



BUILDING MORE **ENGAGED**
AND **POWERFUL** COMMUNITIES

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COMMUNITY PARTNERS

Center for Urban and
Regional Affairs (CURA)

UNIVERSITY OF MINNESOTA
Driven to DiscoverSM

Impact Brief

Business Conversions to
Worker Cooperatives

May 2017

Overview

We are at a critical moment in history.

Wealth disparities across the country are at an all-time high, and in Minnesota growing racial and economic inequalities threaten our economic vitality. The Twin Cities has the third highest employment gap between whites and people of color among the large metropolitan areas.¹ In 2015, the overall poverty rate in Minnesota was 10.2%, but it was 16.4% for Asians, 20.8% for Latinos, 32.4% for blacks, and 25.1% for American Indians.² According to a recent Corporation for Enterprise Development (CFED) report, it will take the average African American family 228 years to amass the same level of wealth as the average European American family.³

At the same time the trend in disparities threatens our economic vitality, the unprecedented wave of baby boomer retirements could further entrench the wealth gap. Nationally, approximately 50% of privately held businesses are owned by baby boomers, with 85% of owners having no succession plan.⁴ One-third of business owners over the age of 50 report having difficulty finding someone to purchase their business.⁵ This could result in the loss of millions of jobs, billions in tax revenue; leading to significant economic instability.

But the 'silver tsunami' doesn't have to be an economic disaster. The trend could actually provide opportunities to mitigate wealth disparities and root ownership in communities of color. Across the country, the strategy of converting businesses to worker cooperatives is gaining traction as a means to redefine the traditional notion of ownership and build community wealth. In the worker cooperative business model, employees become the new owners; sharing the profits, accumulating wealth, and participating in decision making through a one worker, one vote structure. Worker cooperatives offer a way to promote local and broad-based ownership, provide dignified employment and eliminate racial and economic disparities.

In 2016, Nexus Community Partners and the Center for Urban and Regional Affairs (CURA) at the University of Minnesota began conducting a

CONVERTING TO WORKER OWNERSHIP

According to Nexus' national partner Project Equity, a business conversion to worker ownership is essentially **three things**:⁶

1

"The creation of a **new business entity** that is a worker-owned cooperative;

2

A **sales transaction** executed between the current owner(s) and the new worker cooperative to sell the existing business to the worker coop, typically financed by a lender such as a bank, a Community Development Financial Institution (CDFI), or other, by selling non-voting equity shares, or by the selling owner; and

3

A **transition of roles and culture** among the new worker-owners to take on the ownership responsibility of the new entity and run it under some form of democratic governance."

landscape analysis to assess the potential impact on our local economy and to identify potential opportunities for conversions to worker cooperatives. What follows are the results, a case for worker cooperatives and a set of recommendations for how the Twin Cities region can support the growth of the cooperative sector in communities of color.

The Methodology and Results

Estimating the impact of the ‘silver tsunami’ on Minnesota’s industries and employees required an examination of both national trends on business ownership and a local analysis of the labor market. First, data compiled by Project Equity is used to highlight the scale of the problem, then we turn our focus to the industries and individual businesses who may seek to benefit from conversion to a worker ownership model.






Nationally, data on the average age of business owners were used to estimate the number of boomer-owned businesses by industry. In order to do this an assumption must be made that national patterns on the age of business owners are similar in our area. The results of this analysis show that there are likely more than 26,000

businesses owned by baby boomers in the Twin Cities region alone, employing more than 320,000 workers.⁷ If the estimated 6 in 10 of these business owners plan to sell their business or retire in the next decade, a dramatic shift in the business climate is about to occur, bringing with it a once in a lifetime opportunity to build local and broad-based ownership.

After identifying the numbers and industries likely to experience the biggest turnover, we use a multi-step process to narrow the focus to Hennepin and Ramsey counties, where we analyze which businesses provide the greatest opportunity for conversion to worker-owned establishments.

