



Employee Ownership as a Mechanism for Reducing the Racial Wealth Gap in Mecklenburg County

Executive Summary

EXECUTIVE SUMMARY

Wealth disparities between the races in Charlotte - Mecklenburg region cut deep and wide. Today, nearly one in three Black or Latinx households in Charlotte have a zero or negative net worth. Lack of wealth decreases the odds of buying a home, accessing business opportunities, saving for retirement, and passing down wealth to the next generation.

Wealth is critical to economic stability and, for people of color, business ownership plays a significant role in building wealth. According to the U.S. Census Bureau, there are 36,742 minority-owned businesses in Charlotte-Mecklenburg, and many are facing a “twin business crisis” – the pandemic and ageing owners.

The Covid-19 pandemic has disproportionately impacted minority-owned businesses across all sectors and industries, forcing many to close or sell to larger corporate competitors. For communities of color, the loss of local ownership can be devastating and irreversibly affect the community's vitality and character. The accelerated retirement of the Baby Boomers induced by Covid crisis sped up a "silver tsunami" of business sales or closures. This will mean a potential transfer of billions of dollars in business assets to new owners. The absence of succession plans poses a substantial problem for many business owners of color.

This twin business crisis has spawned a renewed interest in employee ownership as a potential tool for driving equitable economic recovery and growth. Employee ownership, often called "the best-kept secret of our economy", refers to any scenario where employees own shares or the right to share in the companies that they work for. It can concurrently address a number of the factors contributing to racial wealth gap.

- Employee ownership has been found to reduce wealth disparities by providing equity to working-class people and distributing wealth more evenly across all demographic groups.
- In addition to the positive impact on wealth distribution, some forms of employee ownership give small business owners access to liquidity at fair market value and an opportunity for workers to diversify their assets efficiently.
- Employee ownership can significantly improve the business closure- to- sales ratio, helping business owners of closely held companies to retire with significant wealth and sustain local jobs.

UNC Charlotte researchers and the North Carolina Employee Ownership Center (NCEOC) use this study to identify the underlying issues that prevent local business owners from entering the employee ownership model. In addition, the study highlights ways to help more people



EXECUTIVE SUMMARY

embrace it in the Charlotte - Mecklenburg area. Understanding the local context will allow to develop a better business support ecosystem and reduce the growing racial wealth inequality triggered by the twin business crisis.

Key findings

The survey of Charlotte MWSBE business owners revealed a generally low familiarity with employee ownership and its benefits for themselves, their employees, and local communities. Due to a lack of knowledge about the utility of employee ownership types and the setting up processes, business owners with good conversion potential, many of whom are Black-owned, are missing on the possibility. Almost 80% of respondents didn't express an interest or were unsure about pursuing an employee-owned model for their businesses. However, the results of our study suggest that Charlotte has an existing market for conversion of minority-owned firms.

- Thirty-four percent of surveyed businesses have been 20 or more years in operation.
- Sixty percent of owners in the surveyed businesses have 15 years or less until retirement. Forty-five percent of them are Black, and 6.5% are Latinx.

Converting those companies into employee-owned to preserve their business legacy and provide wealth-building opportunities to their workers can be a pressing opportunity. We found that Charlotte can gain a lot from supporting employee ownership as an innovative strategy to bridge the growing racial wealth gap. The family wealth-generation process starts in the community, and building a stronger community for the benefit of existing residents and employers will have a long-term impact on attraction of asset-building opportunities.

Recommendations to expand employee ownership in Charlotte

Our research identified that a lack of awareness about employee ownership, insufficient support and guidance

through transition, and financial barriers are the common obstacles to broader employee ownership adoption in Charlotte. Our recommendations address these barriers to help build more opportunities for Charlotte disadvantaged communities and people of color. Building upon the research findings, we recommend that the following efforts should be pursued:

- **Identifying and targeting candidates with good conversion potential.** Targeted outreach can be a time- and cost-effective strategy. Partnering with local business and trade associations, chambers of commerce, and organizations who serve the low-income minority-concentrated communities can help identify leads in selecting companies for conversion.
- **Raising awareness in a structural way.** Most surveyed minority businesses mentioned a lack of knowledge about employee ownership and its utility as a primary reason for not pursuing the transition. Education and information dissemination about broad-based employee ownership benefits among business owners, government agencies, and business services providers can reduce those barriers.
- **Providing feasibility analysis and technical assistance to companies interested in conversion to an employee-owned model.** Building local government capacity to provide resources and high-quality assistance for transition is imperative for the success of the strategic employee ownership development.
- **Improving access to capital.** Access to capital represents a significant challenge for the growth of small minority businesses, and government organizations can play an essential role in connecting them with public and private money. Furthermore, impact capital could play a key role in ensuring that a significant portion of the “silver tsunami” firms transition to employee ownership.
- **Creating Legacy Businesses Preservation program.** Legacy Business Preservation programs primarily focus on building awareness about legacy businesses and their importance to the community. Long-standing culturally

EXECUTIVE SUMMARY

and historically significant businesses can apply to the Legacy Businesses Registry to be eligible for Rent Stabilization and Business Assistance grants and technical and other support from the city. Resources and training for succession planning can be provided in partnerships with local Small Business Development Center and the Democracy at Work Institute.

- **Prioritizing employee ownership strategies that have proven economic impact in communities of color and among low- and moderate-income workers: worker cooperatives, Employee Ownership Trusts (EOT) and secondary worker cooperatives.** Both EOTs and worker-owned cooperatives can be a less regulated and simpler model for conversion that many small businesses can capitalize on. By prioritizing scalable worker cooperatives

and EOT development strategies in the industries with job improvement potential, Charlotte can prevent business closures and make a measurable economic impact on communities of color.

- **Supporting mentorship and leadership programs.** A lack of mentors and role models who can guide professionals' career advancement has a negative impact on the leadership potential and the soft skills people of color bring to the businesses they create. By expanding business leadership education through coaching, workshops, mentoring, and networking with local employee-owned company executives, Charlotte can grow a new generation of business leaders of color.

