

# Race and Gender Wealth Equity and the Role of Employee Share Ownership

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## Introduction

Even before the COVID-19 pandemic, in an allegedly strong economy, workers at the bottom of the opportunity scale were struggling to support themselves and their families. Not only have the incomes of the lowest-paid workers stagnated or fallen even as the cost of essentials, such as housing, health care, and transportation, have climbed, but—and relatedly—wealth inequality has soared. The divisions in wealth between men and women, and between white households and households of color, are particularly striking. White households have roughly 10 times the wealth of Black households.<sup>1</sup> Households headed by single women have less than 40% of the wealth of those headed by single men.<sup>2</sup>

Workers and families in low-wealth households face daunting barriers to achieving common financial goals, such as owning a home, investing in education, starting a business, saving for retirement, and taking control of their economic future. The pandemic has exacerbated and heightened awareness of these inequities, and there is a mounting sense of urgency to find practical solutions. Broadening opportunities to participate in the ownership of business assets can help address this wealth divide and offer working people the opportunity to meaningfully participate in the success of the economy. In addition, employee share ownership can contribute to business resilience and job retention in communities and play an important part in supporting economic recovery.

Drawing on recent research, this paper makes a case for why policymakers, funders, and investors who care about racial and gender wealth equity should support employee share ownership. It argues that systemic barriers have prevented women and people of color from accessing employee share ownership as a wealth-building strategy and that expanding access to employee ownership can increase equity of opportunity to build wealth and address wealth divides. The paper then provides a set of concrete policy and practice ideas to expand employee ownership.

The paper is informed by a roundtable discussion held on October 19, 2020, which brought together a range of actors, including researchers, philanthropic leaders, investors, policy experts, advocates, and others. Roundtable participants described strong interest and political will, at all levels of government, with respect to encouraging various forms of employee ownership. Policymakers are actively seeking new proposals. Philanthropic leaders, social investors, and others are also eager to build awareness and understanding of employee ownership models and develop the institutional capacity necessary to support strong employee-owned businesses. We hope this paper contributes to a broader collaborative effort to spread employee share ownership policies and practices that support economic recovery and lay the foundation for a more equitable and resilient economy.



## What do we mean by wealth and why does it matter?

The term “wealth” may bring to mind the 1%, but wealth plays an essential role in the lives of all Americans, as the term encompasses assets—both financial and tangible—capable of providing economic stability and even economic mobility over generations. Wealth and income are interconnected measures of different aspects of households’ financial health. Income generally indicates the cash flow of a household, accounting for incomings (e.g., wages, investment earnings), and outgoings (e.g., taxes). Wealth, on the other hand, includes household assets like property and savings and can provide a financial cushion as it accumulates over time against unexpected expenses or job loss.<sup>3</sup> Income inequalities can contribute to wealth inequalities by making it difficult to build savings and access credit, while wealth inequalities can feed into income inequalities because of the ability to generate income from wealth. We

address both income and wealth in this paper but focus primarily on disparities in wealth across race and gender.

All households require a certain amount of money to address emergencies, to invest in opportunities, and to achieve mobility. But many in the United States are challenged by low levels of wealth. More than one-third of American adults, in fact, would not be able to cover, or would need to sell their possessions to cover, an unexpected expense of \$400 or more.<sup>4</sup> This level of instability, where families navigate a financial tightrope to make ends meet, can be addressed only through household wealth-building. This may include savings and homeownership, stock and bond ownership, inheritance, or retirement accounts. But it can also include ownership of business assets.

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## How does systemic inequity drive wealth disparity?

Because of racial and gender discrimination, the US has substantial and growing disparities in wealth. Women's wealth disparities result from multiple factors, including occupational segregation into jobs that are not equitably remunerated within the labor market, greater likelihood of reduced work hours to spend time on unpaid caregiving, lower levels of financial education, and discrimination and sometimes predation in financial markets.<sup>5</sup> Fewer years at a job or lower job tenure resulting from periods of reduced time in or time away from paid employment can also impact pension benefits.

For Black and Latinx individuals and families, structural racism has resulted in stark wealth inequity.<sup>6</sup> Like women, Black and Latinx people are often segregated into jobs that offer lower wages, fewer benefits, and little chance of advancement.<sup>7</sup> They also face predatory practices, including high-cost and wealth-stripping financial products. Black and Latinx entrepreneurs are often denied access to capital and networks that support business ownership. Furthermore, having lower wealth makes it difficult to invest in one's own business, which limits growth potential and confines entrepreneurs to select industries and businesses that they can afford to start. Generations of racist policy choices—such as disparities in treatment by the criminal justice system and the impact of practices related to municipal fines and fees—also contribute to wealth disparity.<sup>8</sup>

These structural barriers result in both earnings and wealth gaps. In 2018, for every dollar earned by a white man, Black women earned 62 cents, and Hispanic or Latina women 54 cents.<sup>9</sup> Workers segregated into precarious jobs with inadequate wages may manage to save small amounts, but they struggle to protect their savings or access affordable credit, and the consequences for wealth-building are dire.

Retirement savings are also an important driver of household wealth as well as a key contributor to retirement security. Here, too, racial- and gender-related disparities exist. In 2016, among families headed by individuals between 32 and

61 years of age, 68% of white families had retirement savings accounts, compared with 35% of Latinx families and 41% of Black families.<sup>10</sup> And among families that had retirement accounts, the level of savings also differed substantially, with white families having median retirement savings of \$79,500, compared with \$29,200 for Black families and \$23,000 for Latinx families.<sup>11</sup> Further, while single women and men were just about equally likely to have savings in a retirement account (45% vs. 44%), men had higher median savings levels than women, at \$40,000 and \$28,000, respectively.<sup>12</sup> Although retirement security is not solely related to the level of retirement savings (as some individuals participate in defined benefit plans, and security is calculated on the basis of earnings prior to retirement), Black and Latinx families are at greater risk of retirement insecurity.<sup>13</sup>

In 2016, the median white family had \$147,000 in wealth, compared with \$3,600 for Black families and \$6,600 for Latinx families.<sup>14</sup> Up to 60% of families of color qualify as asset poor, meaning they do not possess the financial means to stay above the federal poverty level for three months if they were to lose their main source of income. The divides—and the low levels of wealth held by some individuals and families—become even starker when one examines wealth gaps by both gender and race. While it is difficult to look at the independent wealth of married women (due to blended household data), research shows dramatic differences between men's and women's wealth. Single women of all races and ethnicities hold, on average, 68% less wealth than do their single male counterparts. Disparities are even more striking at the intersection of race and gender. White women have a median wealth of \$66,930, while that of Black and Latinx women is just \$6,000 and \$6,700, respectively.<sup>15</sup>

In addition to disparities in total wealth, the composition of household wealth across asset classes shows marked differences across racial and ethnic groups. The Federal Reserve Bank of St. Louis finds that composition of household

wealth dictates the likelihood of wealth growing over time. Household wealth is composed of different asset classes: financial (e.g., bank accounts, mutual funds, securities) and real (e.g., real estate, vehicles, durable goods). Composition of balance sheets matters because more diversified balance sheets means less risk. In general, investments and holdings in more liquid, financial assets can help buffer a household against financial shocks and the likelihood of high-cost borrowing and subsequent debt obligations.<sup>16</sup> This, in addition to varied returns over time on different asset classes, has implications for households' ability to build wealth. Financial and business assets have shown greater appreciation over time than, for example, tangible housing assets

have. Black and Latinx households tend to hold a higher percentage of their wealth in low-return, narrow asset classes.<sup>17,18</sup>

Wealth is built through a combination of income and access to retirement savings, home equity, and business equity. Intersecting structural barriers across race and gender limit access to all these avenues to build wealth, resulting in profound race and gender wealth gaps that compound across generations. In the sections that follow, we offer an introduction to employee ownership strategies and share evidence that these strategies can play an important role in helping close racial and gender wealth divides.

