

Employee Ownership Can Preserve California Businesses and Save Jobs

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Engineer and solar pioneer Gary Gerber founded Sun Light and Power in the 1970s, one of the first wave of renewable energy enterprises. By 2015 the Berkeley-based solar installer was thriving and Gary was considering his retirement options. Always mission-driven, he couldn't envision selling the business he and his team had built over the years to one of the quickly-consolidating solar giants. Looking around at his talented, engaged workforce, he asked an unusual question: could the employees take this thing over?

More and more small business owners will be asking this question in the years to come. Every day, 10,000 baby boomers retire in the United States. Research shows that baby boomer retirements will lead \$10 trillion+ in business assets to change hands over the next 5-20 years. As a result, an estimated 70 percent of privately held businesses will be sold or closed. This significant transition of ownership has the potential to impact hundreds of thousands of jobs and thousands of enterprises.

Pacific Grove solicited the California Academy for Economic In California's growing small business sector, an oversupply of boomer business owners looking for a buyer could create a large-scale small business closure crisis. In regions that are undercapitalized, rural or experiencing rapidly neighborhood-level change, owners looking to sell will be hard-pressed to find a suitable buyer. Even in thriving areas, there will be a flood of businesses on the market.

But closure or consolidation is not a foregone conclusion: both can be averted by a creative business retention strategy. Converting companies to employee-owned enterprises may prove to be both a succession planning win and a business retention strategy – one that can deliver substantial economic benefits to outgoing owners, employees, and communities.



300,000 of California's **650,000** privately-held small businesses have aging owners.

That's 45% that could soon be up for sale or close.

At the Democracy at Work Institute, we see employee ownership as an important piece of a long-term strategy to retain vital businesses, save jobs, build community wealth and expand entrepreneurship. We work with business owners, technical assistance providers, and economic developers to ensure that business owners know all their options and that employees are presented with the opportunity, training and capital necessary to become owners of their economic future.

Lack of succession planning is the #1 preventable cause of job loss. The problem is significant, given that only 15 percent of family businesses succeed to the next generation. Those businesses that do not close often only have the option of being sold to out-of-state buyers or private equity firms. Both of these options will likely relocate individual jobs or the entire business.

Transferring business assets to employees is not just a succession strategy of last resort; it also proves to be good for business. Studies show that employee ownership improves companies' competitiveness through outcomes like increased loyalty and a boost in employee productivity by up to 4.5 percent. Furthermore, converting existing small businesses to employee-owned ventures can be a tool for achieving long lasting, inclusive economic growth: employee-owned companies share their prosperity more broadly and are less likely to relocate or offshore.

To scale employee ownership and advance the field of support, The Democracy at Work Institute (DAWI) and the Workers to Owners collaborative (W2O) have formed a national network of leaders in the field of employee ownership. We partner with city and state agencies to provide tools, training and supports for retiring business owners who plan to sell to their employees.

California has the opportunity to turn a potential small business closure crisis into a transformative economic opportunity. In order to effectively capitalize on this opportunity, we need a strategic partnered approach among business support organizations, economic development agencies, investment capital and technical assistance providers. Working together, we can develop a robust ecosystem of support, advancing an initiative that expands ownership opportunities, reduces small business closure, and shrinks the growing opportunity and wealth gap.

In 2017 Sun Light and Power will finalize their transition to employee ownership. They will have kept a strong company's doors open, preserved its mission, and offered all 80 of its employees the opportunity to become business owners.

¹ Project Equity, Democracy at Work Institute and Coop Fund of New England, "The Lending Opportunity of a Generation"

² Ohio Employee Ownership Center

³ Joseph Blasi and Douglas Kruse (Rutgers University) and Richard Freeman (Harvard University), Why Spreading Profits and Capital Ownership is the Best Way to Reduce Income Inequality in America"

Examples of Business Conversions in California



The Cheese Board, a cheese shop and bakery in Berkeley, CA was sold by a husband and wife owners to employees in 1971. The owners stayed on as members of the new cooperative. By 2010 the store had tripled its retail square footage and spun off five sister locations, with over 150 employee-owners.



Restif Cleaning Cooperative in Arcata, CA was founded in 1983 and sold to its workers as a cooperative in 1990. The business serves homeowners, commercial, industrial, and retail businesses, governments, and schools. The cooperative has over 30 employee-owners.



Employees at the Vermont-Gage Car Wash in South Los Angeles, CA formed a cooperative after the owner unexpectedly disappeared without paying rent or wages in 2012. With the support of a local union, the 16 employees now own the business together.



California Solar Electric is a photovoltaic installer in Grass Valley, CA founded in 2007. By 2015 it was going through high growth in work and staffing, and the owner offered the cooperative ownership option to his employees in order to more equitably distribute rewards and incentivize longevity. The 24 employees have voted to pursue it and the transaction is the process of being structured.

Conversions of businesses to employee owned entities will:

- ✦ Keep jobs, assets and business ownership local
- ✦ Preserve the delivery of critical goods and services (in particular across non-exportable industries)
- ✦ Strengthen neighborhoods and anchor future development
- ✦ Stabilize small business corridors through investing in a neighborhood's key small businesses, which often sustain an area's distinctiveness and character and hire locally
- ✦ Catalyze infrastructure of supports by ensuring that Business Owners have access to succession planning services and personal long-term financial planning tools

Next Step: Email to receive Tools & Training Resources

- ✦ Economic Developers: To discuss available conversions-related supports email us at conversions@institute.coop
- ✦ Business Owners: Direct owners looking into succession and exit planning to Becoming Employee Owned www.becomingeo.org website, site includes information on business conversions, a service provider directory, and a sign up for consultation.

The Democracy at Work institute expands the promise of worker ownership to new communities of worker-owners, ensuring that this growth is adequately supported, effective, and strategically directed. The Institute brings both a bird's-eye view of the national stage and an experiential on-the-ground understanding of cooperative business. DEMOCRACY AT WORK INSTITUTE at the US Federation of Worker Cooperatives 1904 Franklin Street, Suite 400 Oakland, California, 94612 +1. (415) 379-9201 www.institute.coop