

LEGACY BUSINESS

Our opportunity
to build
wealth,
economy,
and culture



Democracy at Work
Institute
US FEDERATION OF
WORKER COOPERATIVES



National
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Unlikely Partners, Intentional Economic Development

The Legacy Business Initiative explores the possibility of using conversion of conventional business to employee ownership as a way to build and retain wealth, economic activity, and cultural heritage in African-American communities.

The National Urban League, Democracy at Work Institute (DAWI) and Citi Community Development have collaborated to learn more about the needs of minority business owners with a particular focus on Black-owned businesses through statistical research, field research, and stakeholder convenings. In particular, this project explores what might be needed to implement the intentional economic development strategy of converting longstanding minority-owned businesses to worker cooperatives, designed to preserve and build wealth within neighborhoods where people live and work.

Locally-owned “legacy” businesses are at risk of closing, especially in low-income neighborhoods. When legacy businesses - longstanding businesses owned by community members - close, people lose jobs, neighborhoods lose economic anchors, and communities lose beloved institutions.

Our questions are simple but ambitious: Could these closures be prevented by selling businesses to their employees? In the process, could broad-based business ownership models be used to bridge the racial wealth gap and provide a transformative boost to minority small business? Finally, what might some of the barriers to employee ownership or business conversion be, and how could front-line non-profit practitioners in particular begin to address them?

The Legacy Business Initiative looks at the metro areas of South Florida, Cleveland, San Francisco Bay, Chicago and Washington, D.C. We selected these places for research based on a convergence of local partner interests and existing relationships with businesses and stakeholders.

The project consists of three components:

- Quantitative research (based on the U.S. Census Survey of Business Owners)
- Small group stakeholder discussions at various convenings in cities across the United States
- Qualitative research with business owners (survey responses, interviews, and focus groups)

This report shares our key findings and offers recommendations for next steps to support minority entrepreneurs to start, grow and retain thriving businesses. The Legacy Business Initiative illuminates some barriers to employee ownership as a legacy business solution, as well as several hard-to-ignore opportunities.

The sheer number of retiring owners of color, the enthusiasm for keeping businesses within communities across generations, and the possibility of enlisting the support of strong partner organizations suggests that we not stop at the barriers, but explore whether and how they can be overcome in pursuit of broader ownership opportunities. Investing to support the launch and growth of Black-owned businesses could build wealth for individuals and their families, assist with closing the racial wealth gap, revitalize communities, and contribute to an overall healthier economy, which benefits us all. To do so, thoughtful and innovative approaches are required to overcome the exponential effects of the interplay among the wealth gap and the credit gap. While challenging, this is worth striving for so that we can move one step closer to an inclusive economy for all.



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Citi Community Development & Ownership as an Equitable Economic Development Model

Creating financial resilience for low- and moderate income communities, particularly among communities of color, requires intentional economic development strategies designed to preserve and build wealth within neighborhoods where people live and work. By co-developing the Legacy Business Initiative with Democracy at Work Institute and the National Urban League, Citi Community Development seeks to help enable more small business owners to access shared ownership, so that they can expand wealth for themselves, their employees and their neighborhoods.



The Business Succession Dilemma and Employee Ownership

The economic development community has historically placed great emphasis upon, and many resources toward, assisting business start-up and growth.

The National Urban League's own Entrepreneurship Center Program goal to-date has been to increase the competitiveness and profitability of minority entrepreneurs and support their ability to start new businesses or grow into new markets. These types of supports for startup and growth are an important part of the success of minority businesses.

This project, however, focuses on the many mature minority businesses that have operated long enough to have survived the substantial obstacles that cause approximately 56% of business start-ups to fail within the first four years. These older minority-owned businesses, many of which were established during and shortly after the Civil Rights era, face a new existential threat: closure.

These are businesses that have grown to become institutions within the economic and cultural infrastructure of their communities. Importantly, they are also more likely to have created jobs for Black and minority employees. As their business owners age, they approach the exit door to retirement with a profound choice. Within the next ten years, thousands of such owners will either pass their businesses to other minority entrepreneurs (in some cases to family members), sell to non-minority buyers, or — most likely — close shop entirely.

There is a fourth option: sell to their employees, preserving businesses and the jobs they provide. This collaboration between the National Urban League, the Democracy at Work Institute and Citi Community Development exists to explore

These businesses have a significant economic and social impact, while providing goods and services to major corporations and the public

and encourage this option, by addressing the succession planning challenges faced by minority legacy business owners.

