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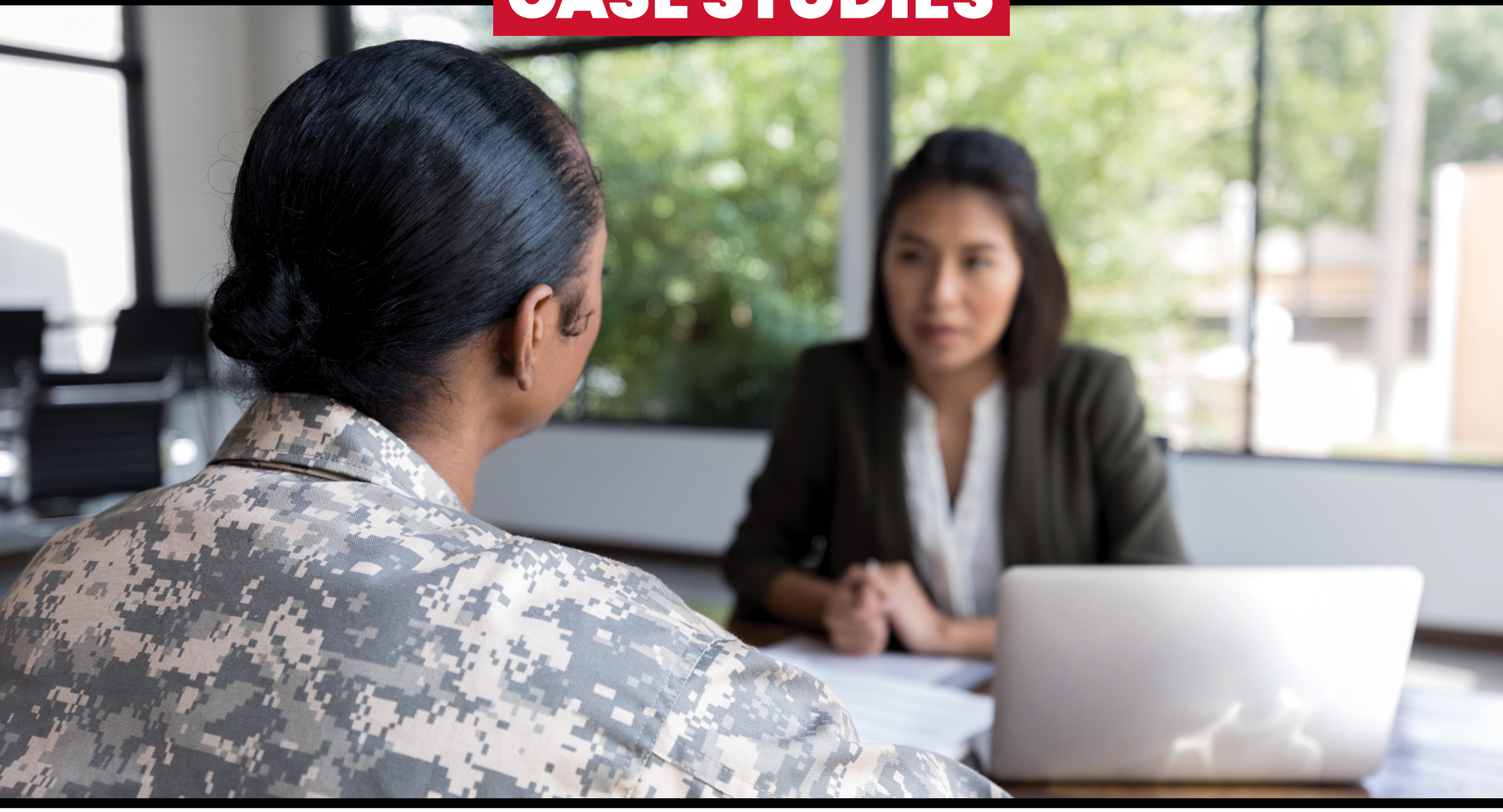

Understanding the Opportunities for Employee Ownership Among Minority Veteran-Owned Businesses