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## Employee share ownership: How do companies share ownership with employees?<sup>19</sup>

In a business with employee share ownership, employees share in the success of the business. Millions of employees participate in employee share ownership programs in the US economy. Rutgers' analysis of the General Social Survey estimated that, in 2018, nearly 23 million employees, representing more than 19% of all US workers, owned some share in their employer. More than one-third of employees participate in a profit-sharing plan nationally, mostly earning modest profit shares, while more than half of all employees in companies with stock participate in some form of a profit-sharing plan or stock option plan.<sup>20</sup>

### Employee Stock Ownership Plans (ESOP)

These plans allow companies to finance the purchase of a company's shares for employees, typically with credit using federal tax incentives through an ESOP trust. There are more than 6,000 ESOPs in the United States with more than 14 million employees holding total assets of over \$1.4 trillion.<sup>21</sup> The company pays back the loan and individual employees typically do not use their savings to buy the stock. As part of the Employee Retirement Income Security Act of 1974, companies must include most of their employees in ESOPs.

### Employee Equity Grants or Employee Stock Purchase Plans

These plans allow employees to receive grants of restricted stock directly from their companies, which are typically traded on the stock exchanges. Employees also often can participate in Employee share purchase plans, which allow for the purchase of company stock at a discount. Roughly 10 to 15 million employees participate in this form of shared ownership plan. There are no federal guidelines for companies to be inclusive of most or all employees in these plans.

### Employee Stock Option Plans

These plans allow employees to purchase stock for 10 years at a set purchase price, which enables them to share the benefits of the stock's future gains. Approximately 8.5 million employees participate in these plans, according to the 2018 General Social Survey, which is funded by the Employee Ownership Foundation. There are no federal guidelines for companies to be inclusive of most or all employees in these plans.

### Employee Ownership Trusts

These perpetual trusts are owned by all the employees of a firm and make regular profit-sharing payments to the workers. They are just now beginning to spread in the US and are not regulated by any federal laws. No data on the demographic makeup of EOTs is available because research is just beginning on this format.<sup>22</sup>

### Worker Cooperatives

There are currently 465 worker cooperatives with more than 5,000 employees in the US and an estimated \$505 million in annual revenue.<sup>23</sup> These firms are owned and governed by their workers, typically returning company surplus to workers based on labor dedicated. There are no federal guidelines for companies to be inclusive of most or all employees in these plans, but most worker-owned cooperatives are relatively small, and there are no indications that classes of workers are excluded from cooperative membership. In addition, demographic data indicates that worker cooperatives are highly inclusive of women and people of color.<sup>24</sup>

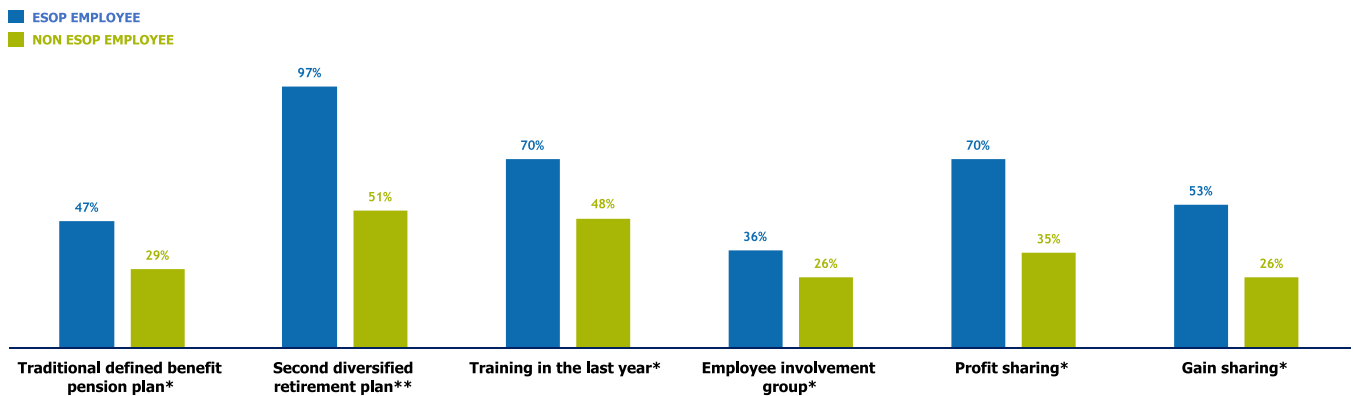
# Can employee share ownership address racial and gender wealth disparities?

Employee share ownership has the potential to address several of the factors that contribute to racial and gender wealth gaps, including lower levels of retirement savings, lower levels of business and financial assets, and lower job quality (as reflected in pay, benefits levels, and worker voice). Job quality plays a critical role in enabling workers to build a stable financial cushion and, in turn, build wealth. Research indicates that employee owners have better job quality across a range of attributes, including higher wage income. Critically, employee owners of color have 30% higher wage income than do non-employee owners of color. Women employee owners have 17% higher wage income than do their non-

employee owner counterparts, a gap that grows to 24% for single women.<sup>25</sup>

Employee owners are also more likely to enjoy greater job security and show lower turnover intentions among workers from all income levels. Workers without employee ownership had layoffs six times more than those with employee ownership in 2020, through the worst of the pandemic-induced shutdowns.<sup>26</sup> When compared with workers without access to employee share ownership, workers in ESOPs report greater access to training (70% to 48%), involvement in company decision making (36% to 26%), profit sharing (70% to 35%), and gain sharing (53% to 26%), according to the General Social Survey (see Figure 1).<sup>27</sup>

**Fig. 1: Comparing Benefits for ESOP and Non-ESOP Employees Based on Rutgers Analysis of the 2014 and 2018 General Social Survey. Charts and research support by the Employee Ownership Foundation.<sup>28</sup>**



\*Data combined for 2014 and 2018 | \*\*National Center for Employee Ownership 2018 S Corp ESOP Study



