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Measuring the Economic Impact of Employee Stock Ownership Plans (ESOPs) on Ohio

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OEOC

Ohio Employee Ownership Center
at Kent State University

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Overview

1. About the Centers
2. What is Employee Ownership?
3. Economic Development and Employee Ownership
4. Research Purpose
5. Data Sources
6. Methods
7. Results
8. Covid's Impact
9. Next Steps

1. The Ohio Employee Ownership Center

- Founded in 1987 and housed within Kent State University
- Provide succession planning assistance to business owners
- Assisted 700+ companies explore employee ownership, 100+ have transitioned
- Maintain a network of 80 employee-owned companies
- Maintain a network of 100+ professional service providers



**OUTREACH AND
TECHNICAL
ASSISTANCE**



**EDUCATION AND
TRAINING**



**RESEARCH AND
ADVOCACY**

1. The Center for Economic Development

- Founded in 1985 and housed in the Levin College of Urban Affairs at Cleveland State University
- The Center for Economic Development conducts applied research and technical assistance to government agencies, non-profit organizations, and private sector
- The Center for Economic Development serves as a designated Economic Development Administration (EDA) University Center



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INNOVATION



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2. What is Employee Ownership?

- **Employee-owned companies** - are companies where employee-owners own a financial stake in their company
- **More widespread than assumed** - 7,000 businesses employing 10.2 million workers
- **Two Major Forms of Employee Ownership** - ESOPs and worker cooperatives – other models exist

Employee Stock Ownership Plans (ESOPs)

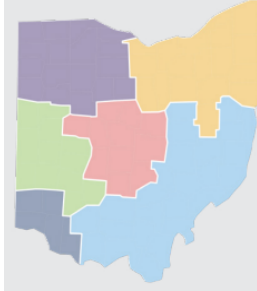
- Are qualified retirement plan trusts that invests primarily in the stock of the sponsoring company. Participants are paid out for the financial value of the stock allocated to their individual accounts upon retirement, or when otherwise leaving the company. An ESOP can own anywhere from 1-100% of the stock of the sponsoring company.

Worker Cooperatives





- Are a form of corporate entity which is 100% owned and operated by its employee members. Governance of the cooperative corporation is based on one member-one vote, and profits are distributed based on the amount of work hours provided to the company.

3. Economic Development and Employee Ownership

- **Business Retention and Succession Planning**
- **Well-Paying, Stable Employment**
- **Wealth Building and Retirement Security**



In Ohio, 54% of private businesses are owned by baby boomers. They represent an estimated 94 thousand firms that employ 2.6 million people, have \$118 billion in payroll and account for \$690 billion in sales.