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EXECUTIVE SUMMARY

The United States business sector is dominated by small businesses that create new jobs at a rate considered faster than that of their larger competitors. Remarkably, military veterans own nearly 13 percent of small businesses. However, only eight percent of all veteran-owned firms are minority owned, including 3.1 percent Hispanic, 2.4 percent Black, 1.8 percent Asian, and 0.7 percent Native American and Native Hawaiian. The low percentage of minority-owned veteran businesses is perplexing given that minority veteran business owners have much higher rates of educational attainment than do non-minority veterans. (See chart on Page 6)

Although veteran entrepreneurs have contributed significantly to the U.S. economy, generating up to $1.2 trillion annually, this positive economic impact is in jeopardy as nearly 75 percent of veteran business managers are nearing retirement, part of a larger trend called the "silver tsunami." Furthermore, a study by the National Bureau of Economic Research reported a drop of 41 percent and 32 percent, respectively, in African American businesses and Hispanic businesses due to the COVID-19 pandemic from February 2020 to April 2020.

The inability to ensure the business continuity of these minority-owned firms will mean that the wealth built up over their decades of hard work could be lost. Moreover, the jobs and economic activity that these businesses represent in their communities could be at risk, thus exacerbating the racial wealth gap. Having a viable business succession strategy in place will be critically important to ensure the financial well-being of these business owners, their families, employees, and the local communities where these businesses are located.

75 percent of veteran business managers are nearing retirement, part of a larger trend called the "silver tsunami."

Based on empirical and qualitative research, minority veteran owners are facing significant challenges in ensuring the successful continuity of their businesses, including:

- The need to access capital to help grow their business, develop and retain employees, and fund various business succession options, including selling the business to employees
- The lack of sufficient succession management plans in place to identify and develop a successor
- The difficulty in finding mentors and networking connections with other military-affiliated business owners
- The lack of knowledge of possible business succession strategies

To help these owners ensure the sustainability of their businesses, there is an urgent need to provide them with targeted financial and educational resources.
These include:

- Financial support and advice from government agencies and service providers on how to finance a business succession strategy
- Customized and affordable training for implementing succession management programs
- Access to successful veteran mentors and networks for leadership and business advice
- Information on viable business succession strategies from trusted and culturally relevant sources, especially from minority and/or veteran leaders and role models
- Passage by Congress of the pending Promotion and Expansion of Private Employee Ownership Act of 2021 that will allow employee stock ownership plan (ESOP) S Corporations to continue to qualify for Small Business Administration initiatives, including the 8(A) business development program for economically and socially disadvantaged owners.

I. INTRODUCTION

The United States business sector is dominated by small to mid-sized businesses that create new jobs at a rate faster than their larger competitors and generate more than 50 percent of the jobs in the U.S. economy.[1] Remarkably, veteran entrepreneurs own 13 percent of small businesses.[2] [3] Veteran entrepreneurs have contributed significantly to the U.S. economy, generating up to $1.2 trillion annually.[4] [5] Veteran-owned businesses have a wide distribution across all major industry groups, with roughly 70.5 percent of the companies concentrated in wholesale trade, retail trade, manufacturing, and construction.[6]

A startling trend, commonly referred to as the "silver tsunami," indicates that 50.8 percent of all small business owners, accounting for about 2.7 million businesses, are nearing or past retirement age. More concerning, according to the 2019 U.S. Census Bureau's Survey, veteran entrepreneurs are much older than all other business owners, with 75 percent aged 55 years and above.[7] Many of these business owners have no succession planning process in place to ensure the continuity of their businesses, which could have a devastating impact on the financial well-being of business owners, employees, and the overall economy.

New empirical research by the Rutgers Institute for the Study of Employee Ownership and Profit Sharing, using U.S. Census data, indicates that more Black and Hispanic veteran business owners are nearing or past retirement age and that this number is highest in industries where Black and Hispanic veteran small business owners are concentrated. Based on U.S. Census 2018 data cited in the 2019 Annual Business Survey, 55.7 percent of Black veteran business owners and 50.9 percent of Hispanic veteran business owners are nearing or past retirement age. The inability to ensure the business continuity of these firms will mean that the wealth these Black and Hispanic veteran business owners built up over decades of hard work could be lost. Moreover, the jobs and economic activity that these businesses represent in minority communities would be at risk, thus exacerbating the racial wealth gap.