Ownership seems to shape employees' actions and perceptions related to participation, inclusion, value, trust, equity, and fairness. A survey conducted by the Great Place to Work Institute on the 800 companies that applied for Fortune Magazine's 100 Best Companies to Work For competition from 2005 to 2007 found that, in the companies that offered both equity compensation and profit sharing, workers were substantially more likely than their counterparts at the companies without such benefits to say that they felt they were getting a fair share of compensation, that their company had a collaborative management culture, and that their company was an "excellent place to work."<sup>29</sup> Other research has found that workers at companies that offer some form of employee share ownership report higher wages, higher wealth, and better benefits than do peers working in other firms that do not participate in ownership.<sup>30</sup>

A new empirical study by economist Robynn Cox of the University of Southern California, which uses data from the National Longitudinal Survey of Youth, finds that formerly incarcerated ESOP employees earn 25% more in annual income and work 8.8 more hours per week than do formerly incarcerated workers who are employed but not working for an ESOP firm.<sup>31</sup> Another study by University of Southern California PhD candidate Adriane Clomax uses the same dataset and finds that, for the formerly incarcerated and the nonincarcerated, ESOP employment is associated with decreased depression.<sup>32</sup>

Because worker-owners are more likely to have sufficient income in a stable job, they are less likely to have to raid their savings to pay basic expenses, and they are more able to build assets and wealth. Thus, job quality contributes to wealth equity, and employee ownership can play a role in addressing both.

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## The employee share ownership difference<sup>33</sup>

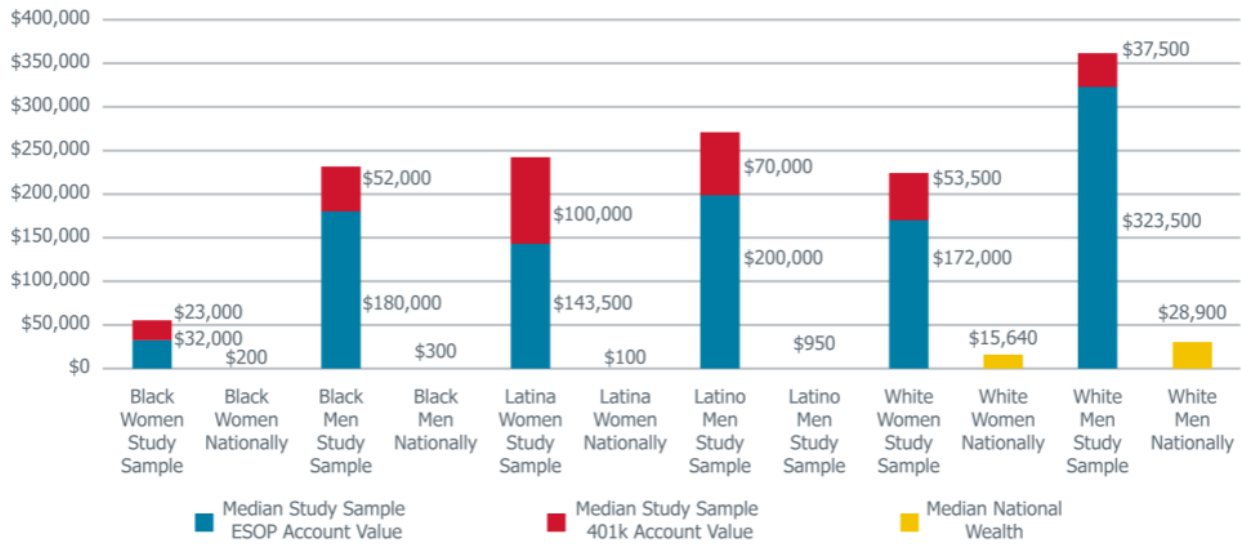
- Recent data on ESOPs shows that participating workers have greater access to retirement benefits compared to all workers in the US population, including greater access to defined benefit plans (45% to 29%) and a second diversified retirement plan, typically a diversified 401(k) plan (97% to 51%).
- ESOPs help employees escape or avoid debt by borrowing against accounts and providing no-interest loans to help with economic challenges and life investments, such as education or homeownership.
- Employee share ownership is also found to be generally linked to better job quality outcomes for workers, including higher income, better benefits, greater job security, more involvement in company decision making, more training, and more gain sharing and profit sharing.
- Employee ownership creates real and perceived economic stability, including better pay and benefits, for employees and their families. Because employee owners are more likely to earn a living wage in a stable job, they are more able to build assets and wealth.

Historic and enduring structural barriers have created disparities in income and wealth across race and gender. Employee share ownership can play a role in combatting racial and gender wealth gaps by addressing several factors that contribute to these gaps, including lower levels of retirement savings, lower levels of business and financial assets, and lower job quality. While wealth gaps may still exist among the employee share ownership population, they are far less pronounced than in the general population.

Indeed, new research suggests that participation in employee ownership can help address race and gender wealth gaps. In a study of the impact of employee ownership on low- and modest-income workers who have less than the median household income of \$61,372,

researchers examined the experience of individual workers in 21 companies across the US that offer ESOPs, ranging from 75 to 18,000 employees. This research was based on national data from the Survey of Consumer Finances and supported at Rutgers by the W.K. Kellogg Foundation. The companies spanned 16 states and 8 discrete sectors. The low- and moderate-income workers in the companies had ESOP account values ranging from \$15,000 to \$6,000,000 per worker, with a median value of \$165,000. By contrast, the typical American household at the 50th percentile median had just \$17,000 in savings. Of the low- and moderate-income workers surveyed, those closest to retirement (ages 60 to 64) had 10 times more wealth compared with the typical American in that age group.

**Fig. 2: ESOP and 401k Account Values of Interviewees Compared With National Wealth Data by Race, Ethnicity, and Gender<sup>34</sup>**



While ESOPs did not eliminate race and gender wealth inequity, they significantly narrowed the gaps (as shown in Figure 2).<sup>35,36</sup> Women and people of color reported wealth well above the median national wealth of their peers. This

suggests that broadening opportunities to participate in employee share ownership is an important strategy to help address the race and gender wealth divide.

**The COVID-19 pandemic effect: Employee-owned firms show higher job quality and resilience**

Recent research suggests that employee-owned firms showed higher job quality and resilience during the 2020 public health and economic crisis. A recent study indicates that, during the pandemic, companies owned by their employees significantly outperformed other firms in retaining employees, protecting worker health and safety, and maintaining hours, salaries, and wages. Employee-owned companies were 3.2 times more likely to retain staff, even when other businesses received support through the Paycheck Protection Program and the employee-owned firms did not. Employee-owned firms were more likely to provide personal protective equipment to workers and more likely to send employees home to work.<sup>37</sup> This suggests that expanding employee share ownership can contribute to business resilience and job retention in communities, and it can play an important part in supporting economic recovery.

