

STRATEGIES TO ADVANCE BLACK EMPLOYEE OWNERSHIP



{ Project **Equity** }



Message from the CEO



Wealth inequality is at an all-time high in this country. It is a challenge that has been generations in the making, and the solutions are complex.

At Project Equity, we see that employee ownership can be a driving force in building generational wealth, helping to replace long-standing racial economic inequality with tangible, material growth.

In this paper, we outline a path to a future where more working people and employees of color can build wealth by becoming employee-owners.

My thanks to everyone who contributed to this paper and to those who join us in this work.

Evan Edwards
Chief Executive Officer, Project Equity

About Project Equity

Project Equity is a national leader in the movement to harness employee ownership (EO) to maintain thriving local business communities, honor selling owners' legacies, and address income and wealth inequality. We educate business owners and policymakers about the benefits of EO, counsel small business owners on preserving their businesses using EO as a succession strategy, guide firms through EO transitions, provide capital to finance transactions and coach new employee-owners so they and their businesses thrive. In doing so, we preserve local businesses and jobs, improve business resiliency, and increase business ownership by—and create wealth-building pathways for—Black, Latino and low-to-moderate income workers.

Project Equity's Black Employee Ownership Initiative

Project Equity's Black Employee Ownership Initiative (BEOI) integrates across our programs to ensure that all of our services reach Black workers and Black business owners. These efforts include work to expand the available data about Black entrepreneurship and workforce density, and the formation of critical partnerships with organizations that have deep roots in localities and communities with significant Black workforces, as well the development of strategies to advance Black EO and to add employee ownership to the Black wealth building agenda.



Terron Ferguson, Black Employee Ownership Initiative, Project Equity

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Executive summary

Despite the enormity of the racial wealth gap in our country, the current conversation around Black wealth is healthy. Across every sector, and within every stakeholder group, many extraordinary Black business and economic leaders are convening and engaging in productive conversations about the state of Black America and the future of Black economic prosperity. We all know that there isn't a single solution; the pervasiveness of the racial wealth gap makes it important to harness a myriad of strategies. One proven, yet highly underutilized strategy is employee ownership. Employee ownership can play an important role in preserving and expanding Black wealth, offering value to Black business owners, Black workers and Black communities.

Employee ownership (EO) is a business model in which the employees have an ownership stake in the business, making them full or part owners. Broad-based employee ownership – in which the full base of employees can become owners – sustains quality jobs and builds wealth for employees, creates stronger and more profitable businesses, and preserves and retains the legacy and wealth of small businesses in communities. Our publication, *The Case for Employee Ownership* summarizes reams of data that demonstrate its deep impact, and [our website](https://project-equity.org) (project-equity.org) shares dozens of stories from business owners and workers that bring EO to life. It's a flexible model; the three main types of employee ownership all provide important benefits to business owners and employees: Employee Stock Ownership Plans (ESOPs), worker cooperatives and Employee Ownership Trusts (EOTs).

FORMS OF BROAD-BASED EMPLOYEE OWNERSHIP

Employee Stock Ownership Plans (ESOPs)



- ESOPs are qualified retirement plans used to transfer all or part of the company's shares to a trust, administered on behalf of the employees.
- Employees earn their shares as a retirement benefit.
- ESOPs come with very significant tax benefits, which, coupled with regulation, mean they can be a fit for companies with more than 40-50+ employees, given higher set up and ongoing costs.

Worker Cooperatives



- Worker cooperatives are 100% employee-owned and are governed by the people who work there.
- Employees pay a small equity buy-in and the Board of Directors is made up of a majority of employee-owners who are elected by the full membership.
- Profit-sharing is built into the model and is based on hours worked. Worker cooperatives have lower set up costs.

Employee Ownership Trusts (EOTs)



- EOTs, sometimes called Perpetual Employee Trusts, preserve the business over the long term for the benefit of the employees.
- Employees don't pay for their ownership benefits, and they receive a share of the company's annual profits.
- EOTs have lower set up costs.

The reality about the highly disadvantaged position of Black-owned businesses – based in structural racism that significantly limits access to capital, expertise and services, and excludes owners from key social capital networks – informs these strategies in meaningful ways, so we open with a discussion of these issues.

Alongside our partners at Morehouse College and other collaborators in Atlanta and across the country, Project Equity also seeks to integrate employee ownership into the Black wealth building agenda and bring this powerful opportunity for wealth preservation to Black business owners, and wealth building and quality jobs to thousands of Black workers in the years ahead.



Dr. Cynthia Hewitt of Morehouse College makes the case for Black employee ownership in her March 2023 paper *Employee Ownership for Black Workers: Closing the Racial Wealth Gap*.

With nearly a decade of experience as employee ownership practitioners and developers, Project Equity offers strategies and practical considerations to advance Black employee ownership as a complement to Dr. Hewitt's work.

Project Equity believes that strategies to advance employee ownership to build wealth in Black communities should focus on these goals:

1. *Preserving Black wealth* for Black business owners through EO transitions
2. *Creating Black wealth* by transitioning companies with significant Black workforces (regardless of ownership demographics) to employee ownership
3. Helping Black-owned micro businesses grow so those that want to consider EO will be ready
4. Investing in long-term, high-touch development approaches for start-up cooperatives



From there, we introduce the concept of an employee ownership transition, and tie EO transitions to their ability to retain wealth for Black business owners. Ensuring that profitable businesses owned by Black owners can deliver financial value upon retirement or exit through some sort of sale (versus just slowing down, then closing down) is critical to retain this wealth in the Black community. Not only can employee ownership deliver this, but it also passes the wealth-generating potential of those businesses to the next generation – the employees. Black business owners are more likely to have hired Black employees, which makes transitioning these businesses to EO a central strategy for increasing Black employee ownership.