Through research, stakeholder input, and discussions with entrepreneurs, we hope to **(a) heighten awareness in the minority entrepreneurial community** about both succession planning and employee ownership, **(b) generate solutions** for retaining and transferring minority-owned businesses within the community, **(c) motivate government officials and corporate America to allocate funding and other resources** to address the problem, and **(d) invite partners**, sponsors and others concerned with minority business issues, on a local, regional, and national level, to participate and confront this emerging challenge.

We know the hard choices facing older minority entrepreneurs around their own financial needs and community well-being. This project seeks to understand how cooperative and employee ownership conversions can expand their menu of options, helping them exit their businesses with fair compensation in the short term, and encouraging minority job and wealth retention in the long term.



About Conversions to Employee Ownership

Conversion of existing businesses to employee ownership is a time-tested strategy for retaining businesses and jobs.

Employee Stock Ownership Plans (ESOPs) have been used as a tool for the employees to incrementally buy out a single owner at retirement since the 1980s, creating thousands of employee-owned companies with positive impacts for business longevity, productivity and job quality. ESOPs are best-suited to larger businesses, with more than 50 employees and substantial profits, leaving a gap and unmet needs for businesses at the smaller end of the market.

Increasingly, worker cooperatives are filling this gap and being used for similar employee buyouts. There are dozens of thriving worker cooperative conversions in existence today; in the past five years, nearly 200 businesses have initiated a conversion and are at some point in the process right now.

How it works

Conversion of an existing business to any form of employee ownership, at its most basic, involves selling the assets of the business to the employees. Often this sale is done over time, and is financed out of the profits of the business. Many conversions in the past have been financed by the seller. But more and more business conversions are being financed by outside lenders and investors. In addition to financing, a business conversion must secure legal support and determine its new legal form.

Converting businesses also generally undergo intensive succession planning processes to ensure that management and operations continue to function effectively after the transition to employee ownership. Often management structures will stay largely the same, even as ownership of the business transitions to the employees.

In the case of conversion to a cooperative, the converted business creates a board of directors that is elected by the members of the cooperative, the employees. In the years following the conversion, the business may likely need organizational development support to create a robust ownership culture in which employee-owners are informed, engaged, and acting wisely on behalf of the business.

The Workers to Owners Collaborative

The Workers to Owners Collaborative is a group of technical assistance providers and lenders convened by the Democracy at Work Institute in 2016 to develop a nationally coordinated strategy and standardized tools for converting businesses to employee ownership, specifically worker cooperatives.

In the 18 months since its formation, this collaborative has increased the pipeline of businesses exploring conversion to cooperative by more than 150%— though this only scratches the surface of the opportunity. It has reached out to key partners, such as the National Urban League, to better understand their needs and opportunities, and to make employee ownership conversion information available to their audiences framed as a central tenet of a contemporary place-based economic empowerment movement.

Cities around the country, including New York City, Newark, Philadelphia, Chicago, Boston, Miami, San Francisco, and Oakland, have shown interest in conversions as a potential strategy for retaining minority-owned businesses and broadening access to business ownership.

Supportive local legislation has been introduced in some of these cities; others are dedicating small business development staff to provide support. In addition, current federal legislation proposes tax incentives, grant programs, and other forms of federal agency support for employee ownership.

Key Findings



Growth Trends

Minority-owned firms are joining the market at a substantial pace, and the following totals are likely to increase in the near future:

From 1997-2007,

the number of Black-owned businesses increased by 146% and the number of minority-owned firms jumped 107%

African-American women are the fastest-growing group of entrepreneurs in the country,

increasing by 322% since 1997 to control an estimated 1.3 million businesses, employing 297,500 workers and generating \$52.6 billion in revenue.

While the Great Recession has somewhat blunted the growth of all businesses, the growth rate of businesses owned by people of color continues to be fueled by the overall racial demographic change in the US, in some instances outpacing it.

Key Local Industries

We focused some research on specific local industries where implementing employee ownership could have greater impact due to the average business size, growth orientation or employment impacts.

For example, in Washington DC and Prince George's County over 12,000 Professional, Scientific and Technical workers are employed by minority-owned businesses, highlighting the greater need for specific outreach efforts in that higher-paying sector.