# Who has access to employee share ownership?

While employee share ownership can play an important role in narrowing wealth disparities, workers of color are not yet reaping the same benefits as are white workers. An analysis of *the dollar value* of employee share ownership among all workers participating in employee share ownership in the US in all types of equity participation plans reveals that Black workers'

employee share holdings, on average, have only 61% of the dollar value of those of white workers. Note, however, that these differences are likely less stark for ESOPs, for which the Employee Retirement Income Security Act of 1974 (ERISA) mandated that employees with similar salaries and tenure generally be treated equally. Other differences are shown in Table 1.

**Table 1: The Value of Employee Share Ownership Across Race and Ethnicity Based on Rutgers Analysis of 2002-2018 General Social Survey**

	Average	Median
White non-Latinx	\$63,322	\$12,690
Black	\$38,638	\$7,452
Latinx	\$38,296	\$7,931
Other	\$71,432	\$28,016
Age 50+	\$102,124	\$30,000

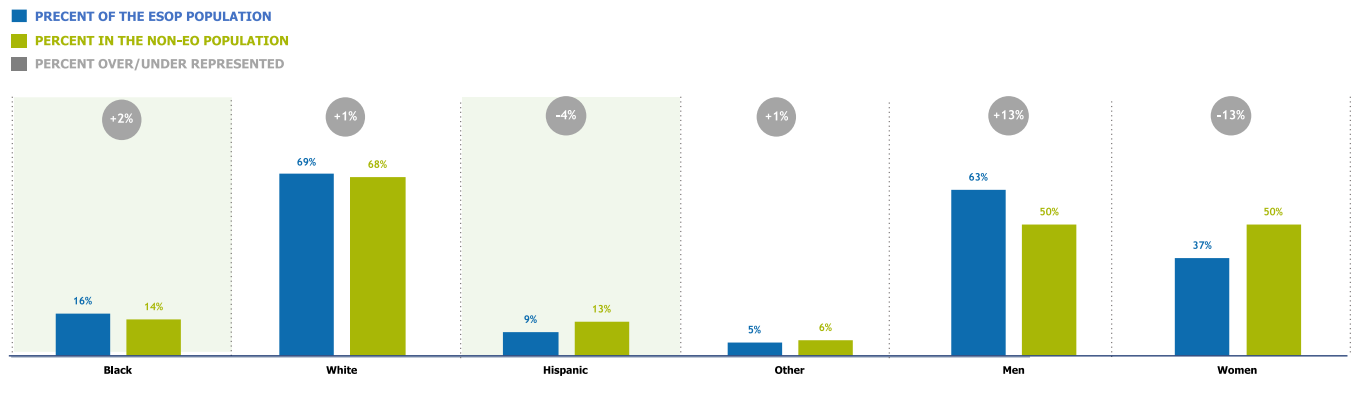
Additional analysis of demographic trends shows stark differences between women's and men's participation in employee share ownership programs. While 22.9% of all adult working men participate in some kind of employee share ownership program nationally, only 16.4% of women do. While 22.4% of all white adult workers participate in some kind of employee share ownership program nationally, only 14.3% of Black and 17.3% of Latinx adult workers do.

Focusing only on the incidence of women and men and Black and Latinx workers in ESOPs, and

looking at data from the General Social Survey for 2014 and 2018 combined, the gap in participation by women in ESOPs is clear. Women make up only 37% of the entire population of ESOP workers. Notably, Black workers are slightly overrepresented in ESOPs, making up 16% of the entire population of ESOP workers, while composing 14% of the US population in this survey. However, Latinx workers are significantly underrepresented in the ESOP population, making up only 9% of the entire population of ESOP workers, while composing 13% of the US population in the General Social Survey (see Figure 3).



**Fig. 3: Demographic Breakdown of the ESOP Population Based on Rutgers Analysis of the 2014 and 2018 General Social Survey. Charts and research support by the Employee Ownership Foundation.<sup>38</sup>**



How should these numbers be interpreted? Because ESOPs are part of the federal law ERISA, which mandates that most employees be included in a company plan for the company to gain tax incentives, a reasonable conclusion for ESOPs is that women and Latinx employees are underrepresented in ESOP companies as demographic groups. Women and Latinx employees are likely to be included in the ESOP if they are employees of the company. This suggests that private sector initiatives to increase the presence of women and Latinx workers in ESOP companies could help address disparities. As noted, ERISA mandates that employees with similar salary and tenure generally be treated equally in ESOPs, which are covered by this law.

However, other forms of employee share ownership (such as employee stock purchase plans and restricted stock programs granting stock to workers, stock option plans, and employee ownership trusts) are not part of ERISA and so are not covered by the federal norms requiring that all employees be included. This

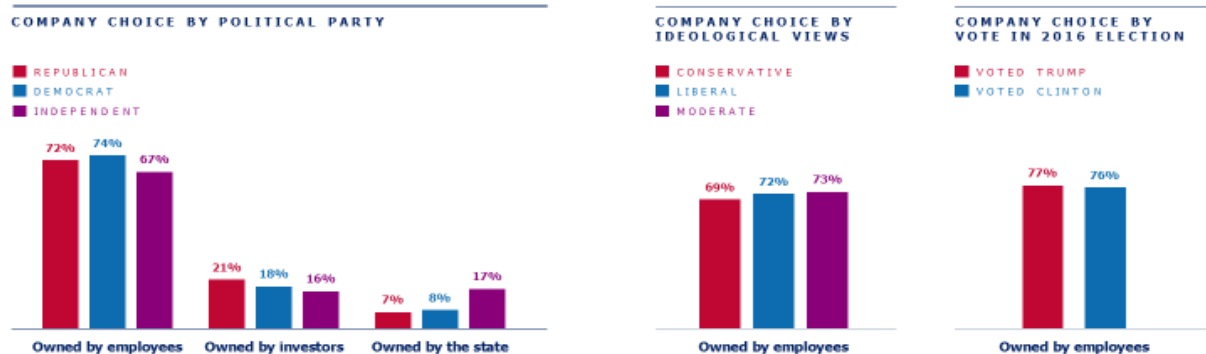
suggests that there is some room in federal policy to provide incentives for employee stock purchase plans and restricted stock programs granting stock to workers to be more inclusive. The General Social Survey data does provide some insight on modest-income workers and company stock programs in general. Only 6.8% of workers with yearly work earnings of less than \$15,000 have access to company stock programs, while workers in this income group represent 18% of all private sector workers in the General Social Survey. Moreover, only 10.2% of workers earning \$15,000 to \$30,000 have access to company stock programs, while workers in this income group represent 19% of all private sector workers in the General Social Survey, suggesting that programs other than ESOPs do not have policy incentives to include these employees in their programs equitably. As noted, as part of ERISA, ESOPs are required to include a substantial majority of their employees in their employee share ownership programs.<sup>39</sup> Note that the data does not report on the dollar value of employee share ownership programs.