Targeting companies with non-Black owners that have meaningful numbers of Black employees is discussed next. Looking at Black-owned businesses alone to uncover companies with Black workforces that could be EO candidates overlooks the reality that most Black small businesses employees don't work in Black-owned businesses. We discuss strategies for targeting companies that are likely to have significant Black workforces, and delve into Atlanta's potential to be a shining star of Black employee ownership.

We include discussions of helping micro business grow, and the important role that start-up cooperatives can play and close with a call to action for Black leaders to take up the mantle of employee ownership and utilize their positions to advance an understanding of the role that it can play in the Black wealth building agenda, and help move forward key Black employee ownership strategies.



Challenges for Black-owned businesses

We have to confront harsh realities about the state of Black-owned businesses in order to creatively assess how to advance employee ownership for Black workers and as a retirement option for Black business owners. Black businesses don't have the same structural architecture as other demographics, for a variety of reasons. Throughout the business-building process, Black business owners face economic, market, sociocultural, and institutional barriers, which are all linked to racial discrimination in the United States. These include limited access to capital, expertise and services, exclusion from key social capital networks, and other factors such as (for some) their locations in disadvantaged neighborhoods. In the context of employee ownership, these considerations impact which ecosystem actors to engage to reach business owners, and how to approach the business owners themselves.

Size

Due to systemic and historic barriers, Black-owned businesses are, on average, smaller than other businesses: they create an average of **6 jobs per firm**, compared to 21 for all businesses. In fact, Black-owned businesses are much more likely to be nonemployer firms (sole proprietorships). American Express **reports** that 47 percent of African-American small business owners run their businesses by themselves, compared to 33 percent of average small business owners. Unfortunately, data suggests that fewer than 20 percent of Black-owned businesses, those with more than 10 employees, are likely to be a good fit for an employee ownership transition (based on readiness factors for EO transitions). Businesses with larger workforces typically possess the operational readiness required for an employee ownership transition.

BLACK-OWNED BUSINESSES



The question for employee ownership proponents, then, with respect to Black-owned businesses is two-fold: how to identify and engage those Black business owners who have 10 or more employees around the potential of EO, and how to support Black microbusinesses wanting to consider EO in growing to a size and state of capital readiness to execute a transition.

CHALLENGE:

Microbusinesses are rarely a fit for an EO transition

EO STRATEGY:

1. Target Black-owned businesses with more than 10 employees
2. Support growth of Black-owned microenterprises to foster EO readiness

Capital

Thirty-four percent of Black owners cite **raising capital** as their primary obstacle. This challenge is substantially greater for Black entrepreneurs (only 24 percent of other demographics cite this as the top challenge). As a result, nearly half of Black small business owners (44 percent) **use cash** to fund their businesses (vs. 37 percent for all small business owners), and only 15 percent get help from friends and family. Black people have the lowest average credit score, at 677, which is **fueled by systemic bias**, and negatively impacts ability to get credit. Among Black adults who applied for credit in 2021, **46 percent were denied or approved** for less than they requested, compared to 22 percent of white adults.

Most Black businesses (given that they tend to be smaller) require substantial technical assistance in order to become ready to attract loans or investments. Capital readiness is defined by a business being both bankable and creditworthy. A bankable business has enough profits, assets and liquidity to qualify for, and cover a commercial loan. It is creditworthiness, however, that is the foundation upon which bankability is built. Unfortunately, the lion's share of Black business owners either have a negative credit history, or lack one altogether, which is a detriment to the business in the long run, especially for accessing capital.



Mistrust of institutions

Capital readiness challenges often cause Black business owners to self-select out of capital markets before even getting involved. The fear and anxiety of not having the copious appropriate paperwork, or of drowning in the process of collecting it, is embedded in the institutional mistrust that many Black business owners feel. This extends to professional services as well. Only 58 percent of Black owners **sought professional services**, for reasons including expense, inaccessibility but mainly for reasons of mistrust, compared with 70 percent of white owners. This historic lack of trust is likely slowing business growth; research shows that Black business owners may believe that they need to be better qualified than their white counterparts. For example, 30 percent of Black owners of employer firms (businesses with at least one paid employee) **hold an advanced degree**, which is true of 22 percent of their white peers. Our institutions need to repair Black business owners' trust in the business ecosystem—particularly in companies in financial and business services. This is relevant not only to the growth of Black-owned businesses writ large, but also to the growth of Black employee ownership, which requires professional service providers who understand EO and can support and finance the transition.

