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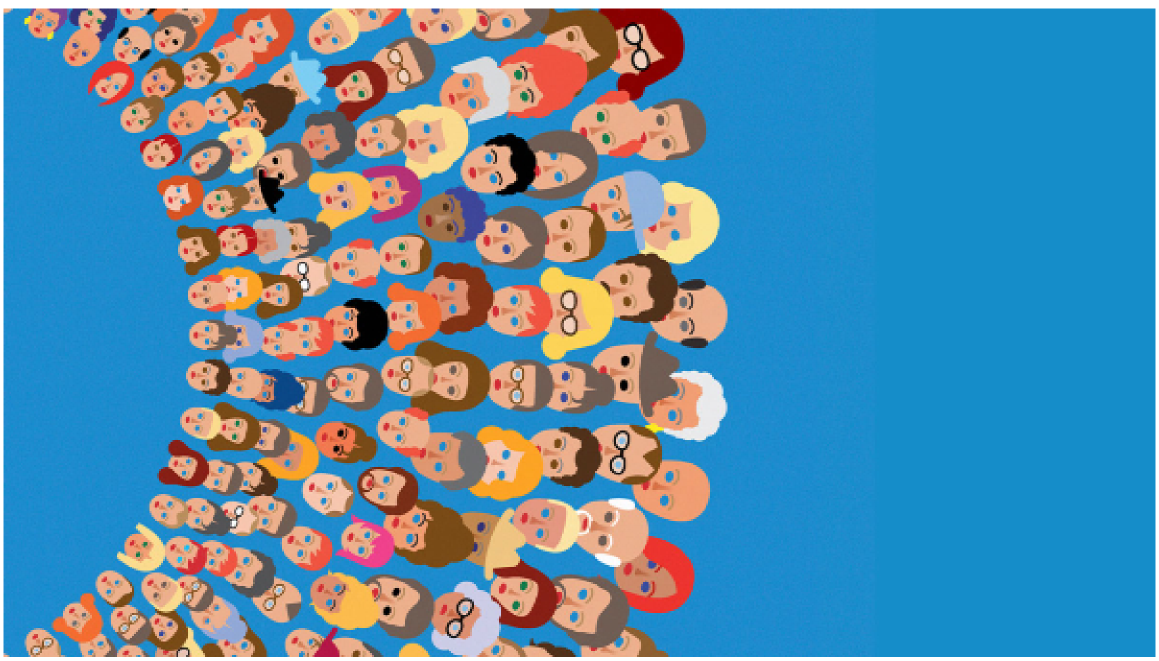

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The gap in wealth in the United States between the ultrawealthy and everyone else has reached its widest point in decades. One way to narrow the divide is through the use of worker buyouts, in which ownership of a company transfers from a single person or a small number of people to the workers of the company.

Currently, about 10% of Americans hold equity stakes in their workplaces. By providing more workers and employees with opportunities to buy shares, companies can help workers and communities raise their standard of living and simultaneously feel more invested — literally — in the success of the enterprise. In that way, worker buyouts also increase firms' competitiveness: Research suggests that employee-owned companies are more durable and resilient during economic downturns.

Workers and employees have more opportunities today than ever before to become capitalists and invest in the businesses that employ them. Baby Boomers at or near retirement age own nearly half of the privately held businesses in the United States. These 2.3 million companies employ one in six workers nationwide, or close to 25 million people. More than half of these owners expect to retire in the next 10 years, and one-quarter wish to transfer ownership of their companies to a business partner or their employees.

Such ownership structures have already proven successful: About 17 million people, or 12% of the U.S. workforce, are employed at variations of worker-owned enterprises. These companies are not just small groups of artisans or craft workers. Agricultural cooperatives Land O'Lakes and Ocean Spray have become major players in dairy production and fruit farming, earning hundreds of millions in annual revenue. And some companies with employee majority-owned stock programs, such as Publix Super Markets and outerwear maker W.L. Gore and Associates, are leaders in their industries. The largest industrial federation of worker cooperatives in the world, Mondragon Corporation, is one of Spain's top 10 multinationals, with about $13 billion in revenue from 105 cooperatives, and 75,000 employees stretching across Europe, Asia, South America, and the United States.

Within the next decade, we expect worker- and employee-owned companies to grow in popularity thanks to three mutually reinforcing trends: First, renewed interest in ensuring the economic viability of local communities suggests that Baby Boomer owners about to retire are increasingly likely to want to sell to workers. Second, evidence is mounting that worker- and employee-owned enterprises outperform their competitors, especially during economic downturns; a recent Rutgers study found that converting to worker and employee ownership boosts profits by as much as 14%. Third, as a result of strong performances by worker- and employee-owned companies, it is becoming easier for workers to overcome arguably the biggest hurdle to worker buyouts: financing.