## Is there public support and political will to expand employee share ownership?<sup>40</sup>

There is strong support across the American population for employee share ownership in all its forms, including worker cooperatives, profit sharing, and gain sharing. Almost three-quarters (72%) of all workers prefer to work for employee-owned companies, compared with 19% who prefer a company owned by investors and 9% who prefer a company owned by the state. This preference extends across ideologies and political parties (see Figure 4). About 40% of workers say they are more likely to buy from a company that shares ownership with its employees.<sup>41</sup>

Fig. 4: Company Choice Breakdown by Political Party, Ideology, and 2016 Presidential Vote<sup>42</sup>

## POLITICS DON'T MATTER: NOT PARTY, NOT PRESIDENTIAL CANDIDATE, NOT IDEOLOGY



### Expanding Employee Ownership With a Racial Equity Lens: Our October 2020 roundtable

On October 19, 2020, the Aspen Institute Economic Opportunities Program hosted a roundtable discussion on “Expanding Employee Ownership With a Racial Equity Lens,” convening employee ownership experts from philanthropy, research, impact investing, local government, and economic and workforce development. Through breakout sessions and group discussion, participants shared perspectives on and experience with expanding employee ownership to advance racial equity. The purpose of the meeting was to identify key barriers to increasing employee ownership among people of color—including specific policy, technical assistance, financing, and other challenges—and to identify concrete policy and practice strategies for addressing these barriers. Participants suggested action steps to increase and sustain employee ownership, with a focus on reaching workers of color, which are synthesized in this issue brief. A full list of roundtable participants is included as an appendix.

# What key barriers stand in the way of increasing and sustaining employee share ownership among people of color?

This question was a major topic of discussion in our October 2020 roundtable. Participants described numerous barriers, but three emerged as critical priorities to help shape and target policy and practice recommendations:

## **1. Systemic and structural racism have prevented communities of color from accessing employee ownership as a wealth-building strategy.**

Roundtable participants described a multitude of reasons why business owners and workers of color might show rational skepticism toward employee ownership, including lack of trust in the financial system based on historic exploitation. The racial wealth disparities and occupational segregation described in earlier sections of this paper also make access to conversion capital and working capital more challenging for business owners of color.

Increasing and sustaining employee share ownership will require expanding awareness, understanding, and capacity for implementation of employee ownership strategies among a range of stakeholders, with a particular focus on reaching diverse workers.

It is also important to acknowledge that, even as the data suggests that employee share ownership plays an important role in closing race and gender wealth gaps, gaps in the value of employee share ownership in worker-owned firms continue to endure. These enduring gaps may reflect a multitude of intersecting historical and institutional barriers, such as occupational segregation and other barriers to accessing high-quality employment. Further research is needed to identify the factors driving these discrepancies and to support the design of targeted interventions.

## **2. Small business owners, particularly business owners of color, are important targets for employee ownership conversions and face myriad ecosystem pressures.**

Employee ownership initiatives cannot succeed without consulting small business owners and addressing the particular set of pressures they face. It is important to focus on small businesses because many have large percentages of workers who are people of color and because they have been a target for conversion to employee ownership.

Lack of capital access and expensive commercial rents are key barriers that can prevent small business owners from transitioning equity ownership to their employees. Small business owners—especially those who are people of color—struggle with access to working capital, a problem that has grown more acute as local and community banks have consolidated. At the same time, small business owners often face challenges to affording commercial rents. The consolidation of commercial property ownership by private equity interests over the past decade has exacerbated this problem, as has the COVID-19 pandemic, during which landlords have tended to be less lenient.

Developing solutions that work for small business owners will require nuanced thinking and the recognition that different businesses are motivated by different incentives depending on their size and structure.

**3. Lack of awareness and knowledge of employee share ownership, including among business owners and leaders, workers, investors, and policymakers, has prevented its expansion.**

While there is strong evidence that employee share ownership can strengthen job quality for workers, address wealth inequities, and contribute to business resilience—all critical to rebuilding from the pandemic—key stakeholders do not yet see expansion of employee ownership as an economic development and business preservation strategy. Educating these actors will take time, and roundtable participants expressed concern that predatory investors such as private equity firms could “swoop in first” to acquire locally owned companies before owners have learned about (let alone executed) conversions to employee ownership.

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# What policy and practice ideas could expand employee share ownership to advance equity?

Foundations, impact investors, business leaders, and policymakers can take concrete steps to address the barriers outlined above and support employee ownership, including by prioritizing or funding awareness-raising campaigns and increasing access to appropriate capital and technical assistance to support implementation. Roundtable participants brainstormed a high-level menu of policy and practice strategies to increase and sustain employee share ownership, with a focus on reaching business owners and workers of color. Expanding employee ownership will require a range of approaches from diverse partners.

The expansive list that follows includes strategies to advance employee ownership in general, as well as targeted approaches that focus on reaching workers of color.

## **1. Increase awareness and education efforts and broaden the scope of the message to reach a wider audience.**

Employee share ownership is not yet a strategy that is well understood among policymakers and the public, but it connects to and supports outcomes that are top of mind for many, including increasing local ownership and bolstering local economies, helping small business owners retire in ways that preserve local jobs and businesses, strengthening job quality and workforce development, addressing racial inequity and economic inequality, and providing workers greater voice and agency. A targeted education campaign can explicitly connect employee ownership to these high-priority issues, demonstrating that employee ownership meets immediate practical needs and offers an innovative approach to retain businesses and save jobs.

Participants noted the importance of identifying the right audience, message, and messengers to build awareness and interest in employee ownership. They proposed targeting businesses (including large firms with partial or fractional employee ownership that could be expanded to include more workers), investors, trusted business advisers (particularly financial and legal advisers who serve business owners of color), and policymakers. They noted the importance of engaging both grass-tops and grassroots organizations to reach business

owners and workers of color, including partnering with trusted community organizations such as religious organizations, community action agencies, and worker centers.

To broaden the coalition of advocates committed to advancing new policies and practices, it will be particularly critical to articulate how employee ownership strategies will advance COVID-19 relief and recovery and the movement for racial justice.

Roundtable participants brainstormed a range of approaches that leverage current momentum. They noted, for example, that many publicly traded companies have made racial justice commitments and could be encouraged to build employee ownership into these commitments. Organizing a summit of civil rights leaders to build awareness of the role employee share ownership can play in addressing racial wealth gaps could help connect employee ownership approaches to racial justice campaigns.

Targeted outreach to policymakers at all levels of government could help make employee ownership a component of state and local economic recovery strategies. Such outreach could include events and publications that bolster existing efforts and show the value of local ownership in an economic downturn and how employee ownership creates more resilient businesses. Articulating how employee ownership addresses needs in rural areas can also help broaden its geographic and political reach.

Participants spoke of the need to align messaging across the spectrum of employee ownership models and to make a clear business case. Impact investors and owners need to know about the potential for consistent financial returns over time. For business owners, selling to a private equity firm might promise more lucrative returns in the short term but would risk destructive long-term outcomes for the business, its workers, and the community. Lifting up the voices of business owners and employees of color who are experiencing the benefits of worker-owned firms can bring to life both the business and community benefits for policymakers, philanthropic leaders, and practitioners.

