

# Employee owners spur the economic growth America needs

BY DENNY SCOTT, OPINION CONTRIBUTOR, THE HILL NEWSPAPER - 04/04/17 09:00 AM EDT

President Trump and Congress have promised to boost American job stability while giving workers greater control over their economic destinies.

Fortunately, Trump's presidency overlaps with a unique window of opportunity to deliver on these promises. Nearly half of all private businesses are owned by Baby Boomers, which means as older Americans age out of the workforce, many family and locally-owned companies will change hands. Business owners can sell to a competitor, private equity, or go public, but they can also convert to an employee stock ownership plan (ESOP). In short, businesses can become employee-owned, which is consistent with more rapid and resilient job growth.

An S corporation ESOP is a type of retirement plan that converts employees into owners, giving them a stake in their companies' successes. But perhaps more importantly, Congress authorized the S ESOP to create jobs, generate economic activity, and promote retirement savings; and today, S ESOPs do exactly that. When my company, Burns & McDonnell, transitioned to employee ownership in 1986, it kicked off an era of expansion that helped us grow to more than 5,300 employee-owners today.

Our story is not an isolated case: more than 3,000 S ESOPs together employ 470,000 workers in U.S. industries ranging from manufacturing to consulting, supporting hundreds of local towns and neighborhoods along the way. At many of these companies, job growth has been robust.

Employment among S ESOPs in continual operation since 2002 increased 37 percent, while total nonfarm private employment increased only 8 percent over the same period. Moreover, S ESOPs have historically been more resilient in the face of economic downturns, outperforming other private employers in the U.S. during and after the 2008 recession.

Jobs are important, but many Americans are also worried about growing their incomes and savings in a post-recession economy. Workers want higher wages and more security; here, S ESOPs also deliver. Research by former Vice President Joe Biden's chief economist Jared Bernstein found that an ESOP does not substitute for lower wages. Rather, ESOP companies tend to have higher wages and less inequality. Other research has found employees

at S ESOPs are more likely to have a second retirement account than other workers are to have one.

In sum, workers at private, employee-owned companies have more stable jobs, better wages, and enhanced retirement security. It's no wonder S ESOPs foster a strong network of loyal employees who feel connected to each other and their company. By putting both sweat equity and real equity into their work, employee-owners are more likely to have high workplace satisfaction, faith in their business' future, and pride in a culture that prioritizes customers, workers, and the community ahead of a quick and easy sale.

S ESOPs have a track record of success, returning more annually to employee-owners than the S&P 500, and experiencing growth during economic downturns. A new report by Matrix Global Advisors researcher Alex Brill concludes that the U.S. economy would be well-served if there were more employee-owned businesses. Current data shows that S ESOPs are the least-used business exit option for retiring owners, behind domestic and foreign mergers and acquisitions, private equity buyouts, and initial public offerings (IPOs). This leaves American workers at a disadvantage. M&A deals are likely to reduce local ownership of a company, while private equity has a history of layoffs and cuts that can be devastating to a business' employee base and community. Even IPOs tend to exclude workers as they enrich a company's founders and investors.

While not every company is right for an ESOP, Congress can do more to encourage this form of ownership by equalizing the incentives for C corporation and S corporation conversions, and encouraging technical assistance for businesses seeking information on employee ownership.

Now that America is experiencing the most impactful retirement period in its history, the president, Congress, and state policymakers must work with business owners to deliver job growth and stability over the long term. S ESOPs are an innovative solution for retiring business owners to assist their workers, preserve their company legacy, and support their local communities.

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