

RESEARCH BRIEF

Institute for the Study of Employee
Ownership and Profit Sharing

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Oyindamola A. Ijewere, DBA

Graduate, Doctor of Business Administration

Wilmington University, College of Business

W.K. Kellogg Fellow of Rutgers SMLR



RUTGERS-NEW BRUNSWICK

**Institute for the Study of Employee
Ownership and Profit Sharing**

School of Management and Labor Relations

RESEARCH BRIEF

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Factors Influencing a Black Small Business Owner's Decision to Sell their Business to a Worker Cooperative

Questions:

What factors influence a Black small business owner's decision-making process to sell their business to a worker cooperative?

Summary:

This brief reports on interviews with eleven Black small business owners focusing on their expectations around succession planning, and the impact that awareness of worker cooperatives would have on their decision-making process to sell their business to a worker cooperative when they decide to exit their business. An exit from their business also includes retirement from the business. This brief also discusses the Black small business owners' access to capital, and capacity building. The interviews concluded with questions asked to determine the assistance the participants would need to sell their business, and what would be most important to them in their decision to sell their business to a worker cooperative when they decide to exit their business.

The findings revealed that succession planning was not an area of focus for the business owners. They expected their personal finances to be positively impacted when they sought to exit their business. The business owners lacked awareness of worker cooperatives as an exit option. They needed trusted local professionals to offer technical assistance and to provide them with the necessary education to steward them through a sale. The owners also wanted a guarantee that the sale to a worker cooperative would offer them personal financial security, positive community impact, and personal legacy protection.

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Introduction

Black people have engaged in entrepreneurship for generations as a means to seek increased income. Entrepreneurship was an attractive option given that traditional labor markets put limits on their wage-earning opportunities. Studies found that succession planning among Black small business owners was low partly due to their lack of resources, reduced capacity building and inadequate access to social networks. This research sought to explore the influences of Black small business owners in their decision-making process around succession planning, and selling their business to a worker cooperative.

Question

What factors influence a Black small business owner's decision-making process to sell their business to a worker cooperative?

The research identified a working model to explore the factors that could influence the decision-making process based on existing literature. Identified factors were: awareness of the option of selling to a worker cooperative as an option for succession planning, and the influence of access to capital and capacity building in the decision-making process.

Recent Research on Succession Planning for Business Owners

Non-minority business owners were more likely to have some type of succession plan in place as compared to minority business owners which was inclusive of Black business owners. When business owners considered ownership transitions for their businesses, they often thought of transfers to family members or sales to competitors or external buyers. Research showed that Black business owners indicated they would consider selling their businesses to employees provided they could receive a fair price for the business and do it in ways that honored their legacies. However, Black business owners were unaware that selling their businesses to their employees using a worker cooperative or other forms of employee-owned entities was an option.

Ownership of over half of the small businesses in America rests with baby boomers and Black small business ownership does not appear to differ because it is likely that over half of Black owned small businesses are owned by baby boomers. The concept of the aging baby boomer business owners was referred to as the "silver tsunami". This concept combined with the recent pandemic fueled the number of exits by this generation from their businesses and workplaces. With only about a third of businesses being sold or transferred to the next generation, there could be outright closures or lower exit values derived by the business owners who usually have invested significant resources in the business. Ultimately the economic impact of the closure of Black-owned small businesses does not bode well for the local communities in which they serve. The closures may result in further economic marginalization of those communities which could, in turn, further widen the racial wealth gap. Those closures must be contained through ownership transitions in order to control that widening wealth gap.

Historical Participation of Black People in Cooperatives

Benevolent societies and lending groups including religious organizations or work-based unions emerged to the benefit of Black communities to combat discrimination and improve their economic circumstances. Two popular examples of Black cooperative participation were the Brotherhood of Caulkers formed in 1838 and the Knights of Labor (KOL) formed in 1869. The Caulkers was one of the more prominent worker cooperative transitions during its time. The Caulkers organized to purchase the shipyard in which they worked in Richmond, Virginia to the benefit of the workers. The Knights of Labor (KOL) began primarily as a labor union which was craft, skill, sex, race, and nationality agnostic in line with its solidarity philosophy. At the time, 10% percent of its 750,000-person membership in 1886 was Black. KOL promoted collective lending, worker cooperatives, and cooperative stores and warehouses.

Black small business owners and their employees typically participated in low margin industries which often translated into lower profits and lower wages. This presented the compounding challenge of wealth accumulation because the owners and workers of these Black-owned small businesses had lower rates of access to defined retirement contribution plans or traditional pensions. This also resulted in lower net worth at the end of their lives. The income gap for Black people was pronounced and it contributed to the racial wealth gap. Worker cooperative transitions can provide an avenue to help partially bridge the wealth gap as it advocates for fairer outcomes for those involved in value creation and sustainability of the businesses.

Worker Cooperative Conversions and Wealth Creation for Black People

One specific way to partially bridge the racial income gap is to create the opportunity for more sustainable businesses using worker cooperatives in Black communities. They ultimately provide better wages and greater job stability for the workforce in those communities. Cooperative developers help with the transfer of ownership of a business from an owner to workers through stewardship and education. Immediate access to some proceeds of the sale allows for two positive outcomes: 1.) the selling owner of the business can immediately receive a payment from the sale, and 2.) the worker-owners do not have to come out of pocket to purchase the business. Likewise, accessing the capital is not dependent on the personal finance circumstances of the worker-owners who have no personal responsibility for the debt the cooperative takes on to finance the purchase of the business. The benefit to the stakeholder of the transfer of ownership from Black small business owners of employer firms is ensured continuity and longer-term sustainability.