To support rapid awareness-raising campaigns among policymakers, businesses, business advisers, and investors, roundtable participants proposed sharing existing resources and case studies. Below are a few examples mentioned in the conversation:

### Fellowships and Networks

- The [Shared Equity in Economic Development Fellowship](#) is a partnership between the National League of Cities and the Democracy at Work Institute that supports city leaders with tools, resources, and expertise to build equitable economies using democratic business ownership.
- The [Employee Ownership Expansion Network](#) establishes and supports a network of independently run State Centers for Employee Ownership across the country.

### Promising Public Initiatives

- [Owner2Owners](#), an initiative of Employee Ownership NYC, is a city-backed marketing campaign targeting owners who are considering or ready to sell. Through a hotline, website, and outreach, business owners are connected to grant-funded conversion specialists who provide guidance, offered in 10 languages.

### Education and Training Programs

- [Nexus Community Partners](#) offers a curriculum for Black business owners to build trust that conversion to employee ownership is a viable, legitimate option.
- [Sustainable Economies Law Center](#) is educating attorneys and accountants to support business conversion.
- The Beyster Institute and the University of California San Diego's Rady School of Management offer [Understanding ESOPs: Training to Be an ESOP Professional](#), a graduate-level course that prepares individuals with “ESOP fundamentals” that help them serve as professionals in the ESOP field.
- The W.K. Kellogg Foundation has partnered with the Rutgers University Institute for the Study of Employee Ownership and Profit Sharing on [a three-year project to help minority- and women-owned businesses](#) explore ESOPs, worker cooperatives, and employee ownership trusts when a retiring business owner is ready to sell. The project is developing free online video education on employee buyouts to be pushed out to all 3,300 US counties and many local chambers of commerce and economic development agencies nationwide.

### Resource Hubs

- The [National Center for Employee Ownership](#), a nonprofit organization founded in 1981, publishes research and resources, hosts events, and offers membership to businesses interested in employee ownership.
- The Aspen Institute Economic Opportunities Program is aggregating tools and resources in a [Job Quality Tools Library](#), including resources for practitioners seeking to educate businesses about employee ownership.
- In 2020, Project Equity released its “[The Case for Employee Ownership](#)” publication. Targeted at foundations and policymakers, the publication provides substantial evidence of the value and potential of ESOPs and worker cooperatives as well as examples of how philanthropy and government can collaborate to support this growing movement.

## 2. Increase access to equity and risk capital.

Additional efforts to explore the necessary, available, and potentially available capital to finance employee ownership transactions with a racial equity lens are needed, including financing conversion of businesses to employee ownership. This strategy could include examining how these transactions have been financed to date and what is needed in the COVID-19 and post-COVID-19 environment to increase employee share ownership and address the racial and gender wealth divide.

Another strategy is to provide capital to lenders or investors that have an explicit racial equity focus to transition businesses at risk of closure. [Workers to Owners Collaborative](#) members offer promising lessons from which to draw. Crowdfunding is an additional strategy to allow community members to support local businesses with debt financing. Philanthropic investors also have an important role to play in making direct equity investments in employee ownership funds, as well as investing in field-building and technical assistance support, including in partnership with cities.

## 3. Implement a range of policy solutions that span the spectrum of employee share ownership across all levels of government.<sup>43</sup>

Below, we offer a list of policy ideas that can be deployed at the local, state, and federal levels to expand access to employee share ownership with an equity lens, including by raising awareness and building capacity among firms and the institutions positioned to support them, providing new sources of financing, and offering additional incentives. The policy ideas that follow focus largely on growing plans that already tend to be more inclusive of diverse workers (e.g., ESOPs, worker co-ops). However, we recognize that it is also important to provide tax enhancements and other incentives to increase racial equity in programs that are not as inclusive (e.g., stock options).

*Build awareness, knowledge, and capacity.*

- Fund qualified outreach and technical assistance providers to educate and assist business owners and workers in transitioning their businesses to employee ownership.
- Remove barriers to municipal use of business license data to target assistance.
- Create and/or fund state or local employee ownership centers.
- Enable workforce development dollars to help workers become owners. Expand workforce investments to include training on how to run and own an employee-owned business. Expand opportunities to deploy layoff aversion funds to support employee ownership feasibility studies.<sup>44</sup>
- Deploy Community Development Block Grant funds for small business education and outreach focused on employee ownership.
- At the municipal level, implement strategic and technical assistance for financially viable legacy businesses above a certain size threshold owned by people of color in federally designated Opportunity Zones—economically-distressed communities where new investments may be eligible for preferential tax treatment—to prepare them for potential investment and conversion to employee ownership.<sup>45</sup>

*Provide financing support.*

- Provide loans, guarantees, and investments, including directing public pension funds to make investments.
- Create set-asides for conversions to worker ownership in existing city loan guarantees or loan programs. Designate 3% to 5% for qualified technical assistance.
- Develop a Strong Local Economies Financing Initiative to support small business retention. This multiagency national initiative, structured as a public-private partnership, would provide grants and capital focused on retaining small businesses across the US. The fund would support communications to build awareness among business owners, grant funding for technical assistance, and capital access for employee and community buyouts. Community development financial institutions and the CDFI Fund would be critical implementation partners.<sup>46</sup>
- Develop agency or Cabinet department-based share programs—for example, by considering the role share programs could play in the existing or expanded programs of the Department of Commerce, the Department of Agriculture, or the Small Business Administration (SBA).
- Create a special designation to use an existing vehicle, such as the SBA's Small Business Investment Company or Specialized Small Business Investment Company, and/or the Department of Agriculture's Rural Business Investment Company—types of privately owned investment companies licensed by the federal government—to create a “private equity for good” model for investing in business transitions.
- Design investment vehicles that facilitate the transition of equity ownership from founding Opportunity Zone entrepreneurs to their employees.<sup>47</sup>
- Update SBA policies and requirements to increase funding and technical assistance for employee share ownership and ensure that programs reach business owners of color. Proposed steps include the following:
  - Engage the SBA to finalize rules of worker ownership and strengthen financing.
  - Change SBA collateral requirements. The current structure may advantage those who already hold more wealth.
  - Deploy an additional round of Paycheck Protection Program funds that includes loan forgiveness for businesses that transition to employee ownership (perhaps limited to firms with at least 50% employees of color).