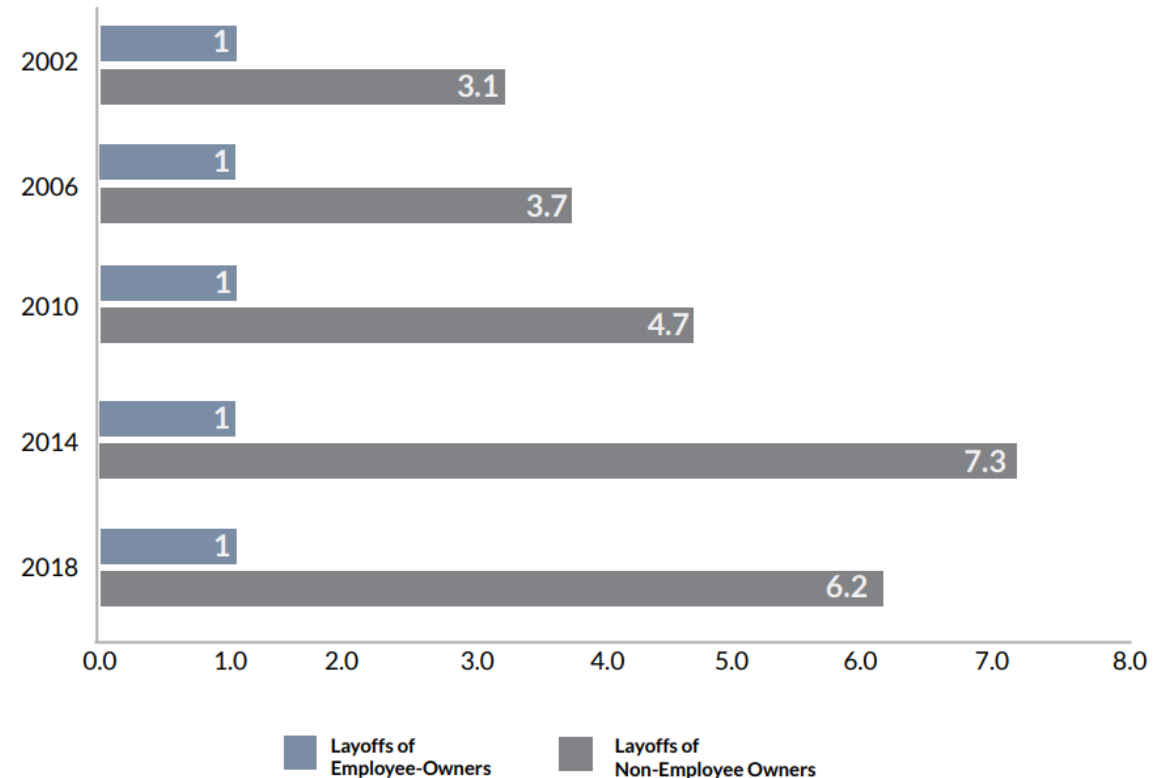
	Northeast	Southeast	Central	Northwest	West	Southwest
 Firms	43 Thousand	8 Thousand	18 Thousand	12 Thousand	11 Thousand	15 Thousand
 Employees	967 Thousand	135 Thousand	493 Thousand	272 Thousand	272 Thousand	432 Thousand
 Payroll	\$43 Billion	\$5 Billion	\$24 Billion	\$11 Billion	\$12 Billion	\$21 Billion
 Sales	\$229 Billion	\$35 Billion	\$153 Billion	\$81 Billion	\$69 Billion	\$124 Billion

Source: Analysis of Census 2017 Annual Business Survey data carried out by Ohio Employee Ownership Center, published in *Building Legacies: Retaining Jobs and Building Wealth Through Employee Ownership*.

3. Economic Development and Employee Ownership

- Business Retention and Succession Planning
- Well-Paying, Stable Employment
- Wealth Building and Retirement Security

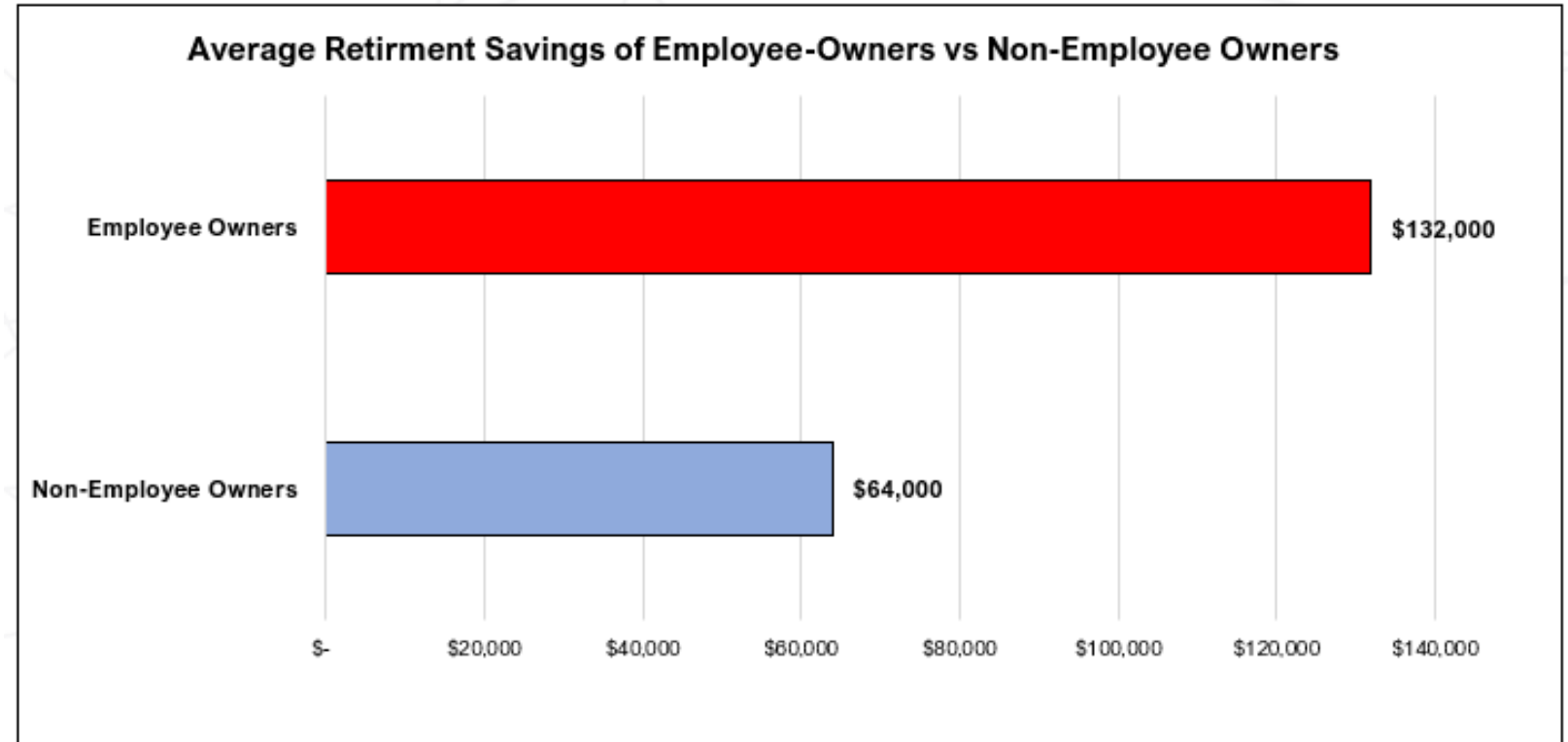
Layoff Rate of Employee-Owners vs. Non-Employee Owners, 2002-2018