With nearly 600,000 workers employed by owners of color in Los Angeles County, the sheer size of the economic impacts of these businesses compounds the level of urgency surrounding any upcoming changes of owners.

In nearly every market, minority-owned healthcare businesses are a substantial part of the economy. This high growth industry affords opportunities for creating career pathways for workers. A substantial portion of employee-owned and worker cooperative firms are in healthcare, so there are substantial overlaps and effective models – and perhaps even a market advantage – for implementing employee ownership in this sector.

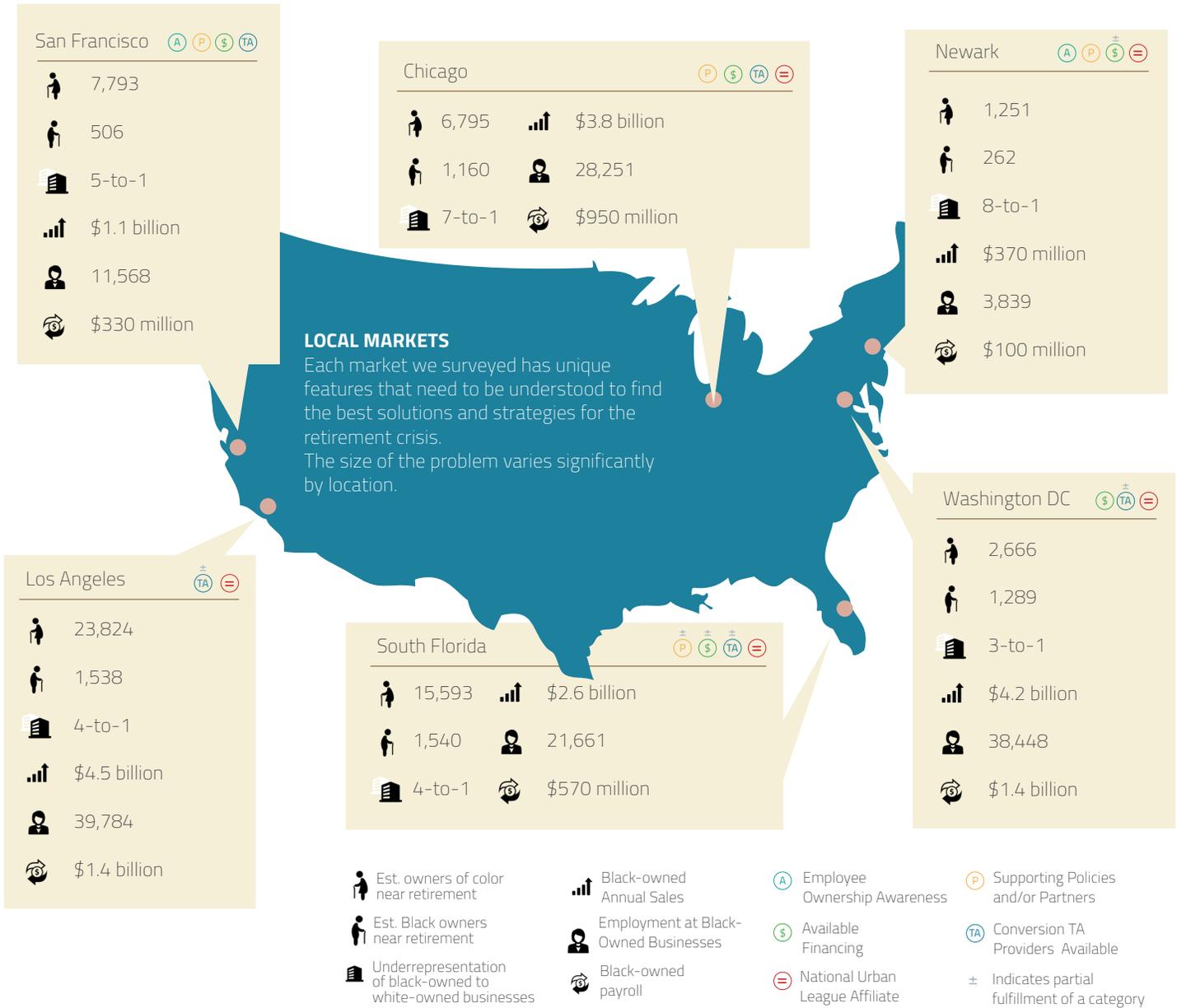


The risk we face in not assisting these thousands of aging minority business owners with upcoming transitions is the loss of both economic and cultural value for communities.