55.7 percent of Black veteran business owners and 50.9 percent of Hispanic veteran business owners are nearing or past retirement age.

The COVID-19 pandemic triggered an economic downturn which saw many small, independently owned, and veteran-owned businesses struggling to remain afloat.[8] According to a recent survey, the second quarter of the lockdown recorded a 25 percent drop in the number of 55 and older business owners. Furthermore, a recent weekly Small Business Pulse Survey instituted by the U.S. Census for the period of September 20, 2021 to September 26, 2021 reported that 32 percent of businesses had zero to 14 days of cash on hand, while 61.5 percent of businesses had zero to two months of cash on hand. These results were a harbinger of the challenges for small businesses after that stage of the pandemic. It is not unreasonable to assume that a series of imminent failures might be expected to constitute 20-30 percent of the entire small business sector. For small business owners nearing retirement, this pandemic disruption will create more challenges for effective business succession planning.

A study by the National Bureau of Economic Research reported a drop of 41 percent and 32 percent, respectively, in African American businesses and Hispanic businesses due to the COVID-19 pandemic from February 2020 to April 2020.[9] Many minority-owned small businesses were in financially precarious positions even before COVID-19 lockdowns, and often are in industries more susceptible to disruption, such as construction, accommodations and food service, and healthcare. To ensure the continued viability of veteran minority-owned businesses, more financial and educational resources are needed to help these grow and develop successful business succession strategies.

RESEARCH METHODOLOGY

The Rutgers Institute for the Study of Employee Ownership and Profit Sharing, with support from The Prudential Foundation, conducted both empirical and qualitative research on minority-veteran business owners to assess the current state of these businesses and write case studies focusing on the type of succession planning strategies these businesses are considering. Our objectives are to raise awareness of the challenges these business owners are facing and offer examples of successful succession strategies, including the option of selling their firms to employees to help ensure the continuity of the businesses. The empirical research we conducted analyzed data from noted sources. In addition, we conducted 20 in-depth interviews with minority veteran business owners and other veteran business owners who sold part or all of their companies to their employees. These in-depth interviews enabled us to learn more about the current state of these businesses and the challenges these business owners are facing as they near retirement.

II. CURRENT STATE

A. Demographics – Veteran Business Owners

As reported in the 2019 Annual Business Survey (ABS), covering the reference year 2018, there are 337,934 veteran-owned businesses, making up 5.9 percent of all businesses in the U.S., and 13 percent of all small businesses. The following charts provide a demographic profile of these owners by age, race and ethnicity, gender and education.

Age Statistics

Based on data from the 2019 ABS survey, most veteran business owners are nearing retirement. While 49 percent of all business owners in the U.S. are over 55, more than 75 percent of veteran business owners are over 55.

	Non-Veteran Business Owners	Veteran Business Owners
Under 25	0.4%	0.1%
25 to 34	5.7%	1.6%
35 to 44	17.7%	6.6%
45 to 54	27.4%	16.6%
55 to 64	31.3%	19.1%
65 or over	**17.6%**	**56.1%**