CHALLENGE:

Many business-serving institutions have failed Black business owners, resulting in mistrust of institutions

EO STRATEGY:

Foster an ecosystem of Black service providers that understand and encourage EO

Strategies for Black employee ownership

Organizations like Project Equity and our partners at Morehouse College who aim to advance Black employee ownership as a tool for wealth building and quality jobs must consider how we can best apply our resources to create measurable impact for Black business owners, workers and communities. In all cases, we can learn from a rich body of experience with employee ownership and cooperative development and a generous community of passionate advocates. But proven strategies must be adapted to speak to the Black experience. For example, Black employee ownership strategies should be designed to approach Black business owners as trusted service providers, offering opportunities for succession planning, legacy preservation, workforce preservation and racial wealth gap contribution. Practitioners should operate with a service orientation, as they are trusted partners who guide owners as they gracefully exit, empower their

We believe that strategies to advance employee ownership to build wealth in Black communities should focus on these goals:

1. *Preserving Black wealth* for Black business owners through EO transitions
2. *Creating Black wealth* by transitioning companies with significant Black workforces (regardless of ownership demographics) to employee ownership
3. Helping Black-owned micro businesses grow so those that want to consider EO will be ready
4. Investing in long-term, high-touch development approaches for start-up cooperatives



Employee-owners of Mandela Grocery Cooperative

Preserving Black wealth by helping Black business owners sell their companies



Ensuring that profitable businesses owned by Black owners can deliver financial value upon retirement or exit through a sale (versus just slowing down, then closing down) is critical to retaining this wealth in the Black community. Passing the business on to the next generation of family is a powerful way to retain wealth in the community, but today's kids are less likely to want to take over their parent's business.

Selling any business can be hard, especially businesses on the smaller side. **Fewer than 20 percent** of businesses put up for sale end up finding a buyer. Larger companies may be approached by acquirers or private equity, but the smaller ones can sometimes only sell their business for parts, or sell just their

customer lists. Since Black businesses tend to be smaller and less capitalized, likely more Black business owners will have a hard time finding a buyer.

Employee ownership creates a ready buyer, assuming the business is profitable. Project Equity regularly hears stories from business owners about how thrilled they were to learn about employee ownership as an option, because they had tried (and failed) to find a buyer for their company – not because the company wasn't profitable or had any major flaws, simply because selling a small business is challenging.

In addition, a typical small business owner doesn't have retirement savings beyond the value of their business. This makes it critical to execute a sale to get that value out. Unfortunately, many retirement age business owners don't put effort into a succession plan or finding a buyer, and as they get older, they simply start slowing down. This can slowly reduce the value of the company, not only making it harder to sell, but also reducing the potential sale price.

It is critically important to help Black business owners preserve the value of the business and help make sure they can sell it (if they aren't passing it down through their family). Employee ownership is a powerful tool to do both.

CHALLENGE:

Smaller businesses have a harder time finding a buyer

EO STRATEGY:

Employee ownership creates a ready buyer for profitable businesses

The latest **Annual Business Survey** (U.S. Census Bureau) reports that there were 140,920 Black-owned employer businesses in the United States in 2020, generating \$141 billion in annual revenues and supporting 1.05 million U.S. jobs. Twenty-four thousand of these Black-owned firms have more than 10 employees and could be a good fit for an employee buyout based on our transition model. If the statistics that hold true for all business owners translate for Black business owners, half of these owners are nearing retirement. This “Silver Tsunami” means that 12,000 Black business owners need a succession plan in the near term and should consider employee ownership among their options.

Employee ownership transitions

In an employee ownership transition, a business owner sells the business to their employees. The transition is typically financed through a loan that is paid down over time out of the employee-owned entity’s future cash flow. EO transitions offer a lot of flexibility for selling owners. They can choose to retire or remain involved in the business after they sell. They can also start by selling just a portion of their business, and sell the rest in stages, or can sell 100 percent of the business all at once. Plus, partial sales can help non-exiting business owners increase employee engagement and retention, which can increase the business value prior to a full exit at retirement age.

Project Equity focuses on employee ownership transitions because they preserve legacy businesses and eliminate the main challenge of EO startups that is faced by all startups – that 50 percent of new businesses fail within five years. Transitioning mature and profitable businesses provides a market sale to pay the retiring owner fairly for their life’s work, and retains and improves job quality, while creating wealth building opportunities for workers.

Readiness factors for EO transitions

At Project Equity, proven practice has demonstrated two primary criteria for a business to be ready to transition to employee ownership: having 10 or more employees (there is no upper size limit) and a documented track record of three to five recent years of profitability. In addition, companies that possess the adequate “bench depth” and management capacity to absorb an owner’s exit are most likely to thrive in an EO transition, which underscores the size threshold.

IMAGINE THE IMPACT

Imagine the impact if just 10 percent of Black business owners who are nearing retirement and have 10 or more employees transitioned their companies to employee ownership:

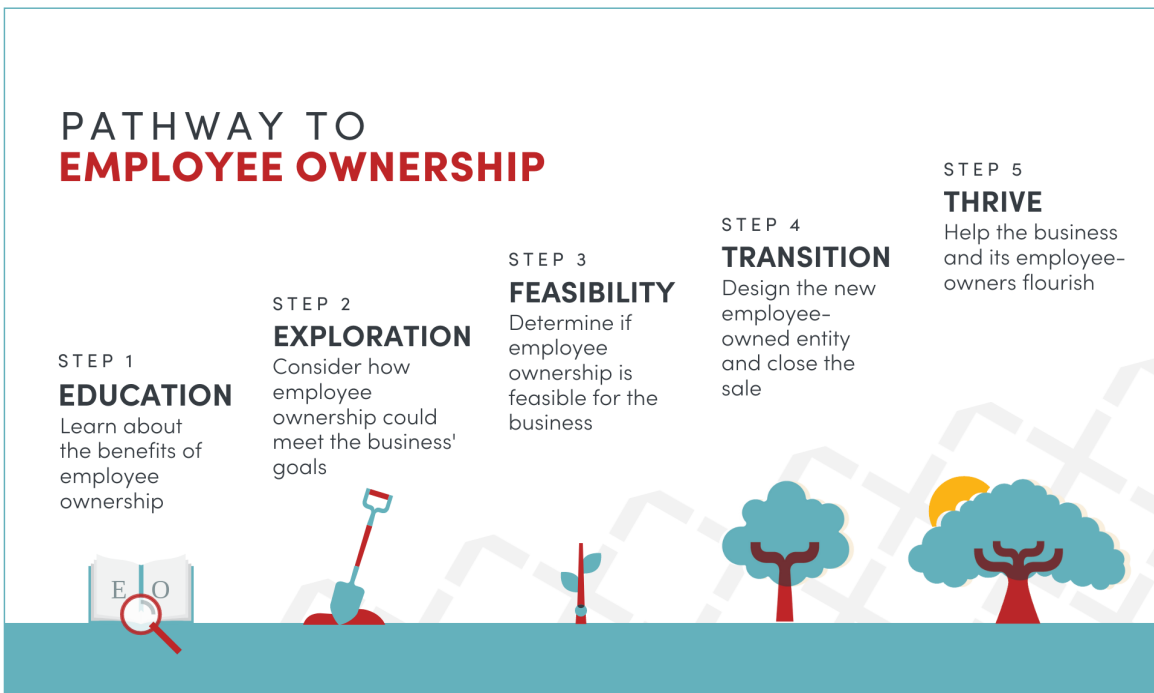
- 1,200 local businesses would stay in their communities, rather than simply shutting down or selling to an out-of-area buyer who may relocate the business.
- More than 52,000 workers, many of them Black, would have the opportunity to create new wealth as business owners, gaining an important asset they would not otherwise have had, and securing quality jobs for their future.
- 1,200 Black business owners would preserve their legacies and have money to retire on or pass down to their children.

Given the overall smaller size of Black-owned businesses as outlined above, and the larger portion of micro businesses (companies with fewer than 10 employees) this reduces the number of Black-owned businesses that could be “ready” for employee ownership transitions. We discuss strategies to help micro businesses grow and strengthen their business fundamentals to become ready for employee ownership below.

EO transition best practices

Employee ownership transitions – this process of supporting a company to transition from a single owner to broad-based employee ownership – have several stages and multiple work streams that happen simultaneously. Business owners and their employees should work with qualified service providers who can support them through a thoughtful, well-facilitated and technically sound process. The first and critical phase is a feasibility assessment: a rigorous analysis of a company's past financials and likely future revenue and profits, as well as looking at its strengths and capacity gaps that may need to be filled, especially if a longtime owner/operator will be leaving. Because transitions are typically debt-financed (these are leveraged buyouts), with the company, not the employees themselves, taking out a loan to buy out the selling owner, a primary goal of the feasibility is to determine the business’ future debt capacity. This enables the owner to understand the potential sale price and financing scenarios that don’t overburden the company with debt.

Next is the transition phase, during which service providers facilitate a process to design the employee-owned entity and how membership and governance will work; support both parties in completing a sale agreement and connect them to financing; engage, train and support employees; and create a plan for ongoing training and support. Finally, it is important not to short change the post-transaction support, which Project Equity recommends for up to two years.



Since the mid 2010s, a growing network of EO practitioners has emerged, proactively seeking to transition companies to worker cooperatives and other forms of employee ownership (since ESOPs are always formed by transition, there have been ESOP service providers for decades). Efforts to expand EO transitions among companies with Black workers should encompass all forms of broad-based employee ownership to offer the greatest number of options for companies of all sizes. A concerted effort needs to be made to increase Black professionals within the network of qualified service providers.

As the field of Black EO grows, ideally regional ecosystems will include capital providers that are familiar with and supportive of EO, and practitioners who can advise on all forms of broad-based EO (whether supporting transactions themselves or making referrals to trusted partners), including partial transitions or staged sales of the company. Many ESOPs, for example, begin with a sale of 30 percent of the company and later transition to majority- or 100 percent employee-owned. In some cases, this approach is advantageous for minority business owners in order to maintain MBE certification for a longer period.

Creating Black wealth by enabling Black employees to become owners of profitable companies

EO transitions also pass the wealth-generating potential of mature businesses to the next generation – the employees. Black business owners are **more likely** to have hired Black employees, which makes transitioning these businesses to EO an important approach for increasing Black employee ownership. However, since Black-owned businesses make up just **3 percent of U.S. businesses**, transitioning businesses with significant Black workforce, regardless of ownership demographics, is central to the strategy of creating Black wealth through employee ownership.

Identifying businesses for Black employee ownership transitions

Many employee ownership advocates believe that EO transitions have great potential to reduce the racial wealth gap. But this potential is still largely unrealized because most business owners do not know about employee ownership, and strategies to reach business owners have not been focused on reaching qualified companies with large Black workforces.