However, the size of the problem also shows actionable, innovative solutions such as conversion to employee ownership could occur quickly and at scale if made easily replicable.

Retaining wealth in businesses and communities is a crucial task, as the economic value of minority business ownership is substantial and trending upward.

Business ownership in the United States remains unequally divided by race: people of color are underrepresented in the business world. Only 16.7% of all businesses in the country (908,800) were owned by people of color in 2012.



Economic Impacts

In 2012, minority-owned businesses generated \$1.1 trillion in sales, employed over 7.1 million people, and paid out \$219 billion in wages. Black-owned business figures specifically are lower, but still significant in specific metro areas. Each of the markets examined in this project contributed millions to the local economy, whether measured by revenue generated or jobs created.

The Racial Ownership Gap

The 109,137 Black-owned businesses in 2012 accounted for just over 2% of U.S. businesses, even though Black people were 12.6% of the country as a whole. Such wide gaps, which also are found in number of employees, annual sales, and annual payroll, means that the chances of minority owner retirees finding another conventional business buyer in their same community is much lower than finding a non-minority buyer. This 6-to-1 national Black business ownership gap is consistent with recent data on the national wealth gap between white and Black households (more than 10-to-1 in 2013).

The Succession Crisis

Cities and neighborhoods around the US are at risk of losing significant economic and cultural assets as baby boomer business owners age into retirement. An estimated 284,000 business owners of color are nearing retirement nationwide, including about 40,000 aging Black business owners. Given that 83% of business owners do not have written succession plans, many of these businesses could be sold to people outside their communities or dissolved completely.

Common Challenges

The following early-stage challenges, if addressed proactively, are key to the success of any local strategy. The first four emerged consistently and with the greatest emphasis from our field interviews. The capital challenge, while well-documented, was mentioned less by interviewees, most likely because awareness barriers came first.

Minimal awareness among traditional small business providers

Employee ownership is not well known in the small business world, particularly within conventional immigrant entrepreneur networks.

Capital Access

In addition, available data on undercapitalization and capital access for minority-owned businesses suggest that as awareness barriers are dismantled a second -- and potentially more substantial -- set of capital barriers will present themselves. With lower than average liquidity and fewer well-resourced community networks, the largest practical barrier facing a minority business owner who wants to sell to their employees may be a familiar one: lack of access to capital. Financing for employee ownership conversions, and funding for the necessary technical assistance to accompany financing, may be a particularly acute need for minority business owners and their employees.

Low levels of interest or capacity from local government

Limited budgets and staff availability makes reliance on city partners to implement strategy problematic, yet successful MWBE programs at all levels of government make city partnerships critical to success.

Underdeveloped business support environment/resources

Owners of color have limited access to capital, professional support and culturally competent trainers generally -- and even less access to employee ownership specialists.

Small size

68% of survey respondents operated businesses with \$2,000,000 in annual revenue or less and 28% reported earnings of less than \$250,000.

The majority of workplaces also had 4 FTEs or less, oftentimes including themselves. While some owners were sympathetic to the idea of keeping wealth in their communities through broad-based employee ownership, the low number of employees was cited as a barrier in interviews and focus groups.

Conversions of businesses with under four employees may be less viable than those with a more robust workforce. Generally, the ideal size of a business for a conversion is 10-100 employees with an annual gross revenue of \$500,000 - \$10 million (though firms larger than 100 employees can, and do, convert to employee ownership, often but not always using an ESOP). Smaller firms may lack employees for good governance or they may have less stable finances, making it difficult to survive a transition.

Financial constraints

Many businesses were concerned with their overall financial health and/or their ability to grow. 72% were "very concerned" or "extremely concerned" about profitability. Only financially viable companies are good candidates for conversion to employee ownership, so this number deserves further inquiry.

Owners reported similarly high levels of concern over business expansion (68%) and access to capital (55%). On the latter, only 21% of respondents agreed that their level of access to outside financing was adequate for their needs.

The concerns articulated by business owners suggest that the ability to access targeted, appropriate capital is key to supporting businesses of this type during and after a transition to employee ownership.