That's because a growing number of funders, both social impact funds and traditional institutions, are interested in financing workers' takeover of a company. The social impact funds want to support it for social reasons, whereas hedge funds and others are recognizing that the superior resiliency and performance of worker-owned firms can improve their returns. This funding often comes through loans or financing vehicles specially designed so that workers and employees can retire outside investors over time after achieving a certain level of earnings while protecting and even growing their ownership stake.

Already, U.S. nonprofit organizations like Heartland Capital Strategies are bringing together institutional investors, private asset managers, and worker representatives to harness some of the $13 trillion of assets in workers' pension funds to invest in worker-friendly businesses that offer good investment returns. And companion bills developed to enable the U.S. Small Business Administration to make loans to intermediaries that help finance worker co-op transitions have been passed by the House of Representatives and the Senate.

To encourage worker buyouts, more awareness-raising initiatives are required. The general understanding of how emerging hybrid ownership models can benefit investors, business owners, workers, and community stakeholders needs to be broadened so that retiring owners and investors like private equity funds, with charters to invest in enterprises that have a positive social impact, can consider them more often. At the same time, legislative and community programs designed to support worker ownership should be expanded.

On their own merits, worker-owned businesses can show policy makers, investors, managers, and advisers that companies with democratic ownership values and structures are operated with the same profit motivation as other companies. The biggest difference is that workers have an important say in who manages them and how profits align with values. This results in inclusive workplaces that, again, often perform better, especially during recessions or slowdowns, as Mondragon has demonstrated over the past 60-plus years.

Hybrid ownership models represent the future, especially those that build more-democratic forms of ownership from the ground up. Some businesses with employee stock ownership plans (ESOPs) are converting into structures that more closely resemble worker co-ops. When the founder of Sun Light & Power, a solar power company based in California, created his succession plan recently, he worked with his employees to transition the company from a tax-advantaged ESOP, in which a company's stock is bought by its workers and employees, to what they called an "ESOP-erative." The company maintained the tax advantages of an ESOP, but distributed the shares in a way that would give employees with lower salaries greater voting power.

ESOPs typically allocate shares to employees in proportion to their pay. But Sun Light & Power distributed half of the founder's shares to employees equally, 25% based on the number of years each employee had been with the company, and 25% on the basis of each employee's salary level. It also formed a body of employees known as the "Cooperative" that was open to anyone willing to learn the basics of business finance and gave all employees the right to vote for their board of directors based on their number of shares.

Worker buyouts are particularly likely to blossom in industries with organized workers who transition to union cooperatives. Last year 400 members of IAM Maine Lobstering Union bought the wholesale operation of Trenton Bridge Lobster Pound and turned it into a worker-owned cooperative called Lobster 207. The International Association of Machinists and Aerospace Workers helped them take this step in an effort to preserve their industry, which was being decimated by collapsing lobster prices and the impact of global companies taking over formerly Maine-based wholesale businesses. The co-op gives lobstermen a way to participate in the wholesale market and to share in the profits. The fishermen can sell their lobsters through their union cooperative at market price and then receive a share of profits at the end of the year — they also have an online retail operation.

Particularly in mismanaged industries where workers' professional ambitions are unfulfilled, employees are increasingly motivated to pioneer new worker- and stakeholder-owned business models. One area that seems ripe for this is in the arena of connected and autonomous mobility systems in the automotive and aerospace industries. In Denver taxi drivers have been working with the union CWA Local 7777 to form co-operatives that offer an alternative "shared economy" business model to Uber and Lyft that gives the workers who are also owners better conditions and a say. The largest, Green Taxi, is owned and operated by more than 150 taxi driver-owners and uses its own fully integrated app.

In his book *Capital in the Twenty-First Century*, French economist Thomas Piketty sheds light on many of the structural impediments that fuel an unequal distribution of wealth, leading to social and economic instability. Worker buyouts can offer a compatible, fully competitive, market-based pathway to strike a more sustainable balance between the aspirations of workers who strive to become less paycheck-dependent and the demands for ever-higher returns against operating margins from shareholders and capital providers.

Editor's note: This article previously misidentified the nonprofit Heartland Capital Strategies as "Heartland Capital Strategy Institute." We've updated the article to correct the name.

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