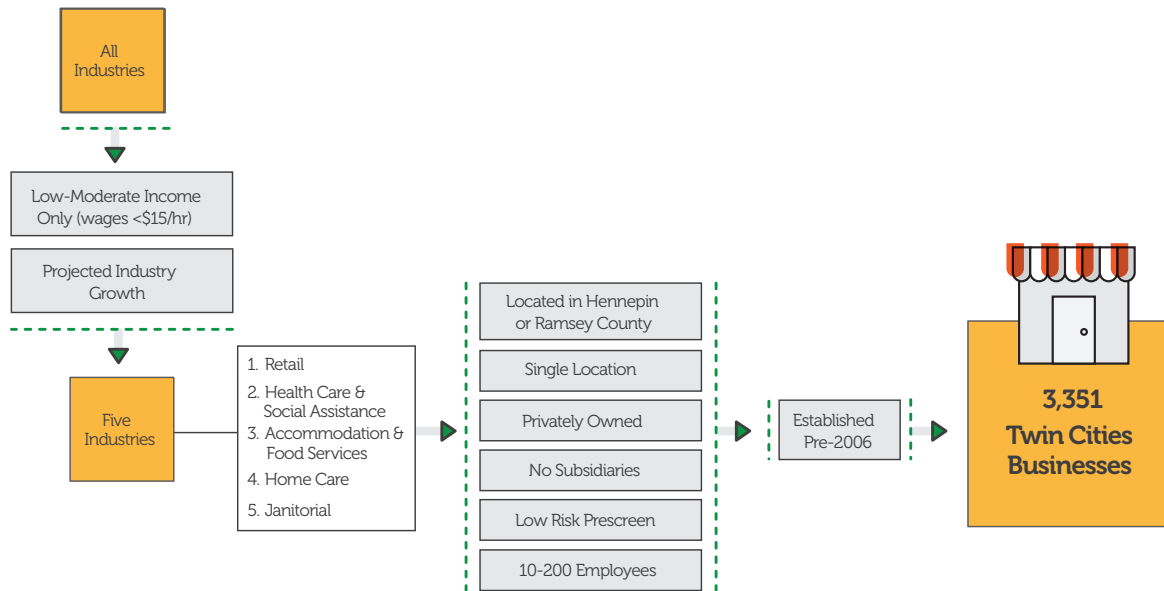
Step 1:

Using statewide data from the Department of Employment and Economic Development, we have identified five industry sectors that meet the first two criteria: **low to moderate income industries (< \$15/hr) and those with a projected growth in employment over the next decade.**⁸

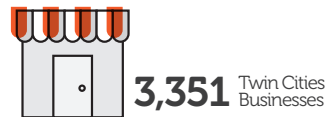
Industry	NAICS Code	Median Wage	Projected Growth
 Retail	44-45	\$14.37	4.3%
 Healthcare and Social Assistance	62	\$14.60	20.6%
 Accommodation and Food Service	72	\$9.48	6.8%
 Janitorial	5617	\$12.55	9.2%
 Home Care	812	\$11.42	23.9%

Step 2:

As illustrated below, we further narrow down the list to those **most suitable for conversion**. Namely, those that are medium sized (10-200 employees), privately owned, single location businesses that are designated as a low credit risk and have been open at least 10 years.



The analysis generated a list of **3,351 Twin Cities businesses** that are candidates for worker cooperative conversion. The average business on the list is 31 years old, and employs 276 people. Together those businesses represent over 92,000 people, including both employees and owners, and have an aggregate annual fiscal impact of over \$6.8 billion dollars in annual revenue. At 3% of the gross domestic product of the Twin Cities, these businesses clearly make an important impact on the local economy. There is also a large governmental impact, as the sales tax generated by these businesses amounts to over \$517 million dollars per year.