Lack of succession planning

76% of business owners of color surveyed did not have a written succession plan for their business and 58% reported never having discussed it at all.

Only 26% thought they understood their succession options "very well" and 50% said they did not know what their business was worth.

These results appear consistent with other national reports on succession readiness. Lack of succession knowledge may lead to a steeper education curve, longer timelines, and higher technical assistance costs when introducing employee ownership concepts.

Need for demonstration project that can be scaled

Successful examples of businesses converting to employee ownership are needed to build trust, with local examples being the most powerful.



Common Opportunities

Throughout our field research conversations and stakeholder convenings, we identified several opportunities that create an opening for discussing employee ownership, conversions, and new business retention strategies. Below are some of the key readiness indicators and fertile conditions for introducing employee ownership to minority business owners.

Desire to support their communities

Throughout the interviews and focus groups, it was clear that most business owners saw their enterprises in a community context and recognized the need to pass on wealth for the next generation. However, national figures that show only 15% of business owners pass their businesses onto their children and less than 5% transition to a third generation. In the context of this dramatic decrease in family succession, another mechanism for preserving business legacy is sorely needed.

68% of survey takers wanted to generate wealth for their communities through small enterprise and 71% thought it was “very important” or “extremely important” for businesses like theirs to spur neighborhood job growth.

Additionally, many recognized the cultural legacy of their workplaces. One owner noted that their business “is a community resource and gathering place. It’s still an environment where women from all backgrounds can share and bond with each other.” 63% of respondents agreed that it was “very important” or “extremely important” to preserve the historical or cultural identity of their neighborhoods by keeping businesses in place.

[Many business owners voiced] a strong desire to see their enterprises survive after they’ve left and continue to act as economic and cultural touchstones for their communities

Initial interest in employee ownership

Though many owners were unfamiliar with broad-based employee ownership, it was not a completely unfamiliar idea, and survey respondents showed interest in and commitment to deeper employee engagement in their businesses.



32% indicated that they had considered the idea of selling to their employees in the past.

35% agreed that it was “very important” or “extremely important” to consider rewarding employees in some manner during the eventual sale of their business.

21% felt that their workplaces already had a culture where employees had strong input on key business decisions.

Some owners quickly identified and highlighted some advantages of conversions. One noted that selling to her employees “might be a better move than selling to family since they already have years of skill and knowledge on how to do things the right way.” Many also expressed a curiosity around the idea and desire to know more details about how such transactions might work.

Key role for outside assistance

Business owners often highlighted the need for greater outside technical assistance across the board, and especially when the discussion turned to succession planning and employee ownership.

38% of survey respondents felt their current peer support networks were inadequate for their business needs.

As one focus group participant described it, “the priorities of structuring a business and the daily grind quite often supersede the priority of dealing with [employee] financial literacy. We need to create support networks of industry professionals, lawyers and accountants, logistics experts and others to make sure our small businesses can pass onto the next generation.”

It was evident from discussions that owners were more open the idea of employee ownership when it was explained that most transitions occur with the support and advice of professionals in the field. The availability of these types of technical assistance providers could greatly improve the success of any local efforts. Such availability may also hinge on creating stronger connections between the existing support infrastructure for minority entrepreneurs and conversion specialists.



Technical Assistance for Conversions

There are dozens of technical assistance and service providers for conversions to employee ownership, across the country, many working in coordination to share best practices and models, cross-train, and collaborate on specific deals. In addition, the Workers to Owners collaborative has a key goal to train new service providers working with minority businesses.

Attorneys with expertise in employee ownership, cooperative legal structures and governance, bylaws. They can support businesses and business owners through and beyond the transition.

Accountants who understand the cooperative and ESOP portions of the tax code, and business advising and tax preparation for employee-owned businesses. They structure the transfer of assets or the restructuring of stock ownership, and set up profit-sharing mechanisms.

Investors, from equity investors to revolving loan funds, with experience investing in transitions to employee ownership. In addition to providing capital, many of them provide technical assistance to the business as part of the investment package.

Cooperative developers with experience guiding a conversions process from beginning to end. They can design the overall conversion process, coach a business owner

through the stages, help design cooperative governance and management structures as needed, support managers, and train employees in the creation of a strong ownership culture.

Organizational development consultants

that specialize in employee-owned businesses. They can consult on organizational structures, support good governance, coach managers, and design training and educational programs for employees.