Source: Analysis of data from the General Social Survey by professors Douglas Kruse of Rutgers University and Fidan Kurtulus of the University of Massachusetts Amherst, published in *How Did Employee Ownership Firms Weather the Last Two Recessions?*

3. Economic Development and Employee Ownership

- Business Retention and Succession Planning
- Well-Paying, Stable Employment
- **Wealth Building and Retirement Security**



Source: Analysis carried out by the National Center for Employee Ownership on behalf of the Employee-Owned S Corporations of America (ESCA), published in report *Measuring the Impact of Ownership Structure on Resiliency in Crisis*.

3. Economic Development and Employee Ownership



Creates a willing buyer for the business and allows owner to ensure legacy is continued



Workers benefit from higher wages, better benefits and more stable employment



Companies benefit from increased performance, in sales, productivity, and job growth



Communities benefit as employee-owned companies are less likely to close or relocate, creating stability for individuals and community tax base

4. Research Purpose

- Describe ESOP companies in Ohio
- Measure the economic and fiscal impact of ESOP companies on the state economy
- Assess ESOP company's responses to Covid-19

5. Data Sources

Employee Stock Ownership Plans are a type of qualified retirement plan and must file a form 5500 with the IRS each year.

- 2019 Form 5500 filings provided by the National Center for Employee Ownership
- Dun & Bradstreet to correct for the number of employees in Ohio
- 2018-2019 IRS SOI Tax Stats – Migration Data to downwardly adjust taxable income captured by outmigrants from Ohio
- 2019 IMPLAN Data Files for Ohio

6. Methods

Measures of Economic Impact:

Employment – number of full-time and part-time jobs

Labor Income – total employee compensation (wages and benefits)

Value Added – output less the value of intermediary goods – often used as a proxy for Gross Regional Product

Output – total value of goods and services provided in Ohio

The fiscal impact estimates include federal as well as state and local tax revenues collected within Ohio.

6. Methods

Each measure of economic impact is composed of direct, indirect, and induced impacts.

Direct Impact, or “first-round effect”, initial direct spending or employment.

Indirect Impact, or “second-round effect”, measures the effects taking place in the supply chain.

Induced Impact measures the effects of wage expenditures by cooperatives’ employees and their suppliers.

Total Economic Impact presented here is the sum of direct, indirect, and induced impacts.

