New York State Senate
Democratic Policy Group

Creating Jobs, Sharing the Wealth
Employee-Owned Businesses: A Path for Good Jobs in New York

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In October 2015, Democratic Conference Leader Andrea Stewart-Cousins launched the Democratic Policy Group to develop policy initiatives to serve all New Yorkers. The group, chaired by Senator Daniel Squadron, with Senators George Latimer, Velmanette Montgomery, Kevin S. Parker, and José M. Serrano, works with the entire Democratic Conference to identify and advance practical solutions to the most pressing problems facing New Yorkers today.

New Yorkers today need good jobs. In Long Island, New York City, and every metropolitan area in Upstate New York, the middle class is shrinking, and New York’s net population loss last year was its largest since 2007 with losses over the last six years larger than any state, as stable jobs with good pay become harder to find in the state.

In the face of this need for jobs, Senator Jamaal Bailey, Ranking Member of the Housing, Construction and Community Development Committee, and the Democratic Policy Group have identified employee-owned businesses, such as worker coops, as a promising path to create and sustain good jobs for New York.

Employee-owned businesses are businesses where employees own part or all of the company where they work. These businesses create stable, long-term jobs with good wages and outperform traditional businesses in job creation, profits, and benefits for workers and communities.

Despite these proven advantages and the success of employee-owned businesses internationally, there are far too few in New York. This report highlights 5 ways employee-owned businesses are even better than traditional ones, and suggests 4 ways New York can expand the good jobs that employee-owned businesses create, combatting job and population loss and generating new, good jobs for New Yorkers.

5 Ways Employee-Owned Businesses Are Even Better Than Traditional Ones

1. Employee-Owned Businesses Are Better Job Creators

Research shows that employee-owned businesses create jobs three times faster than traditional firms. Companies with worker ownership returned 11.5% average annual growth from 2002 to 2012 compared to a growth rate of 7.1% for top publicly traded companies. This growth, along with increased sales, profitability, and productivity at such firms, allows employee-owned businesses to re-invest and create new jobs to support their growth.

Research also shows that employee-owned businesses are less likely to go bankrupt, and tend to stay in business longer than comparable firms. This means that the jobs created by new and expanding employee-owned businesses are long-term, stable jobs.

2. Employee-Owned Businesses Slash Layoffs

Employee ownership prevents job loss – as workers participating in management tend not to ship their own jobs overseas and instead develop strategies to maintain and create jobs. As examples, several employee-owned businesses in the United States, including supermarket chain Publix, with over 175,000 employees and an 86-year history, report maintaining their workforce without layoffs even as the country has experienced economic downturns.

Recent survey data showed companies owned by employees laying off significantly
fewer employees than companies not owned by employees: with 12.1% of all private sector workers, but only 2.6% of workers at employee-owned businesses reporting that they were laid off within the prior year.\(^3\)

3. **Employee-Owned Businesses Improve Wages and Benefits**

Research shows employee ownership resulting in better wages and benefits for workers.\(^4\)

Companies that provide for employee profit-sharing show significantly higher wages and increased access to retirement benefits.\(^5\) Studies have also shown wages at employee-owned companies are as good or better than at companies that are not employee-owned, and that wages tend to increase at companies after they become employee-owned.\(^6\) Turnover at employee-owned businesses is also lower than at traditionally run firms.\(^7\)

4. **Employee-Owned Businesses Are More Profitable**

Multiple studies of companies adopting employee ownership show that employee ownership leads to increased profitability, with research showing as much as a 2% gain in annual returns for owners based on employee ownership.\(^8\) Employee-owned businesses are also more productive, with research showing productivity gains of as much as 4% tied to employee ownership, with such productivity leading to increased profits.\(^9\)

Case studies suggest employee-owned businesses are more productive and profitable in part because employees know that improving their company’s bottom line will directly help them financially.\(^10\)

5. **Employee-Owned Businesses’ Profits Benefit Workers**

Too often today wealth is concentrated in corporate coffers or in the hands of a few highly paid executives.\(^11\)

In contrast, at employee-owned businesses, the wealth generated by the business accrues to the employees.\(^12\) Because workers at employee-owned firms own a share of the business they work for, increased productivity and profits directly benefit them.\(^13\) Increased profits and success translates directly into increased job stability, benefits, and wealth for employee-owners.\(^14\) This in turn, gives employees the opportunity to invest their earnings in their families and local communities, leading to further, local economic growth.