Traditional small business supports

familiar with employee ownership. These include Entrepreneurship Service Centers, Small Business Development Centers (SBDCs), and other business advisors. They can provide conventional business development support that can be customized for employee ownership or can partner with employee-ownership-specific technical assistance.

Access to capital is the most frequently cited impediment for minority entrepreneurs, especially African American business owners.

Capital access is a strong predictor of business success. Business failure for African-American firms can be attributed to low liquidity instead of personal wealth of owners as compared to other firms. In addition, limited access to debt capital for business entry and expansion limits business growth.

Capital providers to cooperative conversions, at present primarily Community Development Finance Institutions (CDFIs) and specifically cooperative loan funds, are actively seeking investments and places to deploy their capital.

These lenders and investors support values-based, employee-owned businesses as part of their mission. Practically, this means that they are familiar with employee ownership forms and conversions deals. They are also often able to solely or collaboratively finance conversions that a conventional bank may not.

It is possible that employee ownership conversions have the potential to unlock new sources of capital investment in Black-owned businesses. These lenders can play a role in increasing capital access for businesses at the same time as they can support broadening ownership of those businesses.

Everyday Interventions

Below are some of the “low-hanging” fruit for supporting employee ownership as a business retention strategy. These are easy, everyday interventions that can be made in the public and private sector, by city agencies, minority chambers of commerce, and other ecosystem actors working to increase options for minority business owners.

Local government programs & tools

Cities and counties can include employee ownership information and supports in outreach to business owners, key data collection and analysis, land use solutions, and workforce development funds.

Existing partnerships & coalitions

Business and industry associations, minority chambers of commerce, retiree advocates, local nonprofit networks, CDFIs and others already work together on other local business issues and could integrate employee ownership into an issue forum or working group on small business retention and support.

Development centers

Small business development centers can raise awareness and support by including information on employee ownership and training their staff to discuss succession planning options with business owners.



Programs, Resources, and Assets

Going forward, there is an opportunity to contribute to the prevailing community development discourse through engagement of civic leaders, practitioners, and the business community, aiming to build stronger and more resilient local communities. Addressing the minority business succession crisis and elevating potential innovations in this space can clearly inform future work promoting employee ownership conversions of minority-owned businesses. Several of the programs and approaches below could be employed in conjunction with the recommendations in the next section.

By offering innovative credit products, providing powerful technical supports, and designing pathways for owners to establish more firms in high-revenue sectors, Black businesses could grow and supply new jobs in their local communities.



Add succession planning programming to the suite of services offered by minority entrepreneurship centers

Primarily focused on newer businesses and startups, adding a succession planning element would enrich the nation's small business assistance ecosystem in a more explicit commitment to supporting legacy businesses in the community. For example, the Entrepreneurship Center Program administered by the National Urban League with support from the Economic Development Agency (EDA) is an ideal platform to build upon. The size and scope of its reach (over 17,000 owners received business counseling or training in 2016) makes it an ideal vehicle for introducing succession planning and/or employee ownership concepts to the local minority business community if additional funding for such activities were to be made available.

Recommendations for effective and easy implementation:

DAWI can train agency staff to become Conversion Guides, able to articulate the benefits of transitioning a business to employee ownership in a trusted, private environment. Entrepreneurship centers can share case studies and use DAWI readiness assessments tools with local businesses to raise awareness of their succession options.

DAWI and members of the Workers to Owners collaborative can offer professional technical assistance once businesses are ready to pursue employee ownership

Urban League Entrepreneurship Centers and DAWI together can support building local capacity for succession planning among existing business service providers. This initiative would likely require building strong ties with area lawyers, accountants, advisors and academics that specialize in minority business support. These professionals may be able to then develop their own referrals for their services as well.



Incorporate Conversions into CDFIs focused on minority-owned businesses

While there is a heavy focus on startup financing, the CDFIs do offer loans for business expansion, physical capital and working capital needs, as well as to purchase an existing business. Using this latter category, such loans could potentially be structured to allow workers to purchase their place of business, assuming that applicant requirements could be modified to accommodate a group purchase.

This would require a CDFI to modify the terms of their loans to better align with what a typical conversion client's financing needs. Such an alignment would fit well with the local ownership and community asset preferences already connected with some CDFI programs focused on minority business ownership.