We recommend three key strategies to achieve this goal:

- 1. Targeting key geographies** with large Black populations
- 2. Targeting key industries** with a high concentration of Black workers
- 3. Focusing outreach strategies** through networks trusted by Black business owners

For geographic and industry targeting, we recommend focusing outreach efforts on businesses with more than 10 employees, prioritizing both Black-owned businesses and non-Black owned businesses in order to cast the widest net to reach Black workers.

CHALLENGE:

Black employees are under-represented in small businesses

EO STRATEGY:

Target companies for EO transitions by geography and industry

Targeting key geographies with large Black populations

Targeting geographies that have a high density of Black workers is critical to advancing Black employee ownership. **Almost 60 percent** of the Black labor force—11.8 million people—is concentrated in the South today, compared with one-third of the rest of private sector workers. In the U.S., Black workers account for 15 million, or 12 percent, of the 125 million US private-sector workers. The fact that the lion's share of our country's Black workforce is located in the South is a function of our **history**. In 1900, just thirty-five years after the Emancipation Proclamation, nine out of every ten Black Americans lived in the South, and 75 percent lived on farms. In the decade between 1910 and 1920, the Black population of major Northern cities grew by large percentages, including New York City (66 percent), Chicago (148 percent), Philadelphia (500 percent) and Detroit (611 percent). By 1970, which marked the end of the Great Migration to northern cities, only half of the country's Black population was in the South, with only 20 percent living in the region's rural areas.

For localities or regions that recognize the potential of employee ownership, good planning, coordination and development can move visions to reality by keeping this geography's important context in mind. With skill, will and the right leadership, opportunities to develop regional initiatives that cluster innovative activity around employee ownership can create powerful outcomes for Black business owners and Black workers.

Targeting key industries with a high concentration of Black workers

Considering the elevated **unemployment rate** of Black Americans in the United States, which was 6.1 percent compared to the national average of 3.6 percent in 2022, employee ownership transition strategies should focus on key industries or sub-sectors where there is double digit Black employment. Utilizing this metric, the following industries should be examined for Black employee ownership opportunity: food service and hospitality, health care and social assistance, retail, manufacturing, construction, and transportation and warehousing. However, the typical profit margin of companies within these industries will dictate whether employee ownership can build wealth for Black employees.

Low-margin industries

Three of these sectors—food service and hospitality (**18.8 percent Black workers**), health care and social assistance (**17 percent Black workers**) and retail (**11 percent Black workers**)—are low margin industries, which make them challenging EO candidates. Very low profit margins make it hard for a business owner to realize financial value by selling (the business' financial value is measured in great part by its potential future stream of profits), and it also makes it hard for the employee-owners to build wealth.

The employee ownership approach can be tailored to identify the higher margin sub-sectors or specific types of companies within the lower margin industries, as follows:

Food service and hospitality. Though this is a **low margin sector** generally, there are higher margin businesses within this industry. Project Equity has seen many examples of successful EO transitions in food service companies that have a focused product line (for example, a bakery or pizzeria) and/or wholesale component, as compared with a lower margin full service sit down restaurant.

Health care and social assistance, also known as the care economy. Companies in the care industries (primarily childcare and elder care) generally have low profit margins, making it hard for their owners to build wealth. Given the importance of care work in our communities and the very **high representation** of Black women in this sector, however, quality job strategies, including EO, are sorely needed. There are a number of **home care cooperatives** around the country, including the largest worker coop in the U.S., **Cooperative Home Care Associates**. Transitioning care businesses to EO is challenging, but can work when business fundamentals are strong.

Retail. The retail industry is under existential threat by ecommerce and just 6 percent of Black Americans in retail are managers—the jobs most likely to survive industry digitization. The high overhead cost for brick and mortar stores is making it increasingly hard to sustain operations. Unless the company is already large and well established—see examples such as Publix Super Markets and Ace Hardware—employee ownership transitions can be incredibly difficult.

OUTREACH CHALLENGES

Different strategies and messages may be required to convince non-Black owners to sell their businesses to a primarily Black workforce than what will work with Black owners. Some Black leaders have shared that a community wealth building, or worker wealth building frame might be less compelling for Black business owners, because of historical barriers to building intergenerational wealth for their own families.



Higher-margin industries

Higher margin industries with overrepresentation of Black workers are strong fits for employee ownership. These include manufacturing (**13-17 percent Black workers in some sub-sectors**), transportation and warehousing (**22.5 percent Black workers**), and construction. In the construction or building trades sector, trade union membership has a much more highly concentrated representation of Black workers than the industry overall, with about 16 percent of **building trade union members** being Black workers, compared with 6.7 percent in the **construction industry** overall. This speaks to a strategy that focuses on unionized construction companies. Given that these three industries are all much more heavily skewed towards male employees, an EO strategy aiming to have impact across genders would prioritize a mix of sectors, most likely these higher-margin industries, combined with higher margin food service and hospitality sub-sectors.

Outreach through trusted networks

In addition to targeting places and industries with a high density of Black workers, employee ownership advocates can build a pipeline of interested businesses through proactive outreach strategies and by engaging diverse actors in the business and economic development ecosystem. Targeted employee ownership transition strategies need to engage a variety of proactive business outreach strategies. Project Equity is one of many organizations that do this work in various regions. But to more effectively engage Black business owners in considering EO, our field must partner more deeply with the business networks, leaders and luminaries that Black business owners trust to build on the interest that already exists in many Black communities.



