

# Employee-owned Businesses Can Boost Local Economies



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Forget about the official unemployment numbers: The U.S. economy is on life support, choked into submission by massive imbalances in the distribution of wealth. The once-great American engine of productivity is sputtering, but what if it were revived by invigorating local economies through the expansion of employee-owned businesses?

In this time of great fear and economic uncertainty, we need new answers to old problems now more than ever. This is where employee-owned business models enter the picture. While for

some worker-ownership models conjure up images of socialism, this dynamic business model is in fact compatible with any economic system, as the workers who run and own hundreds of thousands of successful co-ops in different countries around the world can attest.

Putting business interests directly in the hands of the people doing the work radically democratizes economic decision-making and ultimately benefits not only the employees but also communities and the American people as a whole.

## **Business Ownership: The Next Generation**

While globalization and corporatization have swept away many small independent local entrepreneurs, a significant opportunity remains. Small businesses make up 95 percent of all firms and provide 49 percent of all jobs in the San Francisco Bay Area economy. This provides an ideal opening for employee-ownership to take hold.

At some point, every independent entrepreneur must decide how to transfer their business interests, whether because they are retiring or moving on to their next venture. Increasingly, family succession is not an option; only 15 percent of businesses succeed to the second generation. Assuming these business owners care about the health and welfare of their employees and their communities, why not sell their businesses to those who have the biggest stake in their continued success?

Startup worker-owned enterprises do have a record of success. But with employee-owned co-ops still relatively rare in the U.S., the easiest way to create more broad-based democratic employee ownership here is through the sale of existing businesses to qualified and responsible employees, who can get assistance from [nonprofit technical support organizations](#) and obtain financing from community development financial institutions, banks, credit unions, or even local community investment to buy the business. Successful, profitable enterprises have proven business practices in place, making the odds of success greater than for employee-owned startups.

Before any official transfer occurs, owners can practice participatory management or offer on-the-job management and entrepreneurial training to their employees to help ensure they're prepared to transition to an ownership culture. After an official transfer occurs, a GM or CEO would manage the new entity, hired by a board of directors that provides corporate governance in a representative democracy.

## **Advantages of Employee Ownership**

Because they are an unfamiliar business form, worker-owned enterprises may seem impractical to many Americans. But broad-based employee ownership has been tested around the world and emerged triumphant, time and again.

While they aren't very well known or publicized in this country, according to the U.S. Federation of Worker Cooperatives, there are between 300 and 400 worker-owned cooperatives in the United States today. We estimate that the Bay Area is home to more than 50 of these, including some well-known businesses like Rainbow Grocery, Alvarado Street Bakery, the Cheeseboard,

and the Arizmendi Bakeries. Worker cooperatives can be found in cities and small towns, in rural areas, and most states.

From the perspective of workers, and especially powerful for frontline workers, the benefits of broad-based employee-ownership include:

- Higher than industry standard wages and benefits
- Better job security
- More democratic decision-making practices
- On-the-job training in business and entrepreneurship skills
- Higher self-confidence and self-esteem

From the standpoint of civic leaders, businesses owned by employees are a true asset to the community. They help:

- Keep business profits in the area, where they can continue to circulate dollars through the local economy
- Reinstate face-to-face accountability for the quality of goods and services provided
- Rejuvenate locally-based entrepreneurship as an alternative to corporate buyouts
- Increase the community's collective business savvy and experience
- Improve the area tax base, since higher wages will benefit the local spending multiplier
- Help insulate local economies from the ups and downs of the national/global economy

An employee-ownership movement could jumpstart a nationwide local-economy renaissance by merging commercial and business activity with community interests. With a reduction in absentee or corporate ownership, profits would stay in the community, stability would be preserved, and the widening gap between rich and poor would improve.

None of these benefits are theoretical. Numerous studies have revealed that broad-based employee-owned enterprises are superior performers in comparison to similarly sized private businesses with more traditional ownership structures. Well-run employee-owned businesses are more [productive](#), more [efficient](#) and more [likely to succeed](#) in a crowded and competitive marketplace.

## **Turning the Clock Forward**

Hard-working men and women devote themselves to meeting their responsibilities to their employers. But most have no real control over whether the businesses they work for live, die, innovate, relocate or close their doors for good at the first sign of a slowdown, or when the parent company decides to shift part of its operations to a lower-wage country.

Current trends in globalization have us racing to the bottom, where outsourcing and downsizing have made the “good jobs at good wages” mantra of times past no longer within reach of the American worker.

Today, businesses with broad-based democratic employee ownership represent a powerful and proven approach for building an economy that truly works for everyone, that encourages workplaces to invest in people and professional development, that brings the financial benefit of business ownership to all of the people who work hard to make businesses successful, and that builds sound, lasting companies.

**Posted:** <https://nonprofitquarterly.org/voice-field-employee-owned-businesses-can-boost-local-economies/>