**Conclusion: New York Should Expand Employee-Owned Businesses**

Given the significant economic and job creation benefits of employee-owned businesses, there should be many more in New York State.\(^15\) Recognizing this potential, the following common-sense policy steps will help create and expand employee-owned businesses in New York State:

First, increasing awareness and providing technical assistance has been shown to help establish and grow employee-owned businesses.\(^16\) In California, Ohio, Vermont, and Colorado, state-level offices have successfully pursued these goals.\(^17\) In New York, a university-based office for employee-owned businesses as proposed in S.5685 (2017) sponsored by Senator Bailey,\(^18\) could provide critical technical assistance and referrals and raise awareness of the potential of employee-owned businesses.
Second, a significant obstacle to the expansion of employee-owned businesses is access to capital.\textsuperscript{29} New York can encourage the growth and expansion of these critical job generators by making low-cost loans and loan guarantees available to such firms, as has been proposed federally.\textsuperscript{30} Loans and loan guarantees for employee-owned businesses, as would be established under S.5685 (Bailey), will help these job-generating businesses access the capital they need to start-up and expand.

Relatedly, existing state programs provide funding to community-based lending organizations so that these organizations can provide loans to small- and micro-businesses.\textsuperscript{31} By highlighting to these lenders the benefits and potential of employee-owned businesses, the state can encourage these lenders to increase their focus on employee-owned businesses, providing another path for growth. To further support employee-owned businesses, New York can explore adding employee-owned businesses as preferred sources on state contracts.

At the federal level, certain tax advantages exist to support the creation of new employee-owned businesses.\textsuperscript{32} New York should complement this federal support with state tax relief as enacted in Iowa and proposed in New Jersey.\textsuperscript{33} Such relief, included in S.5685 (Bailey), would encourage business owners to sell their businesses to employees when retiring or seeking a change of ownership, making it more likely such a sale will result in the continuation of the business and its jobs.

Finally, California and Ohio recently improved their laws to make it easier to create employee-owned businesses in those states.\textsuperscript{34} New York should follow suit and ensure that as employee-owned businesses grow in New York, state laws are as helpful as possible for the creation of new employee-owned businesses.

Supporting employee-owned businesses is an extremely effective use of government resources for job creation. In the time since its founding, Ohio’s Employee Ownership Center has worked with employees to take on ownership roles at 92 companies, creating 15,000 employee-owner jobs.\textsuperscript{35} In New York City, technical assistance and support provided to create and expand employee-owned businesses last year alone lead to the creation of 27 new such businesses and 164 new jobs.\textsuperscript{36}

It is time for New York State to recognize the significant job-creating potential of employee-owned businesses and support their creation and growth across the state.

4 Ways New York Can Expand the Good Jobs Employee-Owned Businesses Create

- Provide low-cost state loans and loan guarantees to employee-owned businesses to expand their access to capital, see S.5685 (Bailey)
- Establish a state university-based office for employee-owned business to spark and support the growth of employee-owned businesses, see S.5685 (Bailey)
- Provide state tax relief to encourage business owners retiring or seeking a change of ownership to sell their businesses to employees, see S.5685 (Bailey)
- Going forward, ensure state laws facilitate the creation and expansion of employee-owned businesses, as in California and Ohio


25 See Democracy at Work Institute, US Federation of Worker Cooperatives. “What Is a Worker Cooperative?”
28 See Ohio Employee Ownership Center at Kent State University, http://www.oeoekent.org/.