62 Businesses Owned by People of Color

36 Businesses Owned by Women of Color



\$517 million

Annual Sales Tax Generated



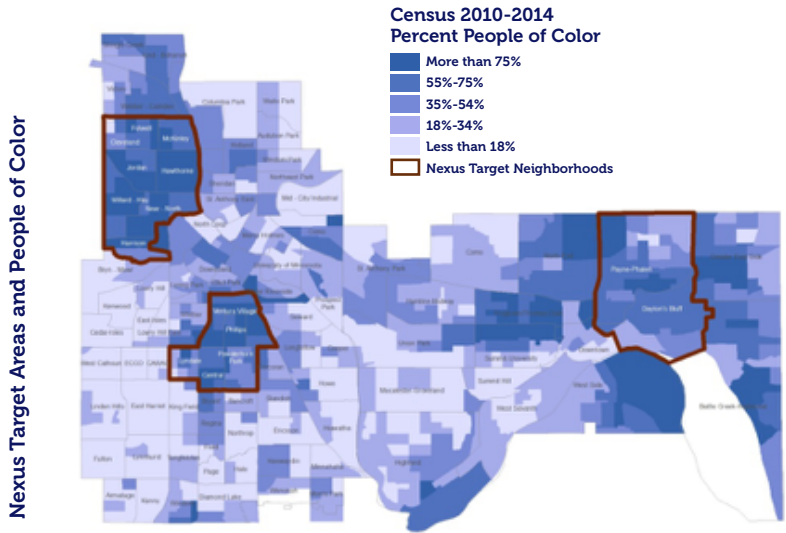
\$6.8 billion

Annual Revenue

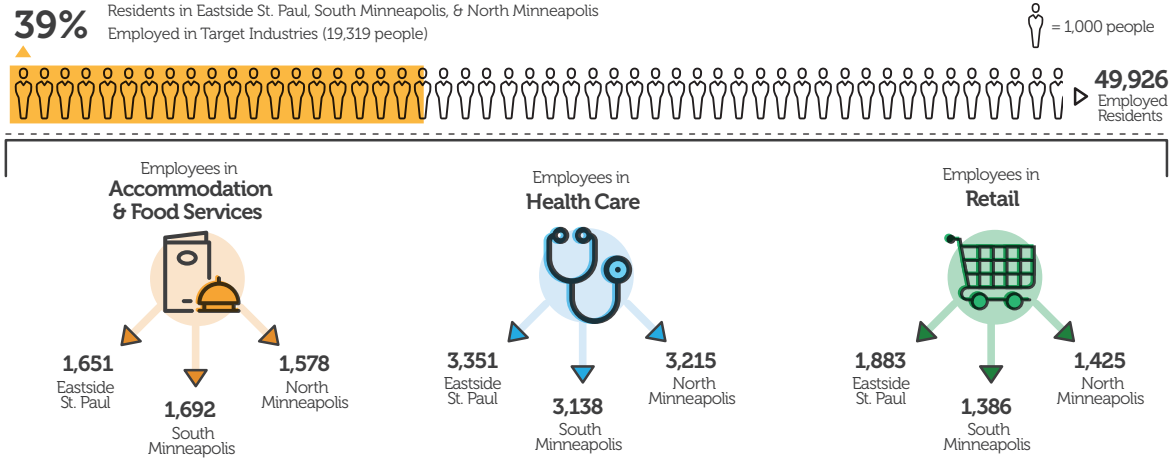
Using data that breaks out employment by industry and race⁹, the analysis generated a picture on the impact on the lives of people of color. Based upon trends identified for Hennepin and Ramsey Counties in the industries examined in this study, approximately 22,990 (25%) of the individuals employed by these businesses are people of color, however, only 62 (1.8%) of the businesses are owned by people of color, and of those, 36 (1.1%) are owned by women of color. **An effort to support conversions to worker cooperatives could dramatically increase the number of business owners of color, as employees would become the worker owners.**

Step 3:

The analysis then looks to determine both the number of workers employed in each industry category, as well as information about their demographics at very specific levels of geography.¹⁰ For this analysis we are using the neighborhoods that are a best fit to Nexus' target areas (see map) located in North Minneapolis, a portion of South Minneapolis, and a portion of the Eastside of St. Paul.