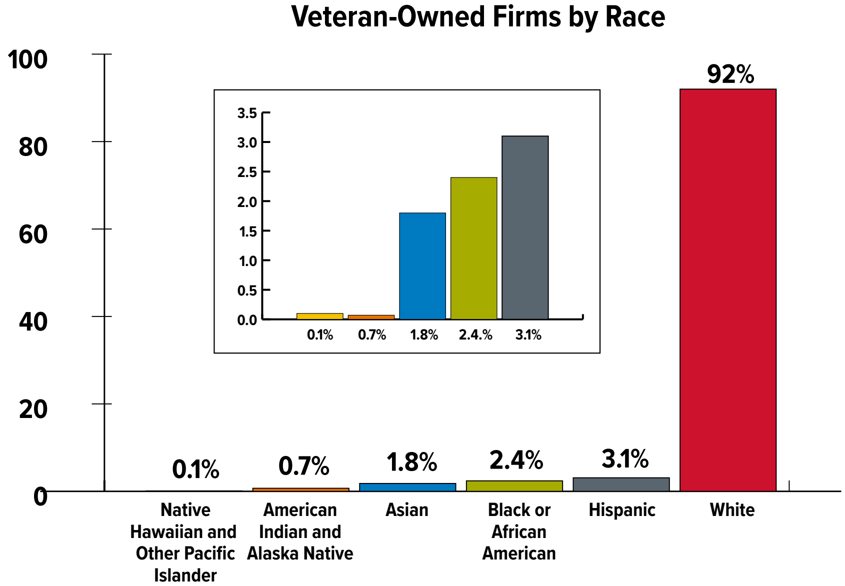
Source: Annual Business Survey, 2019: Owner Characteristics of Respondent Employer Firms by Sector, Sex, Ethnicity, Race, and Veteran Status for the U.S.

Further, 56 percent of veteran business owners are over 65. When gender and age are considered, female veteran business owners tend to be slightly younger than men. Specifically, 44.8 percent of female veteran business owners are over 55 compared to 76.4 percent of male veteran business owners. Male veteran business owners are almost five times more likely than female veteran business owners to be over 65.

While 49 percent of all business owners in the U.S. are over 55, more than 75 percent of veteran business owners are over 55. Further, 56 percent of veteran business owners are over 65.

Race/Ethnicity Statistics

As of 2019, minorities comprised 23.57 percent of all U.S. veterans[10] (U.S. Department of Veterans Affairs, 2019), yet comprise only eight percent of veteran-owned firms.



Source: Annual Business Survey, 2019: Owner Characteristics of Respondent Employer Firms by Sector, Sex, Ethnicity, Race, and Veteran Status for the U.S.

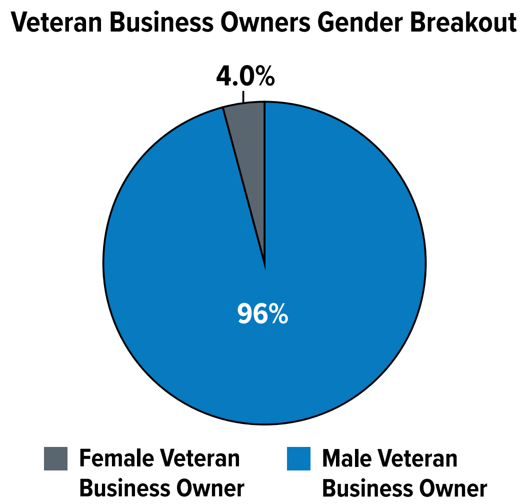
When race and age are considered, minority veteran business owners tend to be slightly younger than white veteran business owners. Specifically, 55.7 percent of Black veteran business owners and 50.9 percent of Hispanic veteran business owners are over the age of 55 compared to 76.2 percent of white veteran business owners. Further, white veteran business owners are almost two times more likely than minority veteran business owners to be over 65. Nevertheless, a majority of Black and Hispanic veteran business owners are nearing retirement.

	Non-Veteran Business Owners	Veteran Business Owners	Black Veteran Business Owners	Hispanic Veteran Business Owners	White Veteran Business Owners
Under 25	0.4%	0.1%	0.1%	0.1%	0.1%
25 to 34	5.7%	1.6%	2.7%	3.9%	1.4%
35 to 44	17.7%	6.6%	12.0%	16.0%	6.2%
45 to 54	27.4%	16.6%	29.3%	28.7%	16.0%
55 to 64	31.3%	19.1%	25.3%	19.5%	18.9%
65 or over	17.6%	56.1%	30.4%	31.4%	57.3%

Source: Annual Business Survey, 2019: Owner Characteristics of Respondent Employer Firms by Sector, Sex, Ethnicity, Race, and Veteran Status for the U.S.