Networks and programs that help Black-owned businesses grow can be tapped to identify EO transition candidates. Minority Business Enterprise (MBE) certification is one such program. Large purchasing entities (federal, state, municipal, as well as private) often use preferred-procurement program preferences or “set-asides” to counteract the historical marginalization of various groups. MBE certifications have been (and continue to be) an important growth strategy for Black-owned businesses. As such, these networks (as well as geographies and industries with higher concentrations of MBE certified businesses) can serve as connectors to Black-owned businesses that are more likely to be large enough to be a fit for EO. For example, government purchasing and MBE preferences have helped create higher concentrations of Black-owned businesses around Washington D.C.

MBE CERTIFICATION AND EMPLOYEE OWNERSHIP

Despite their general success, the criteria and processes of Minority Business Enterprise (MBE) certification programs (and similar programs for other disadvantaged business owners) have the unintended consequence of making it hard for companies that are employee-owned to qualify, or excluding them altogether. The EO field needs to address this problem head on, through public and private policy change, so that it does not impede the growth of Black employee ownership. The highest priorities are to reduce the barriers for continued certification of MBEs that transition to employee ownership and to update criteria for trust ownership of MBEs to better accommodate two particular forms of employee ownership, ESOPs and EOTs.



Atlanta opportunity

Atlanta is teeming with opportunities to implement Black employee ownership at the scale of a city and region. A large part of that opportunity is rooted in the Atlanta University Center, which houses Morehouse College, Spelman College, Clark Atlanta University and the Morehouse School of Medicine. The state of Georgia has 10 Historically Black Colleges and Universities (HBCUs), venerated institutions which provide education, training and mentoring for future Black leaders and business owners. Four of these institutions are a part of the Atlanta University Center's consortium of schools.

Atlanta has the highest percentage of Black-owned businesses and the sixth-highest African-American population among U.S. metropolitan areas. Atlanta has 116,798 total businesses, and 8,663 of them are Black-owned. Although Black-owned businesses represent 7.4 percent of all businesses – the highest rate of Black business ownership in the U.S., 34.2 percent of the city's population is Black. Specific programs and initiatives to support Black-owned businesses, including the Atlanta Business League, are critically important to provide resources and support to Black entrepreneurs in the region.

Project Equity has partnered with Morehouse College in Atlanta because there are natural synergies to explore Black employee ownership. Our partnership creates a platform that will expose a new generation of Black leaders to the field of EO, while also tapping their creativity and new ideas. In specific, we have partnered with two key entities at Morehouse in order to cultivate new EO knowledge through the academic channels of labor studies, economics, sociology, business and political science. Each is described here in their own words:



MOREHOUSE

- **International Comparative Labor Studies (ICLS)** seeks to provide an education that examines the role of black workers in the civil rights movement and American labor history to offer a 21st-century vision for sustainable meaningful work lives for African Americans and all workers.
- **Morehouse Innovation & Entrepreneurship Center (MIEC)** is a global model for higher education and industry collaborations to foster innovation and entrepreneurial leadership.

Project Equity's partnership with ICLS and MIEC is focused on four areas of meaningful collaboration:

- Continuing to raise awareness of employee ownership as a strategy within the Black wealth-building agenda.
- Building channels to connect with businesses in Atlanta with Black workforce that are ready to transition to employee ownership.
- Connecting businesses that need to grow and strengthen their business fundamentals before employee ownership can be a good option for them to technical assistance providers that offer business growth and capital readiness services.
- Identifying new ways to advance employee ownership within Black communities and among Black influencers as a wealth building strategy.

In addition to Morehouse College, Project Equity is partnering with the Atlanta Wealth Building Initiative to advance Black employee ownership in Atlanta. Invest Atlanta, a public-private partnership that mobilizes local business networks and financial institutions, is another local partner that can play an important role in advancing EO in Atlanta. Examples of regional financial institutions that could be engaged around employee ownership include Atlanta Micro Fund, Atlanta Neighborhood Development Partnership, Inc., Credit Union of Atlanta, Enterprise Community Partners, Federal Reserve Bank of Atlanta, First (1st) Choice Credit Union, Georgia Cities Foundation, Georgia Department of Economic Development and Northern Trust Atlanta.



Helping Black-owned micro businesses create pathways to EO

We can consider the large constellation of microbusinesses in the Black community (those with fewer than 10 employees) as a future pipeline for employee ownership. Employee ownership advocates can partner with organizations that support Black entrepreneurs and microbusinesses to help these businesses grow and not only envision but also map pathways to EO in the medium- to long-term.

CHALLENGE:

Microbusinesses, which are over-represented among Black-owned businesses, are rarely a fit for employee ownership transitions

EO STRATEGY:

Play the long game, by partnering with technical assistance and capital providers to help Black-owned businesses grow

Many employee ownership advocates will be disappointed to learn that microbusinesses rarely meet readiness criteria for employee ownership transitions. While there are exceptions, EO transition service providers generally agree that, in most cases, microbusinesses have a hard time filling the original owner's management roles when the owner exits, and may find themselves unable to secure financing for a sale. Group chemistry is also more crucial in small groups, and the wrong mix can derail EO transitions that might look good on paper.