As the following graphic shows, 39% of employed residents in these three neighborhoods work in three of the five industries identified earlier as good candidates for conversion to worker owned co-operatives.¹¹ In total, this represents over 19,000 workers residing in low-moderate income neighborhoods whose jobs are at risk. The data also show that 2/3 of these workers earn less than \$40,000/yr. and almost 50% are people of color. As the Twin Cities region already has the worst racial and ethnic employment gap in the country, a job loss of this proportion will impact the region's economic viability.¹² **Building an infrastructure to support conversions to worker cooperatives alongside of other workforce development strategies can serve to mitigate the potential damage while keeping the region's economy stable.**





Worker-owned businesses offer economic security, income and wealth generation, economic participation to employees, as well as providing communities with meaningful and decent jobs.



The Case for Conversions to Worker Cooperatives

Cooperative business models, where the entity is owned and controlled by its members, hold a significant place in the United States economy. According to research conducted by the University of Wisconsin, there are roughly 30,000 cooperative businesses in the United States that collectively hold more than \$3 trillion in assets, \$652 billion in revenues and employ nearly one million people.¹³

While worker cooperatives comprise a small percentage of the cooperative sector, approximately 300-400 across the country,¹⁴ the model is gaining traction as a means to provide stable employment and wealth building opportunities for people of color and other underrepresented groups. Recent research shows that since 2010, a large percentage (60%) of new worker owners are people of color.¹⁵ Dr. Jessica Gordon Nembhard, an expert on cooperative economics, states, "Worker-owned businesses offer economic security, income and wealth generation, economic participation to employees, as well as providing

communities with meaningful and decent jobs."¹⁶

The model also creates stronger businesses. According to Alison Lingane, Co-founder of Project Equity, conversions to worker-owned cooperatives are a way for businesses to retain talented employees and increase a business' efficiency and financial performance.¹⁷ Further, conversions to worker cooperatives offer significant cost savings as a job retention and creation strategy versus traditional economic development models. The Ohio Employee Ownership Center at Kent State University has helped create 15,000 employee owners at a cost of \$722 per job retained or created.¹⁸

Beyond the economic benefits of worker cooperatives, the model offers a means for people to exercise agency over their lives and the communities in which they live. Cooperation creates opportunities to build collective power and to transform economies through local ownership and broadly held wealth.¹⁹

Our Recommendations

To create an infrastructure locally, a tangible number of steps can be taken in the near term:

- ▶ **INVEST** public resources to support conversions and start –up worker cooperatives. Example: The City of New York made a \$1.2 million investment during 2015 in worker cooperatives and has since seen the number of worker cooperatives double.²⁰
- ▶ **BUILD** cross sector partnerships between community and economic development organizations, cooperative practitioners, CDFI's and others to support the growth of a cooperative ecosystem. Example: The City of Madison recently awarded funds to a cross sector collaborative of partners working to scale the model as a means to reduce racial and economic disparities, promote cooperative development and expand economic opportunities in communities of color.²¹
- ▶ **TARGET** philanthropic resources to increase opportunities for education, training and technical assistance for the creation of worker cooperatives. Example: The Surdna Foundation explicitly supports the growth of worker cooperatives through its grant making as a means to build strong local economies.²²
- ▶ **PASS** local and state policies that promote worker cooperatives and tailor publicly supported business development services to support the cooperative model. Example: the City of Oakland California passed a resolution in support of worker cooperatives and is providing technical assistance through its Business Service Center.²³



Participants at Nexus Community Partners' Worker Cooperative Learning Series.

Final Thoughts

As the analysis highlights, the potential wave of business closures could change the landscape of small business ownership in the Twin Cities. The 3,351 businesses in Hennepin and Ramsey Counties and their 92,000 employees across all sectors face an uncertain future, with the roughly 23,000 workers of color facing additional challenges. The

trend could either devastate or bolster local and regional economies. Nexus believes conversions to worker cooperatives provide one solution to reverse the rising tide of racial disparities, build community wealth and create pathways to strong local economies.

Footnotes and Acknowledgements

¹Our regional competitiveness depends on broadening opportunities for a more diverse and inclusive workforce [PDF]. Wilder Foundation. (2017, March).