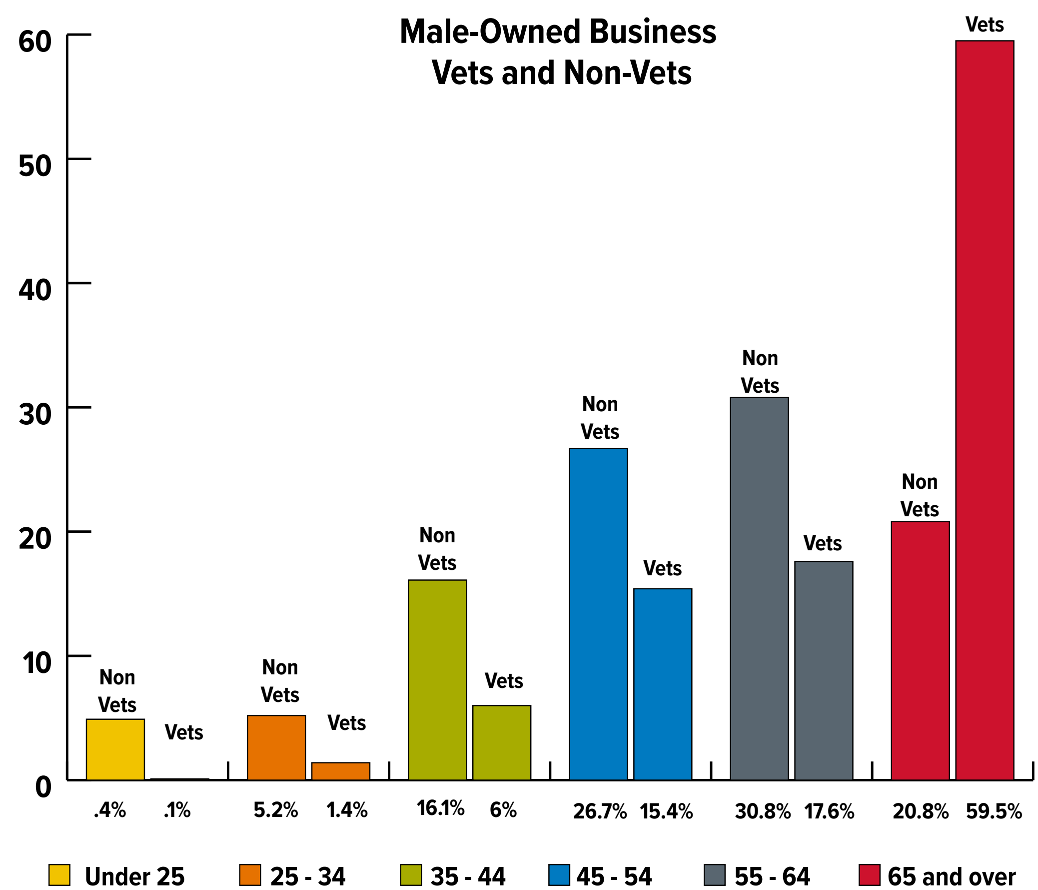
Gender Statistics

Of the 337,934 veteran-owned businesses in the U.S., 96 percent are owned by males and only four percent are owned by females, according to the 2019 American Business Survey.