Nonetheless, Black microbusinesses that are interested in employee ownership can play the long game. Growth capital and technical assistance can help these businesses grow and meet key milestones (such as having 10 or more employees and 3-5 years of profitability) to make an employee ownership transition viable.



Invest in long-term, high-touch development approaches for startup cooperatives

Within Black communities today, there is significant interest in cooperatives. This ties to the legacy of collective economics throughout Black history and speaks to the drive for economic self-



Evan Edwards, Chief Executive Officer, Project Equity and Melvin Carter, Mayor of St. Paul, Minnesota

determination flowing from all of the ways that markets and businesses are still failing Black workers today. From the tremendous reception of Dr. Jessica Gordon Nembhard's history of Black cooperative economics, *Collective Courage*, to Mayor Melvin Carter proclaiming his vision for making St. Paul, Minnesota the "Cooperative Capital of

the World" in his keynote address at Project Equity's 2023 Employee Ownership Equity Summit, the connection to history and the potential for creating a different future make employee ownership and cooperative economics an appealing draw.

From doulas in the Bronx, returning citizens in Baltimore and Chicago, and grocery workers in West and East Oakland, Black workers and Black community leaders in increasing numbers are seeking to create cooperatives from scratch. Just as entrepreneurship is thriving in Black communities, cooperative entrepreneurship should as well. But what would an effective cooperative development program for startups look like in Black communities?

A coop development strategy for Black workers should build on existing knowledge of cooperatives and entrepreneurship in Black communities and on lessons learned in the field of coop development. There are a number of examples of successful worker coops that began as startups and are owned by Black workers who can provide insights, inspiration and advice to advocates for and founders of Black coops. The broader worker

RESOURCES FOR BLACK COOP STARTUPS

- SEED Commons has 30+ affiliates around the country
- The U.S. Federation of Worker Cooperatives has online **start up resources and a Co-op Clinic**
- Network for Developing Conscious Communities holds **conferences** and is launching a **Black Coopnomics Academy**
- **Start.coop** is a virtual cooperative accelerator
- **Collective Diaspora** is a global community of Black cooperatives and Black-led coop support organizations
- Many local and regional nonprofits run Coop Academies and other types of courses and training programs to support coop development and Black and Brown startup founders in their communities. For example:
 - Nexus Community Partners' **North Star Black Cooperative Fellowship** and Worker Ownership Initiative, Twin Cities, MN
 - Green Worker Cooperatives' **Co-op Academy-NYC**, Bronx CA
 - Co-op Cincy's **Power in Numbers: Black-led Co-op U**, Cincinnati, OH

cooperative community also offers a wealth of peer connection opportunities. In addition, there is a growing ecosystem of organizations and resources to support Black workers and other workers of color in starting their own cooperatives (see sidebar).

Knowing that the vast majority of businesses are microbusinesses, similarly, most worker coop startups that survive their startup years will likely also be microbusinesses (with fewer than 10 worker-owners). Very small cooperatives like these have many benefits, not the least of which is enabling founders to realize their entrepreneurial dreams, work for themselves and generate income. Still a high number of microentrepreneurs remain financially vulnerable.

It is important, therefore, to consider the economic outputs of different approaches to startup cooperatives and, if wealth building is the goal, to invest in long-term, high-touch cooperative development in Black communities. The largest coops with mostly Black workers in the U.S. were initiated by coop developers: Cooperative Home Care Associates has a decades-long track record of sustaining around 2,000 quality jobs in the very challenging (and low margin) home health care industry; Evergreen Cooperative Laundry has grown over 12 years to include some 200 employees and is now generating \$1,000s of dollars in annual profit sharing for worker-owners.

There is a whole spectrum of ways that coop trainers or developers can support a startup. Low-touch options focus on training, building founding worker-owners' confidence and networks, and connecting them to resources. In high-touch models, the developer provides longer-term services, capacity-building, and even entrepreneurial leadership for the startup and growth phases.

CHALLENGE:

Start-ups (including worker coop start-ups) have high failure rates

EO STRATEGY:

Invest in long-term high touch approaches to coop development

The goal in high-touch coop development (or slightly less intensive medium-touch models) is to achieve community economic development outcomes such as quality jobs for low-wage workers, building family and community wealth and reducing poverty. Higher margin industries are more likely to offer wealth building potential, but coops can increase the quality of jobs even in low wage industries such as care sectors.

EXAMPLES OF BLACK WORKER COOPS TODAY

- Cooperative Home Care Associates, Bronx NY¹
- Evergreen Cooperative Laundry, Cleveland OH¹
- Mandela Grocery Coop, Oakland CA¹
- Chi Fresh Kitchen, Chicago IL²
- Core Staffing, Baltimore MD (part of Obran Cooperative)³
- Pecan Milk Co-op, Decatur GA³

¹ initiated by coop developers using a high-touch model

² initiated by founding worker-owners and a coop developer

³ initiated by founding worker-owners

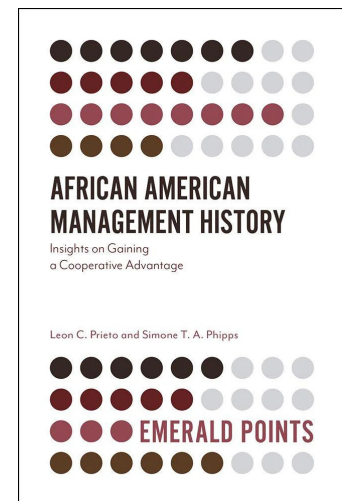
The hands-on role of a skilled coop development team increases the chances of success, reduces risk for worker-owners, and drives the creation of larger cooperatives that benefit from economies of scale. Following are some of the crucial skills, experience and strategies that coop developers need in order to build cooperative businesses that create sustainable high-quality jobs and can build wealth for Black workers:

- **Business expertise** (whether experience, natural instincts or both)
- **Entrepreneurial leadership**, including resources and staying power to push startups to profitability and turn them into sustainable job-creating enterprises
- **Humility, a commitment to racial equity** and deep respect for workers
- **A talent for training**, coaching and helping others build their own skills and capacity
- **A nuanced understanding of democratic governance** and participatory management and how to practice them in an operating business
- **Access to patient growth capital**, whether grants, debt or equity (grant funding to sustain coop development services is key)
- **An industry- or sector-specific growth strategy**, or another way to reduce the learning curve and mitigate the challenges that new businesses face

Many aspiring coop developers, and those who support them, underestimate the effort, diverse skills, and resources needed to start and grow a profitable cooperative business. Some assume that a low-touch model will be enough to get a business off the ground and prepared to grow into a coop that generates sustainable financial gains for its members, even when these workers face multiple systemic barriers. As with other community economic development efforts, greater investment in cooperative development generally creates a deeper and longer-lasting impact for workers and community members. To incorporate the development of startup cooperatives into the Black wealth building agenda, organizations and field leaders must build capacity for these long-term investments in coop development.

Black thought leadership

The premise of Leon C. Prieto and Simone T. A. Phipps's book, *African American Management History: Insights on Gaining a Cooperative Advantage*, is that all too often the thoughts and ideologies of high-profile African American business leaders are forgotten or passed over. We have an incredible nucleus of thought leaders who are at the vanguard of the Black wealth building agenda. Seeding more leaders who talk about employee ownership in Black communities will generate more employee ownership practitioners in Black communities. There is great urgency around the mandate to do something about intergenerational wealth transfer and the racial wealth gap. Black business and economic leaders have been engaged in great, active spaces with a healthy schedule of convenings around the topic that are well-attended and replete with meaningful discussion.



We can leverage employee ownership as an organizing tool among the burgeoning class of new leaders and power brokers across the landscape in Atlanta, more broadly in the South, and at the national level. Ideas and practices of Black visionary leaders are sometimes heralded within their own communities, but overlooked by mainstream media and, over time, many of their contributions are forgotten. This activity will advance important Black economic narratives and has the potential to enshrine new histories. The following are examples of individuals who illustrate the potential in having more Black thought leaders embrace employee ownership.



Dr. Janelle Williams

Executives

Janelle Williams holds a PhD from Clemson University, previously served as a Principal Advisor at the Federal Bank of Atlanta, and is the co-founder and CEO of the Atlanta Wealth Building Initiative (AWBI), a catalytic nonprofit that seeks to achieve shared prosperity by building Black wealth. through community wealth building strategies. One way to generate activity around employee ownership in Black ecosystems is for executives – in corporate and nonprofit settings – to include the strategy in agendas and programming when the organization regularly convenes advisory boards and/or communities of practice.

Advocates

Nydia M. Velazquez represents New York’s 7th district in Congress and serves on the House Small Business Committee. She introduced the **Main Street Employee Ownership Act** (H.R.5236), which gives the SBA the tools and authority it needs to support small businesses in transitioning to employee ownership and which became law in August 2018. In 2022, seeing limited progress, she then co-sponsored two new bills to increase its impact. The framework of these policies should be studied and built upon by other national, state and local policymakers who are interested in eliminating access to capital barriers plaguing Black business owners who might otherwise embrace employee ownership.



Congresswoman Nydia M. Velazquez



Dr. Jessica Gordon Nembhard

Scholars

Dr. Jessica Gordon Nembhard is a professor, renowned author, and has arguably written the most magisterial treatise on Black cooperative economics, *Collective Courage*. The Black business community needs more thought leadership, scholarship, commentary, public narrative, and chatter on how employee ownership can be utilized as an economic independence strategy in our communities.

Conclusion

Employee ownership has tremendous potential to play a role in addressing the racial wealth gap. It is an untapped strategy that can preserve wealth for Black business owners, while also creating Black wealth by enabling shared business ownership for a whole new generation of Black workers.

This impact will not happen without intentional strategies that are led by Black business leaders, advanced by Black communities, and embraced by Black workers. Focusing on business transitions in the South, as well as Northern Migration Cities, and in strong margin industries (or sub-industries) with an overrepresentation of Black workers will deliver the best wealth building outcomes for employee-owners.

Employee ownership is an untapped strategy that can preserve wealth for Black business owners, while also creating Black wealth.

Dr. Cynthia Hewitt of Morehouse College said it well when she wrote, “We are asking the Black middle-class of business owners, financial leaders, government officials, political leaders, and yes, corporate professionals – to help us try making Black employee ownership transitions possible as critical to stabilizing Black communities – families, youths and senior citizens – economically.” As employee ownership is integrated into the Black wealth building agenda more broadly, business leaders and communities can advance this strategy and bring its benefits to thousands of workers and business owners in the years ahead.



{ Project Equity }