²2016 data from talkpoverty.org, a project of the Center for American Progress

³Asante-Muhammad, Collins, Hoxie, and Nieves. (2016, August). The Ever-Growing Gap: Without Change, African-American and Latino Families Won't Match White Wealth for Centuries [PDF]. Retrieved from http://www.ips-dc.org/wp-content/uploads/2016/08/The-Ever-Growing-Gap-CFED_IPS-Final-2.pdf

⁴The Power of Worker Cooperatives. Trust for Conservation Innovation on behalf of Project Equity, 2016.

⁵Small Business Closure Crisis. (2015, April). Retrieved from <http://www.project-equity.org/communities/small-business-closure-crisis/>

⁶Lingane, A and Reiger, S. (2015, April). *Case Studies: Business Conversions to Worker Cooperatives –Insights and Readiness Factors for Owners and Employees*. (2015, April). Retrieved from <http://community-wealth.org/content/case-studies-business-conversions-worker-co-operatives-insights-and-readiness-factors-owners>

⁷*The Small Business Closure Crisis* [PDF]. (2017). Retrieved from <http://www.project-equity.org/wp-content/uploads/2017/05/Twin-Cities-Small-Business-Closure-Crisis.pdf>

⁸Indicators in the analysis were selected to target lower wealth workers in sectors most likely to employ a large percentage of people of color.

⁹Data collected by Economic Modeling Specialist International.

¹⁰Source: State of Minnesota's Department of Employment and Economic Development (DEED) and the U.S. Census Bureau.

¹¹The data used to get sub-county geography (DEED or OnTheMap) is only available at the 2-digit NAICS code level. Home health would have been wrapped up into general health care and janitorial would have been part of some larger service category. Looking at the five category table supports this assumption.

¹²*Metro Stats: Exploring Regional Issues that Matter*. (2016, September). Retrieved from <https://metrocouncil.org/getattachment/1ec00438-0d3f-4966-9bd8-b5c93edeedce/.aspx>

¹³Deller, Hoyt, Hueth, and Sundaram-Stukel. (2019, June 19). Research on the Economic Impact of Cooperatives [PDF]. Retrieved from http://reic.uwcc.wisc.edu/sites/all/REIC_FINAL.pdf

¹⁴*US Federation of Worker Cooperatives: Worker Ownership*. Retrieved from <https://usworker.coop/what-is-a-worker-cooperative/>

¹⁵Dubb, S. (2016, July 7). *Co-ops Gain Ground in Communities of Color*. Retrieved from <http://shelterforce.org/2016/07/07/co-ops-gain-ground-in-communities-of-color/>

¹⁶Nembhard, JG. (2014). *Collective Courage: A History of African American Cooperative Thought and Practice*. University Park, PA: Pennsylvania State Press.

¹⁷Lingane, A and Reiger, S. (2015, April). *Case Studies: Business Conversions to Worker Cooperatives –Insights and Readiness Factors for Owners and Employees*. Retrieved from <http://community-wealth.org/content/case-studies-business-conversions-worker-cooperatives-insights-and-readiness-factors-owners>

¹⁸*Now is the Time for Employee Ownership* [PDF]. Retrieved from <http://www.oecockent.org/wp-content/uploads/2013/05/OEOCFourPager-Web.pdf>

¹⁹Pinto, S. (2016, March). *Ours to Share-How Worker Ownership Can Change the American Economy* [PDF]. Retrieved from <http://www.surdna.org/images/pdf/OursToShareWeb1.pdf>

²⁰Abello, O. (2016, January 11). NYC Set to Triple Number of Worker Cooperatives. Retrieved from <https://nextcity.org/daily/entry/nyc-worker-cooperatives-jobs-increase>

²¹*Madison Coalition Begins Cooperative Enterprise for Job Creation and Business Development Program*. (2016, October 31). Retrieved from <https://news.cals.wisc.edu/2016/10/31/madison-coalition-begins-cooperative-enterprise-development-program/>

²²Strong Local Economies. (2016). Retrieved from <http://surdna.org/what-we-fund/strong-local-economies.html>

²³Eskandari, Y. (2015, September 10). Oakland Passes Resolution in Support of Worker Cooperatives. Retrieved from http://www.theselc.org/oakland_passes_worker_cooperative_resolution

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