Recommendations

The report collaborators hope that the conclusions from the *Legacy Business Initiative* will help stimulate interest within the nonprofit community – as well as the national network of CDFIs and other key actors with strong ties to minority business owners – to continue work to support and promote employee ownership. Despite the challenges outlined above, the opportunity for this tool to be useful in the longer struggle for racial equity is notable. The enthusiasm for the concept among stakeholders and owners in the cities touched by this project is real and should be harnessed for further action. It should be noted that these ideas are not mutually exclusive and could be deployed in a simultaneous and/or overlapping fashion if desired. Lastly, this list does not exhaust the possibilities for future activity. DAWI, NUL and their partners look forward to future dialogue on any other concepts as they may be developed.



Spearhead A National Communications Campaign

One consistent challenge that would be easy to address is the lack of familiarity with worker cooperatives and ESOPs within and around the small business community. Even in conversations where an owner expressed some understanding of employee ownership during an interview or focus group, the response often referred to various ideas about selling the business to single employee successor or a small group of managers or long-tenured workers. The idea of broad-based employee ownership (where all or nearly all workers purchase the business) remains largely unknown.

An expanded coalition of mainline civil rights organizations, advocacy groups and national community development intermediaries could play an ambassadorial role within their own networks as well as with key contacts and influencers outside the organizations.

By taking the results of this study and other resources directly to the localities served by coalition partners, a larger mass of local interest could be generated as practitioners realize the benefits employee ownership conversion could bring to their constituents and the communities where they reside.

This work could lead to more spontaneously generated local action as the idea takes root. This would be an especially useful service in markets completely untouched by this project and especially among those that are detached from mainstream efforts supporting minority business formation, expansion and intergenerational wealth building.

Additionally, community development intermediaries with a national footprint and mission could promote the concept at respective annual conventions and conferences; other scheduled events, and/or in reports and related promotions. The use of the latter, in particular, could generate media interest and possibly attention from policymakers that might not otherwise ever be exposed to employee ownership ideas.





Start A Succession Planning Program in Large Markets

Service providers and nonprofit support organizations could address business owner needs and promote employee ownership by simply adding succession planning to their existing work.

Small business development centers, local government programs and business and industry organizations already provide a variety of business training and educational supports for thousands of minority owners. Succession planning, though, is not integrated into this work. Given the sheer size and immediacy of the coming retirement wave (keeping in mind that estimates in this report are already five years old and the need is growing), focusing on succession planning would be a sensible way to help prevent the loss of business assets to people outside the local community. Agency and center staff could simply act as a referral service.

Succession planning work does not need to focus heavily on the employee ownership option, it can simply offer conventional planning supports (e.g., legal advice, tax advice, training on how to generate ownership interest among family members, etc.). It should emphasize the larger economic and cultural benefits of selling businesses within the community, whether or not that means sales to employees. Employee ownership could be an option introduced at the basic level and if individual owners have further interest the center could refer them to the nearest/most appropriate cooperative TA provider.

Adding a succession planning component to existing work would likely require the creation of strong ties with area lawyers, accountants and wealth advisors that specialize in this type of work, who could benefit by developing referrals for their services as well.



Facilitate Local Conversions in Key Markets

As discussed during many of this project’s stakeholder convenings and community engagements, one of the biggest challenges to scaling employee ownership conversions is the need for more a demonstrable model that can be scaled. While some already exist, we are still at the stage where more are needed, especially of conversions from single minority ownership to ownership by a large group of minority workers. The joint partnership formed between the National Urban League and DAWI affords both “Thought Leaders” a unique position to help facilitate the success of such efforts clearly defining the scope of the policy contagion while concurrently expanding the roster of stakeholders devoted to scaling a solution.

Of the local nonprofit practitioners we spoke with, many didn’t have prior experience with conversions. **However, with support from DAWI and Workers to Owners, these specialists can play a key bridge role between Black business membership and TA providers from the cooperative community.**

By identifying and educating specific retiring business owners in their network within key markets, strong, business-focused nonprofits and experienced technical assistance providers interested in supporting minority business conversions can influence the success of higher profile conversions. TA providers in the cooperative development field can provide support to build the local capacity for high quality conversion TA specialists, helping influencer businesses through the stages of their transition and offer supports ranging from legal advice to democratic governance training for new worker-owners.