Participant Interviews

In person interviews took place in Miami, Florida. The 11 Black small business owners had anywhere between 2 to 9 employees. They all had at least three years of business ownership expertise, and they were the primary decision makers for their business. The interviews further stressed their expectations around succession planning. Additionally, the participants discussed the impact that awareness of worker cooperatives, access to capital, and capacity building would have on their decision-making process to sell their business to a worker cooperative when they decide to exit their business. The interviews concluded with questions around the help the participants would need to sell and what would be the most important to them in their decision to sell their business to a worker cooperative when they decide to exit their business. The responses from the interviews are summarized below.

Results

The findings highlight that Black small business owners were not focused on succession planning. However, they expected the financial impact to be positive when they seek to exit their business. The owners felt that a greater awareness of worker cooperatives needed to be brought to them by local professionals that they trust to steward them through the sale and offer them technical assistance. They also wanted to be guaranteed that the sale to a worker cooperative would offer them personal financial security, be positive for the wellbeing of the community and offer personal legacy protection. Most of all they wanted to know that they built a business that was able to sustain the community beyond their time of operating the business.



Conclusion

Black Small business owners lack succession plans, and they have mismatched expectations around their personal and business outcomes when they exit their businesses. These business owners are equally unaware of the option to sell their businesses to worker cooperatives as a succession plan for when they exit. There is an opportunity to encourage Black small business owners to use worker cooperatives as a tool for business continuity, improved wages, and better-quality jobs. It is necessary to promote this exit option as a wealth creation tool for stakeholders in the Black community who may not be privy to other mainstream avenues of wealth accumulation. The recirculation of wealth in Black communities using worker cooperatives can partially bridge the racial wealth gap by: improving average lifetime income, improving parental wealth for future generations, and reducing familial networks of poverty often found in Black communities.

The key here is for employee ownership professionals to use an iterative approach for joining with community-based business advisors and leaders as a means of connecting with local business communities. Additionally, employee ownership professionals should focus on their relationships with local government and state level institutions. This will help practitioners gain credibility in these communities to ensure that they are able to train these local business advisors. These advisors can steer the conversations for small business owners and encourage efficient succession planning towards sales to worker cooperatives.

Implications

The implications of this research centered on several focus areas made prevalent from the participant interviews and the literature review. To address these focus areas, there are five recommendations provided as a result of this research:

- Create greater awareness and education on worker cooperatives as a succession planning tool for Black small business owners.
- Provide Black small business owners with education delivered by trusted community-based professionals.
- Allow access to capital as a focal point in the provision of worker cooperative education to Black small business owners.
- Add Capacity Building as a focal point in the provision of worker cooperative education to Black small business owners.
- Develop an iterative approach for succession planning for Black small business owners using worker cooperatives as an alignment of expected business and personal outcomes.



Key Findings and Themes by Research Question and Propositions

Succession Planning and Retirement Expectations			
Research Proposition	Theme	Sub-themes	% of all Interviews
Influence of Awareness Creation on Decision Making	Business Challenges	Business Continuity	55%
		Human Capital Competence	36%
	Business Succession	Planning – No plan	55%
	Business Outcomes	Sale to local individual or firm	36%
		Keep going with new management	36%
		Continue working in the business	36%
		Dissolve the business	36%
	Personal financial wellbeing	Positive – Windfall	82%
	Employee financial wellbeing	Negative – Job Losses	45%
Community wellbeing	Negative – Loss of a service	36%	
Awareness Creation	Very Important	91%	
Influence of Access to Capital on Decision –Making	Access to Capital	Positive	91%
	Capital Related Conditions that Must Be Present	Enough for retirement	55%
		Enough from sale	55%
		Non-exploitative capital	45%
		Ability to finance sale transaction	45%
Influence of Capacity Building on Decision Making	Capacity Building	Positive	100%
	Capacity Building Related Conditions that Must Be Present	Keeping the business open	64%
		Growing the business	64%
		Business support services	55%
		Upskilling the employees	45%
Additional Findings on Decision- Making	Help needed	Trusted Community Professional	73%
		Technical assistance on sale	73%
		More education on worker cooperative	64%
	Most important	Personal legacy protection	64%
		Personal financial security	55%
		Community Wellbeing	55%

Recommendations for Future Research

Future research could include additional qualitative and quantitative research to validate the findings of this research. Nationwide quantitative surveys can be a future research methodology to gather larger amounts of data. Regional exploratory case studies can be used as a varied research approach to help employee ownership practitioners understand how best to include already existing small businesses into their ownership transfer (conversion) practices.

Future researchers can seek to expand the research around succession planning and retirement expectations of small business owners, given the significant role they play in the American economy. Understanding the succession planning patterns of small business owners could reveal an approach to absorb employee ownership as a tool in succession planning for the greater business community.

There are also opportunities around future research for the access to the capital and the capacity building needs of small businesses. This ties into their access to social networks which impacts their long-term success as businesses. Exploring the influence of business advisors on the decision-making process of small business owners suggests that advisors have some influence on Black small business owners.

Source

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