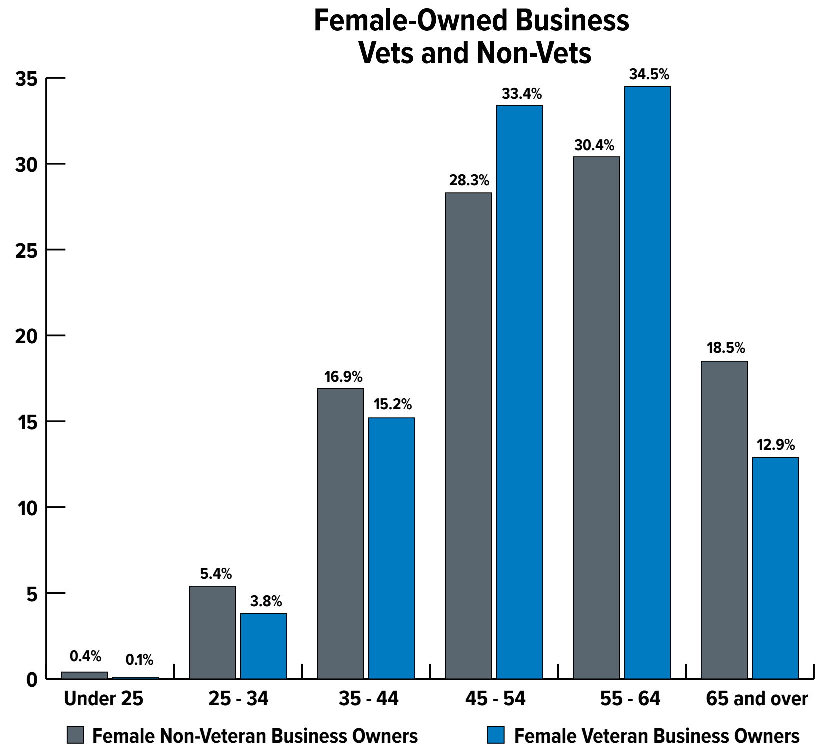
Source: Annual Business Survey, 2019: Owner Characteristics of Respondent Employer Firms by Sector, Sex, Ethnicity, Race, and Veteran Status for the U.S.

Male veterans own 324,417 businesses in the U.S. In general, male veteran business owners are older than male non-veteran business owners. Veteran male business owners are three times as likely as male non-veteran business owners to be over 65 and approaching retirement.



Source: Annual Business Survey, 2019: Owner Characteristics of Respondent Employer Firms by Sector, Sex, Ethnicity, Race, and Veteran Status for the U.S.

Women veterans own 13,517 businesses in the U.S., according to the American Business Survey. Almost one in two female business owners, whether veterans or non-veterans, are over 55 and nearing retirement. However, the number of businesses owned by women veterans should continue to increase, as women veterans comprise the fastest-growing segment of the veteran population.[11]



Source: Annual Business Survey, 2019: Owner Characteristics of Respondent Employer Firms by Sector, Sex, Ethnicity, Race, and Veteran Status for the U.S.

Education Statistics

About one of every two veteran business owners is college educated and has at least an associate's degree. However, women and minority veteran business owners are more educated than their male and white counterparts. Women and minority veteran business owners are also more educated than their non-veteran counterparts.

	Completed Post-Secondary Degrees	Associate's Degree	Bachelor's Degree	Master's Degree	Doctoral Degree	Professional Degree (Beyond Bachelor's Degree)
Non Vets	**58.2%**	5.5%	30.5%	9.2%	1.9%	11.1%
All Vets	**55.5%**	6.4%	24.7%	9.1%	1.8%	13.5%
Male Vets	**54.6%**	6.2%	24.5%	8.8%	1.7%	13.4%
Female Vets	**72.9%**	11.1%	28.8%	14.5%	3%	15.5%
Black Vets	**62.9%**	6.8%	24%	15.7%	1.5%	14.9%
Hispanic Vets	**56.3%**	8%	19.3%	9.7%	4.3%	15%
White Vets	**54.8%**	6.4%	24.6%	8.9%	1.7%	13.2%

Source: Annual Business Survey, 2019: Owner Characteristics of Respondent Employer Firms by Sector, Sex, Ethnicity, Race, and Veteran Status for the U.S.

Organizational Tenure

Veteran business owners have generally been in business longer than non-veteran business owners.[12] As shown in the Annual Business Survey of 2019, 48.9 percent of veteran-owned companies began before 2000, compared to 31 percent of non-veteran owned businesses.