Moreover, a source of financing for local high-profile employee ownership conversions must be secured. This source could potentially come from cooperative lenders and investors, though the various partners may wish to tap their existing resources to maintain a long-term connection to the converted businesses.

Lastly, local practitioners could also lobby alongside other allies for municipal funding or other public incentives for such work. Cooperative development funding has already been secured for four years in a row in New York City and could be a possibility in other areas where interest already exists to support minority-owned business conversions (for example, Newark, Philadelphia, Boston, Cleveland, or Oakland).

Such an effort may require key designated stakeholders to secure new sources of funding as most existing sources and staff time are committed to existing portfolios. However, the success of several important conversions in a given region could unlock private and public sector funding, which has begun to move into the conversions field.

Appendix: Research Summary & Methodology

The Legacy Business Initiative used results from the US Census 2007 and 2012 Survey of Business Owners to examine the broad features of small business ownership by race in ten counties in the Chicago, Washington DC, Newark, Los Angeles, San Francisco and Miami metropolitan areas. Supplemented with research from secondary reports, this data shows that while pending minority owner retirement trends could exacerbate existing racial wealth divisions, the overall value and future growth of minority-owned businesses create strong incentives to invest in transition strategies that keep legacy businesses in their local communities.

Convenings of key stakeholders also were held in the South Florida, San Francisco, Bay Area, Chicago and Washington D.C. markets between fall 2016 and early summer 2017. During these events smaller breakout groups provided valuable feedback on the challenges and opportunities they saw with the potential conversion of minority-owned firms in their area to employee ownership.

Finally, qualitative research was carried out in all of the above locations, plus Cleveland, during the same time frame. With the assistance of local Urban League affiliates or other partners with ties to the local minority business community, the Democracy at Work Institute both conducted surveys of minority business owners and held phone interviews and focus groups of business owners. Together this research material provided important insight into the general readiness for business succession as well as initial impressions when introduced to the employee ownership option.

National Quantitative Data

The data examined in this paper and in the 2-pagers for each metro area convening can be found in the US Census Survey of Business Owners (SBO). Our conclusions primarily rely on the 2012 dataset, though occasionally we used the 2007 dataset as well for comparison over time. Conducted every five years and then released after a five-year lag, the next dataset (2017) will not be available until 2022. All figures in our study only include privately-held, minority-owned businesses with paid employees. Data at the county-level is the smallest geographic information available the SBO, so we limited our examination to between 1-3 counties per metro area, as determined by the interests of the local stakeholders.

Stakeholder Convenings

The Legacy Business Initiative held half-day to one-day convening events around the US with technical assistance providers, lenders, economic developers, government officials and nonprofit leaders in cities to get their views on what transitioning to employee ownership could look like at scale. These convenings were held in collaboration with Citi Community Development and local sponsors. In addition to viewing presentations about minority business development and employee ownership, convening attendees were able to participate in small group discussions that provided some insight for the conclusions in this paper.

Qualitative Research

The Democracy at Work Institute sent out our 15-minute online survey on business challenges and succession planning to hundreds of minority-owned businesses in the project cities through key local partners. As of June 2017, we had received 40 survey responses from owners of color and are continuing efforts to collect more survey results from owners in the San Francisco, Chicago, Washington, D.C. and Newark areas through August 2017. This report may be updated in the near future if additional results add or change the dimensions of the major conclusions outlined above. The full dataset of responses is available upon request.

Two 90-minute focus groups were held in South Florida and Cleveland and a selection of follow-up phone interviews with participants (or survey respondents) also were conducted. Another focus group is being planned for either the San Francisco or Newark areas, exact timing is still TBD. Focus groups were led by a moderator from the Democracy at Work Institute and assisted by staff from local partners at each location. The discussions at the focus groups and in interviews ranged widely but were centered around the challenges and importance of their businesses, their succession plans (if any), and an introduction and reactions to the concept of employee ownership. Written notes were taken and the focus groups were visually or audibly recorded.



The National Urban League is a historic civil rights organization dedicated to economic empowerment in order to elevate the standard of living in historically underserved urban communities.



The Democracy at Work Institute is a think and do tank committed to ensuring that worker cooperative development in economically and socially marginalized communities is adequately supported, effective, and strategically directed.



Citi Community Development leads Citi's commitment to achieving financial inclusion and economic empowerment for underserved individuals, families and communities.



**National
Urban League**



**Democracy at Work
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