay, higher quality of life, a higher sense of accomplishment, and a connection to the work and community. Unsurprisingly, negative assumptions focused on the risks of starting and owning a business, unclear roles and responsibilities of owners, and the need for strong decision-making processes. Overall, the surveys demonstrated that employee and worker ownership need to be clarified, and that there are many different assumptions about its operations, limits, and impact. Yet, as a whole, it is a favorable structure that people are curious about as owners, employees, and trusted business advisors.

State Policy Review

The final component of the research was reviewing state and city policies that encourage employee and worker ownership. Many States, including Colorado, California, Washington, and Massachusetts, have passed legislation to support employee ownership. At the same time, other states, including New York, Pennsylvania, and Tennessee, have introduced bills to support employee ownership. Policies to support employee ownership include grants to cover transition expenses and feasibility studies, contract preferences, and tax incentives. Some states also have created an employee ownership commission that coordinates statewide strategies and educates stakeholders and the public.

In Colorado, there are grants for feasibility studies and costs associated with ownership transitions, as well as tax incentives for selling owners. There is also an Employee Ownership Commission that provides a network of technical support for businesses wanting to become employee-owned, educating businesses and communities on the benefits of becoming employee-owned and identifying and removing barriers to developing employee-owned businesses. (NCEO,2023)

In 2022, Governor Gavin Newsom signed the California Employee Ownership Act. The bill establishes the California Employee Ownership Hub within the California Office of Small Business. The Hub will work to “increase awareness and understanding of employee ownership among stakeholders, assist business owners and employees in navigating available resources, and streamline and reduce barriers to employee ownership.” (NCEO,2023)

Also, in 2022, the Massachusetts state government passed a law to make the state center for employee ownership permanent and a part of the Massachusetts Office of Business Development. The office will “provide education, conduct outreach and promote efforts to create an overall environment in the commonwealth which will expand and enhance employee ownership, increase the number of employee-owned companies, publicize and promote the benefits of employee involvement and ownership to policymakers and the general public, encourage collaborative outreach efforts regarding involvement and ownership in the workplace, research and evaluate employee involvement and employee ownership in the commonwealth, showcase employee ownership initiatives in the commonwealth, facilitate and coordinate the sharing of existing information and resources, and provide grants pursuant to the provisions of this chapter.” (NCEO,2023)

City Initiatives

At the city level, there are three main approaches to employee and worker ownership. According to a 2016 report by The Imagined Economy Project, these include the anchor approach, the ecosystem approach, and the preference approach.

The Anchor Approach	City governments provide business loans and other support to worker cooperatives developed by a corporate umbrella to tap into procurement spending by area anchor institutions.
Ecosystem Approach	City governments, through seed funding and direct programmatic delivery, stoke the local capacity to provide educational, outreach, technical assistance, and financial support for worker co-op business starts or conversions.
The Preference Approach	City governments develop bid preferences for verified or certified worker cooperatives able to meet city procurement needs. They may offer support like tax forgiveness, financing, or fast-tracking permits.

The study found that cities engaged with worker ownership as economic development have ranged in size, socioeconomic qualities, and governance structures. With some exceptions, most cities can innovate from a modest resource base, spending between \$7,143 to \$100,000 per job created. Municipally supported worker co-op efforts produce some business and job creation. Three cities produced 25 new worker cooperatives employing 261 people, mainly in the service sector. Ecosystem building involving intensive technical assistance and business support yielded the fastest growth of worker cooperatives locally. The anchor institutions approach yielded fast growth of larger workplaces.

City governments aim to promote worker cooperatives in the spirit of learning, adaptive management, and grounding performance measures in experience.

Recommendations for Increasing Employee and Worker Ownership in Michigan

There are five main recommendations from this research to promote employee ownership to address job retention, talent attraction, and wealth building across Michigan.

1. Building of a statewide coalition to develop strategies for working with the State, namely the Michigan Economic Development Corporation, to fund statewide employee and worker ownership education and technical assistance. In this structure, create a robust framework and strategy for communication to influence owners, workers, and the public about the benefits of Employee Ownership (EO) and worker ownership and storytelling that focuses on the proven benefits of employee and worker ownership and shows the range of options available to owners. Additionally, creating recognizable branding for employee and worker ownership is needed.
2. Create a statewide program to fund the development of employee and worker ownership and encourage state agencies such as the Michigan Department of Agriculture and Rural Development (MDARD), Labor and Economic Opportunity (LEO), and state Community Development Financial Institutions (CDFIs) to initiate programs that address employee ownership.
3. Incentivize Employee Ownership by committing state contracts to employee-owned businesses and Encourage Employee-Owned Business Certification.
4. Develop grants to perform feasibility studies for developing Employee Ownership for the most marginalized and low-paid industries in Michigan, including Childcare Textile Manufacturing, Hospitality, Food Service, and healthcare.
5. Work with the Michigan Small Business Administration to provide loan guarantees for employee ownership. In 2022, the Small Business Administration (SBA) made providing loans to ESOPs much easier under the Main Street Employee Ownership Act (MSEOA). The bill amends the Small Business Act to expand the authority of the SBA to guarantee loans for qualified employee trusts of a small business to purchase the stock of that business. Now in 2023, the SBA has made loans to ESOPs much easier than under prior rules. The law was also designed to allow ESOPs to qualify for loans under the SBA's 7(a) program, which allows qualified lenders to process loan applications that can receive SBA guarantees. The loans can be for up to five million.

Overview for Recommendations on Increasing Employee and Worker Ownership in Michigan

- A. Building of statewide coalition to develop strategies to expand worker ownership
- B. Create a statewide program to fund the development of employee and worker ownership
- C. Incentivize Employee Ownership (EO)
- D. Develop grants to perform feasibility studies for developing EO
- E. Work with the Michigan Small Business Administration to provide loan guarantees for employee ownership

ADDENDUM

Survey Questions

1. Self-Identified Race/ Ethnicity
2. What country were you born in?
3. What's your current employment status?
4. What's the highest level of education you've completed?
5. What County and State to you reside in?
6. What city do you reside in?
7. Are you completing this survey as an employee, an owner, or small business advisor?
8. How Familiar are you with the concept of employee and worker ownership?
9. Based on what you know or what you can infer, what do you think an employee-owned business is?
10. Based on what you know or what you can infer, what do you think are benefits of an employee-owned business to the greater community?
11. Based on what you know or what you can infer, what do you think are the challenges or consequences of an employee-owned business to the greater community?

For Employees

1. As an employee, what would you see as benefits to working in an employee-owned business?
2. As an employee, what would you see as challenges to working in an employee-owned business?
3. As an employee, would you ever be interested in transitioning your business into a worker-owned business? Why or why not?
4. Based on what you know or can infer, would you favor or oppose employee-owned businesses?

For Business Owners

1. Based on what you know or what you can infer, what do you think are the benefits of an employee-owned business to the employees?
2. How likely are you to consider transitioning or selling your business to your employees as a business owner?
3. Based on what you know or can infer, would you favor or oppose employee-owned businesses?
4. What resources, organizations, institutions, or people would you visit to learn about employee ownership? List as many as possible and use names if you can.

Small Business Advisor

1. As a business professional, what would you see as benefits to working with employee-owned businesses?
2. As a business professional, what would you see as challenges to working with employee-owned businesses?
3. As a business professional, how interested are you in learning how you can serve employee-owned and worker-owned businesses?
4. Based on what you know or can infer, would you favor or oppose working with an employee-owned business?

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