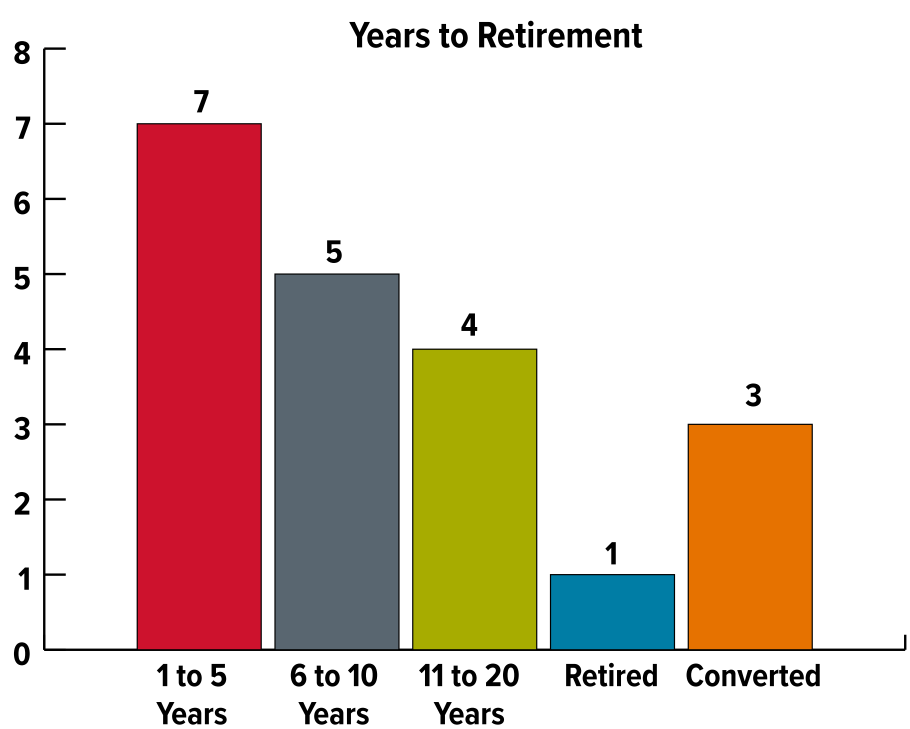
Year Started	Vets	Non-Vets
Before 1980	16.3%	4.9%
1980 to 1989	17%	10%
1990 to 1999	15.6%	16.1%
2000 to 2007	12.9%	18%
2008 to 2012	8.1%	12.9%
2013 to 2017	11.1%	18.2%

Source: Annual Business Survey, 2019: Owner Characteristics of Respondent Employer Firms by Sector, Sex, Ethnicity, Race, and Veteran Status for the U.S.

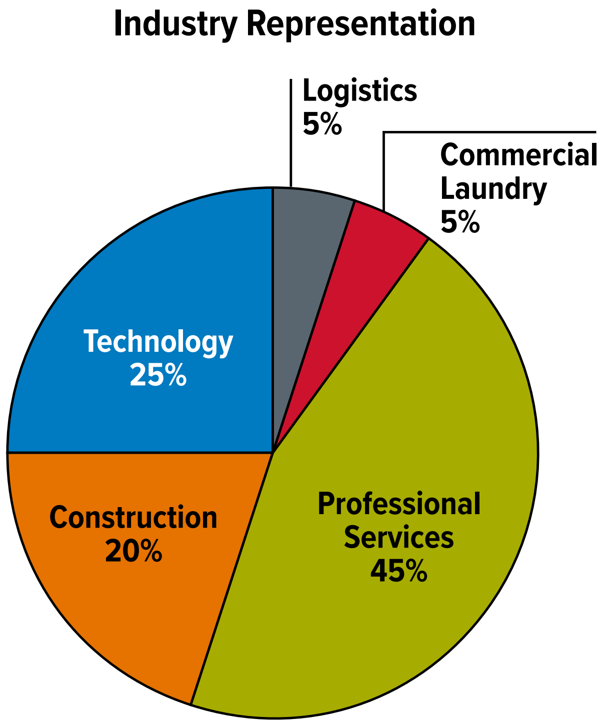
B. Case Study Demographics

To complement the empirical research, our research team conducted 20 in-depth interviews with minority veteran business owners to assess their business succession strategies. The study comprised 10 male and 10 female respondents, including 12 who are Black, six Hispanic and two white. Four of the veterans identified as experiencing a disability. Nineteen businesses were minority business enterprises (MBEs). All businesses included in this study hired minority veterans ranging approximately from 20 percent to 60 percent of all employees.