*Deploy incentives.*

- Use state tax law to leverage existing federal tax incentive programs.
- Create a public procurement preference for employee-owned businesses.<sup>48</sup> Consider adding criteria to veteran firms for racial equity as well as proactively reaching out to Minority and Women-owned Business Enterprises (MWBE) to offer services around succession, including conversion to employee ownership. Ensure that when businesses run by women and people of color convert, they do not lose their MWBE certification, and/or consider directing them through a fast-track certification process.
- Target tax incentives to implement shares and expansion of existing tax incentives to encourage the adoption of broad-based share programs.
- Consider general tax incentives to implement shares, such as making broad-based equity shares a condition of receiving other corporate tax benefits or a lower corporate tax rate.
- Preference companies offering shares in the awarding of federal contracts for major purchasing, procurement, or infrastructure programs.
- Focus tax incentives on the employee recipients of share programs by offering lower taxation of proceeds to employees from share programs.
- Make changes in regulations governing specific share formats, such as ESOPs, employee stock purchase plans, employee stock options, and worker cooperatives, to encourage their adoption.

## Conclusion: Next steps to advance equity through employee share ownership

The year 2020 brought simultaneous and intersecting public health, economic, and racial justice crises. The ideas expressed in this paper are tactical steps that respond to the urgency and opportunity of this moment. This paper's authors, and the roundtable participants who generously shared their time and ideas with us, believe that expanding employee share ownership is not just a feasible and timely approach to address race and gender wealth gaps—it is imperative.

Expanding employee share ownership can help create an economy that is more equitable and just, and that everyone has a stake in. Making more workers owners can help strengthen job quality and worker agency while contributing to business performance, so that businesses and

workers succeed together. Increasing access to employee share ownership is a strategy to build wealth among historically excluded communities, and it is a structural shift that can help more workers and business leaders align their interests and build common purpose.

In the months ahead, we hope to engage roundtable participants and other stakeholders to further develop and prioritize the policy and practice ideas in this publication, with a focus on identifying the targeted approaches that most successfully close race and gender wealth equity gaps. We welcome additional ideas and feedback, and we look forward to taking additional steps to convene, amplify, and support implementation of these strategies.

“

**Expanding employee share ownership can help create an economy that is more equitable and just, and that everyone has a stake in.**

**Making more workers owners can help strengthen job quality and worker agency while contributing to business performance, so that businesses and workers succeed together.**

**Increasing access to employee share ownership is a strategy to build wealth among historically excluded communities, and it is a structural shift that can help more workers and business leaders align their interests and build common purpose.**

”

## Appendix: List of roundtable participants

On October 19, 2020, the Aspen Institute Economic Opportunities Program hosted a roundtable discussion on “Expanding Employee Ownership With a Racial Equity Lens.” A list of roundtable participants is included below. Participation in the meeting does not imply endorsement of the findings and recommendations in this paper.

### [Natalie Abatemarco](#)

Managing Director, US Business Partnerships and Inclusive Finance, Citi Community Investing and Development, Citi

### [Joseph Blasi](#)

Distinguished Professor, J. Robert Beyster Professor, and Director, Institute for the Study of Employee Ownership and Profit Sharing, Rutgers School of Management and Labor Relations

### [David Bright](#)

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### [Jennifer Bryant](#)

Program Manager for Community Wealth Building Initiatives, Washington Area Community Investment Fund

### [Maureen Conway](#)

Vice President, The Aspen Institute, and Executive Director, The Aspen Institute Economic Opportunities Program

### [Tina Corea](#)

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### [Samuel Diaz](#)

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President, Concerned Capital

### [Melissa Hoover](#)

Executive Director, Democracy at Work Institute

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Fund Advisor for People, Place, and Planet, The Kendeda Fund

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[Jeanne Wardford](#)

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[Jenny Weissbourd](#)

Associate Director, Workforce Strategies Initiative, The Aspen Institute Economic Opportunities Program

## Acknowledgments

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commitment to advancing strategies to expand employee share ownership and advance racial equity. The authors would also like to thank Janet Boguslaw and Phela Townsend for their substantive and helpful comments on the content of this paper. We also appreciate Tony Mastria from the Economic Opportunities Program, who supported the editing, layout, and production of this paper.

The Economic Opportunities Program is grateful to Prudential Financial for its support of our recent roundtable discussion, this publication, and our long-running work to build a job quality field of practice.

## Endnotes

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<sup>2</sup> Mariko Chang, *Women and Wealth: Insights for Grantmakers* (New York: Asset Funders Network, 2015), 5, [https://asfunders.org/wp-content/uploads/Women\\_Wealth\\_Insights\\_Grantmakers\\_brief\\_15.pdf](https://asfunders.org/wp-content/uploads/Women_Wealth_Insights_Grantmakers_brief_15.pdf).

<sup>3</sup> Organisation for Economic Co-operation and Development (OECD), “What Are Income and Wealth?,” in *OECD Insights—Income Inequality* (Paris: OECD, 2015), <https://www.oecd-ilibrary.org/docserver/9789264246010-3-en.pdf?expires=1610658427&id=id&accname=quest&checksum=6DCCEE7EA12209519750048DA2CE31B#:~:text=Income%20is%20the%20flow%20of.some%20ways%2C%20income%20matters%20more>.

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<sup>5</sup> Heather McCullough, *Closing the Women's Wealth Gap: What It Is, Why It Matters, and What Can Be Done About It* (San Francisco, CA: Closing the Women's Wealth Gap, January 2017), 3, <https://womenswealthgap.org/wp-content/uploads/2017/06/Closing-the-Womens-Wealth-Gap-Report-Jan2017.pdf>.

<sup>6</sup> This brief draws on publicly available data disaggregated by race/ethnicity for Black, Latinx, and non-Hispanic white populations. We acknowledge the limitations of available data for Indigenous populations, Asian American and Pacific Islanders, and other communities of color and the ways that data invisibility contributes to systemic inequities. We encourage additional research, coordination, and further disaggregation to better reveal and address inequities for racial and ethnic subgroups.

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<sup>9</sup> Robin Bleiweis, *Quick Facts About the Gender Wage Gap* (Washington, DC: Center for American Progress, 2020), <https://www.americanprogress.org/issues/women/reports/2020/03/24/482141/quick-facts-gender-wage-gap/>. Data calculated from US Census Bureau, 2018.

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<sup>12</sup> Morrissey, *The State of American Retirement Savings*, 18–19.



<sup>13</sup> Alicia H. Munnell, Wenliang Hou, and Geoffrey T. Sanzenbacher, *Trends in Retirement Security by Race/Ethnicity* (Chestnut Hill, MA: Boston College Center for Retirement Security, November 2018), 3,

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<sup>14</sup> Chuck Collins et al., *Dreams Deferred: How Enriching the 1% Widens the Racial Wealth Divide* (Washington, DC: Institute for Policy Studies, January 2019), 3, [https://inequality.org/wp-content/uploads/2019/01/IPS\\_RWD-Report\\_FINAL-1.15.19.pdf](https://inequality.org/wp-content/uploads/2019/01/IPS_RWD-Report_FINAL-1.15.19.pdf).

<sup>15</sup> William Darity Jr. et al., *Unlocking Assets: Building Women's Wealth Through Business Ownership* (New York: Asset Funders Network and the Closing the Women's Wealth Gap Project, July 2019), 5, <https://assetfunders.org/wp-content/uploads/AFN-Unlocking-Assets-July-2019.pdf>.