6. Methods

- To account for economic impact in Ohio we downwardly adjusted employment and distributions for large (over 1,000 employees) publicly traded or private companies using the Dun & Bradstreet dataset. Employment outside of the state represents *economic leakage*, money that does not stay within the local economy.
- We assigned ESOP company employment across IMPLAN sectors by matching NAICS codes.
- To correct for migration that occurs after retirement we downwardly adjusted distributions for all companies by 2% using IRS SOI Tax Stats – Migration Data.
- We modeled the distributions as household spending in IMPLAN.
- We removed corporate income tax at the federal level for any S-Corp ESOP.

7. Results – Describing ESOP Companies in Ohio

307 ESOP Companies in Ohio

Overall Employment

- 99,088 in Ohio
- 502,181 total

Average ESOP Account Amount

- \$114,067

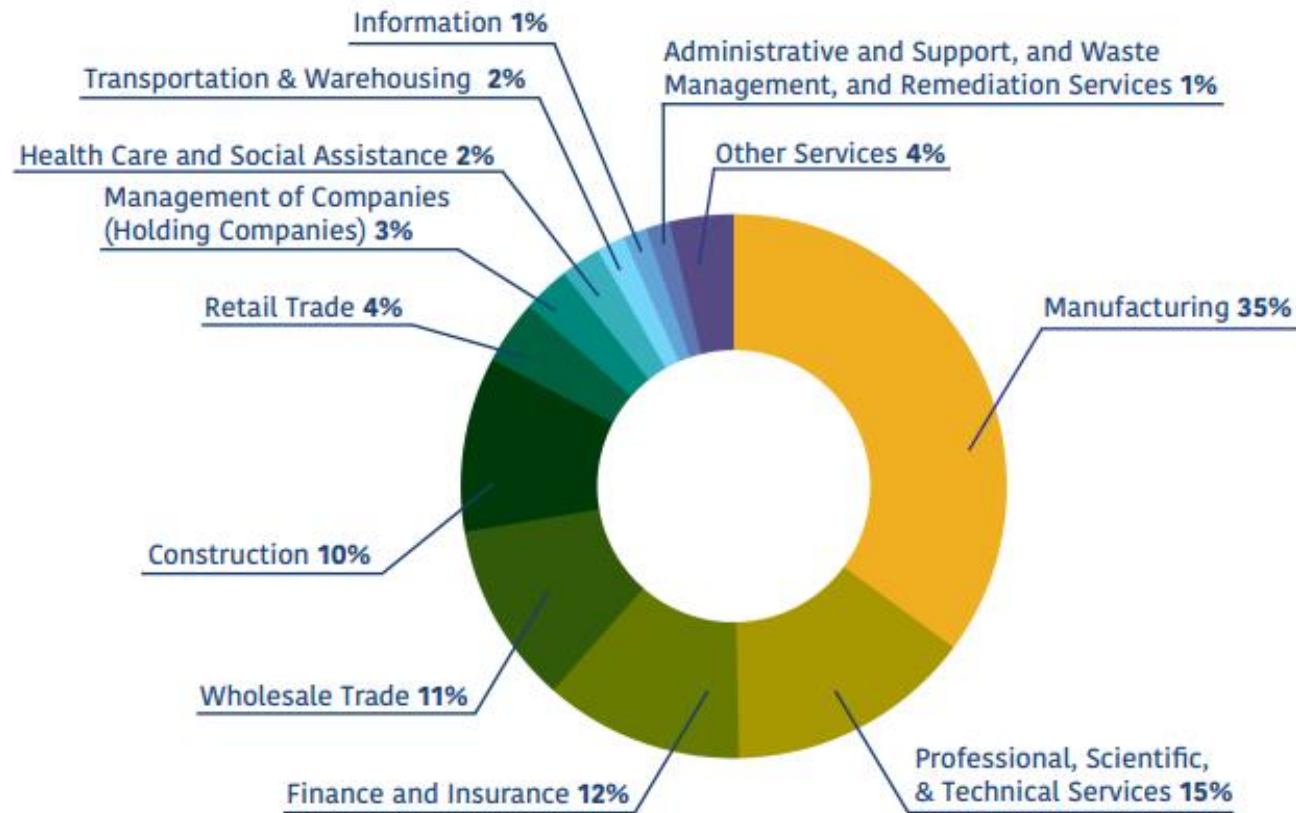
Retirement Distributions

- \$2.8 billion to Ohio residents
- \$6.7 billion total



7. Results – Describing ESOP Companies in Ohio

Ohio ESOP Companies by Sector



7. Results – Economic Impact of ESOP Companies in Ohio

Economic Impact

In 2019, ESOPs companies in Ohio supported 471,238 full-time and part-time jobs, \$41 billion in labor income, \$103 billion in value added, and \$198 billion in output