<sup>16</sup> Ray Boshara, William R. Emmons, and Bryan J. Noeth, *The Demographics of Wealth Essay No. 1: Race, Ethnicity and Wealth* (St. Louis, MO: Federal Reserve Bank of St. Louis Center for Household Financial Stability, February 2015), 11, <https://www.stlouisfed.org/~media/files/pdfs/hfs/essays/hfs-essay-1-2015-race-ethnicity-and-wealth.pdf?la=en>.

<sup>17</sup> Boshara et al., *The Demographics of Wealth Essay No. 1*.

<sup>18</sup> To our knowledge, a similar analysis of the composition of balance sheets for single men and single women has not been conducted.

<sup>19</sup> Joseph Blasi and Douglas Kruse, *Having a Stake: The Potential of Employee Share Ownership for Workers and Businesses* (Washington, DC: The Aspen Institute, May 2018), [https://assets.aspeninstitute.org/content/uploads/2018/05/Background-Information-Having-a-Stake-The-Potential-of-Employee-Share-Ownership-for-Workers-and-Businesses.pdf?\\_ga=2.240116867.126012629.1582805761-1403411556.1581038759](https://assets.aspeninstitute.org/content/uploads/2018/05/Background-Information-Having-a-Stake-The-Potential-of-Employee-Share-Ownership-for-Workers-and-Businesses.pdf?_ga=2.240116867.126012629.1582805761-1403411556.1581038759). Estimates of employee share ownership are from the 2018 General Social Survey supported by the Employee Ownership Foundation of Washington, DC.

<sup>20</sup> For the Institute for the Study of Employee Ownership and Profit Sharing, see <https://smr.rutgers.edu/content/institute-study-employee-ownership-and-profit-sharing>. Based on the US General Social Survey (GSS) administered to a national random sample of working adults by the National Opinion Research Center of the University of Chicago in 2014. See <http://www.norc.uchicago.edu/research/projects/pages/general-social-survey.aspx>. The GSS has been funded every two years since 2002 by the National Science Foundation with supplementary questions under contract by the Employee Ownership Foundation every four years. Capital shares have been measured every four years in the GSS since 2002. For detailed data tables from 2014, see <https://www.nceo.org/assets/pdf/articles/GSS-2014-data.pdf>.

<sup>21</sup> "Employee Ownership by the Numbers," National Center for Employee Ownership, September 2020, <https://www.nceo.org/articles/employee-ownership-by-the-numbers>.

<sup>22</sup> See [https://ownership.rutgers.edu/sites/default/files/michael\\_2017\\_employee\\_ownership\\_trusts\\_-\\_a\\_new\\_model\\_of\\_employee\\_ownership.pdf](https://ownership.rutgers.edu/sites/default/files/michael_2017_employee_ownership_trusts_-_a_new_model_of_employee_ownership.pdf) and a detailed webinar from Rutgers at <https://www.youtube.com/watch?v=WYZ-30xH0-o>.

<sup>23</sup> Tim Palmer, *2019 Worker Cooperative: State of the Sector* (Oakland, CA: Democracy at Work Institute, January 2020), <https://institute.coop/resources/2019-worker-cooperative-state-sector-report>.

<sup>24</sup> Palmer, *2019 Worker Cooperative*.

<sup>25</sup> National Center for Employee Ownership (NCEO), *ESOPs and Preferred-Status Certification: Challenges and Opportunities for Employee Stock Ownership Plans and Business Preference Programs* (Oakland, CA: NCEO, July 24, 2017), [https://www.nceo.org/assets/pdf/EO\\_PREFERRED-STATUS.PDF](https://www.nceo.org/assets/pdf/EO_PREFERRED-STATUS.PDF).

<sup>26</sup> Analysis of the 2014 and 2018 General Social Survey by Professors Douglas Kruse and Joseph Blasi of Rutgers University.

<sup>27</sup> Analysis of the 2014 and 2018 General Social Survey by Professors Douglas Kruse and Joseph Blasi of Rutgers University.

<sup>28</sup> This chart was made possible through a contract between the Employee Ownership Foundation and the National Opinion Research Center at the University of Chicago for questions on the General Social Survey. Analysis of the data was done on a volunteer basis by Professor Joseph Blasi and Professor Douglas Kruse of the Institute for the Study of Employee Ownership and Profit Sharing, Rutgers University School of Management and Labor Relations, 2019.

<sup>29</sup> Analysis of the 2014 and 2018 General Social Survey by Professors Douglas Kruse and Joseph Blasi of Rutgers University. Select job quality data in bullet 3 comes from Joseph Blasi, Douglas Kruse, and Maureen Conway, "Sharing Profits and Ownership With Workers Not Only Make Them Happier, It Benefits the Bottom Line Too," *The Conversation*, May 30, 2019, <https://theconversation.com/sharing-profits-and-ownership-with-workers-not-only-make-them-happier-it-benefits-the-bottom-line-too-111803>. On the higher wages, see also Joseph Blasi, Douglas Kruse, and Richard Freeman, *Having a Stake*, a Third Way Policy Report available at <https://www.thirdway.org/report/having-a-stake-evidence-and-implications-for-broad-based-employee-stock-ownership-and-profit-sharing>. The Great Place to Work Study is from Joseph Blasi, Richard Freeman, and Douglas Kruse, "Do Broad-Based Employee Ownership, Profit Sharing and Stock Options Help the Best Firms Do Even Better?," *British Journal of Industrial Relations* 54, no. 1 (2015): 1–28.

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- <sup>39</sup> Unfortunately, because of small sample sizes, it is not possible for the 2018 General Social Survey to examine the intersection of gender and race in these programs.
- <sup>40</sup> The data and charts that follow were made possible through a contract between the Employee Ownership Foundation and the National Opinion Research Center at the University of Chicago for questions on the General Social Survey. Analysis of the data was done on a volunteer basis by Professor Joseph Blasi and Professor Douglas Kruse of the Institute for the Study of Employee Ownership and Profit Sharing, Rutgers University School of Management and Labor Relations, 2019.
- <sup>41</sup> These results are from a speech by Joseph Blasi and Douglas Kruse to the Employee Ownership Foundation in April of 2019. They are based on a special series of questions in the 2018 General Social Survey that the Employee Ownership Foundation supported. The analysis was done on a volunteer basis by Professors Blasi and Kruse.
- <sup>42</sup> This chart was made possible through a contract between the Employee Ownership Foundation and the National Opinion Research Center at the University of Chicago for questions on the General Social Survey. Analysis of the data was done on a volunteer basis by Professor Joseph Blasi and Professor Douglas Kruse of the Institute for the Study of Employee Ownership and Profit Sharing, Rutgers University School of Management and Labor Relations, 2019.
- <sup>43</sup> Many of these are discussed in more detail in Joseph Blasi, Richard Freeman, and Douglas Kruse, *The Citizen's Share* (New Haven: Yale University Press, 2014), 195–223.
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