Impact	Employment	Labor Income	Value Added	Output
1 - Direct	99,088	\$18,604,641,255	\$62,419,601,381	\$122,266,018,653
2 - Indirect	171,246	\$12,381,680,444	\$21,951,455,334	\$43,880,485,437
3 - Induced	200,905	\$10,126,299,673	\$18,604,737,512	\$32,291,446,377
Total	471,238	\$41,112,621,371	\$102,975,794,227	\$198,437,950,466

Notes:

(1) employment estimates include part-time and full-time jobs

(2) all dollar values in 2022 dollars

7. Results – Fiscal Impact of ESOP Companies in Ohio

Fiscal Impact

In 2019, the overall aggregate tax impact on Ohio attributed to ESOP companies reached \$15.7 billion (including local, state, and federal revenues).

ESOP companies contributed \$2.8 billion in tax revenues to the local government, as well as \$3.2 billion to state and \$9.7 billion to federal governments.

Impact	Local	State	Federal	Total
1 - Direct	\$868,481,205	\$1,029,094,656	\$4,856,041,113	\$6,753,616,974
2 - Indirect	\$1,084,550,705	\$1,213,652,145	\$2,638,129,317	\$4,936,332,167
3 - Induced	\$871,647,788	\$975,939,553	\$2,171,857,251	\$4,019,444,592
Total	\$2,824,679,698	\$3,218,686,355	\$9,666,027,680	\$15,709,393,733

Note: all dollar values in 2022 dollars

8. How have ESOP companies responded to Covid-19?

ESOP companies have weathered the Covid pandemic better than conventional companies

Retention and Safety

- Early in the pandemic ESOP companies retained employees at a 4 to 1 Rate and maintained standard hours and salaries; were more likely to provide protective measures (Employee Ownership Foundation, 2020).

Employment and Retirement Security

- ESOP companies provided employees retirement accounts were on average double the account balance of employees at similar conventional companies (\$132k vs. \$64k).
- ESOP companies also retained or added an average of 6 employees during the 2020-2021 period (National Center for Employee Ownership, 2021).

8. How have ESOP companies responded to Covid-19?

**The OEOC hosts CEO/CFO and HR Roundtables with employee-owned companies.
In those roundtables we learned:**

1. ESOP companies in our Network accessed PPP funds at a high rate, and none have reported difficulties (apart from the paperwork and compliance) in obtaining loan forgiveness. Worker cooperatives have much lower rates of access, but we believe that is due more to other issues, company size primarily, than being employee-owned.
2. Great Resignation has impacted employee-owned companies as much as non-employee-owned companies, though there is a lot of variation, primarily across industry and type of work (skilled vs. unskilled). Many companies reported difficulties attracting new employees, but less problems retaining employees once hired - many also reported this was due to the employee ownership benefit.
3. HR professionals reported that implementing Covid protocols (masking, testing, vaccination policies) were difficult issues, with many employees threatening to quit or leave the company if the protocols were too strict (i.e., vaccine mandates) or too lax (masking, sanitizing, distancing policies). Companies reported struggling with the right balance between safety and personal choices.

9. Next Steps

Conduct economic impact study that includes entire employee ownership sector

- ESOPs are the most common, but not the only kind of form of employee ownership. Other forms exist, including worker cooperatives and employee-owned trusts (EOTs).
- Information for both worker cooperatives and EOTs will need to be collected via surveys as the government does not track these companies the same way that they do ESOPs.

Conduct economic impact study of employee ownership in other states

- There are over 7,000 employee-owned companies in the U.S. This study focused on a subset of this universe (ESOP companies located in Ohio).
- Partnerships with other state employee ownership centers and universities should be created to replicate this study across other states.

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