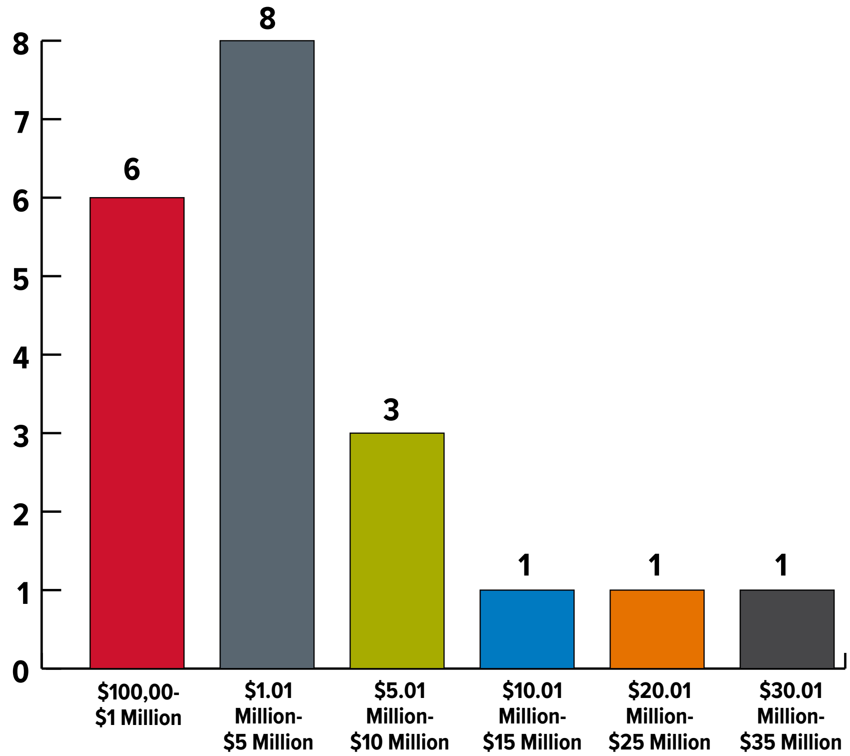
The following six charts are based on the case study interviews we conducted. In the first chart, expected retirement ranged from two years to 20 years, with an average of nine years and a median of seven. Three business managers interviewed already retired—two selling their firms to employees through an employee stock ownership plan (ESOP) and one creating a worker cooperative or an employee ownership trust.



The 20 companies operated in five industry sectors and have been in existence from one year to 35 years, with revenues ranging from $100,000 to $33 million annually and the number of employees ranging from four to 250.



Annual Average Company Revenue



Size Range	
1-25 employees	13
26-50 employees	3
51-100 employees	2
101-200 employees	1
201-300 employees	1

Location of Minority Veteran Businesses	
Arizona	1
Florida	2
Georgia	2
Maryland	4
Massachusetts	1
Missouri	1
New Jersey	2
New Mexico	1
New York	2
Texas	1
Virginia	2
Washington, D.C.	1
Total 20	

III. CHALLENGES: VETERAN BUSINESS OWNERS

As noted, more than 75 percent of veteran business owners are over 55 and nearing retirement, and over one of every four is winding down their business. Having a viable business succession strategy is critically important for the financial security of these business owners, their families, and employees. However, our research has shown that many minority veteran businesses do not have a business succession strategy in place and are facing a number of challenges as they approach retirement, including:

- Lack of access to capital
- Insufficient succession management planning
- Limited access to mentors and networks
- Lack of business succession strategy

Research has shown that many minority veteran businesses do not have a business succession strategy in place and are facing a number of challenges as they approach retirement.

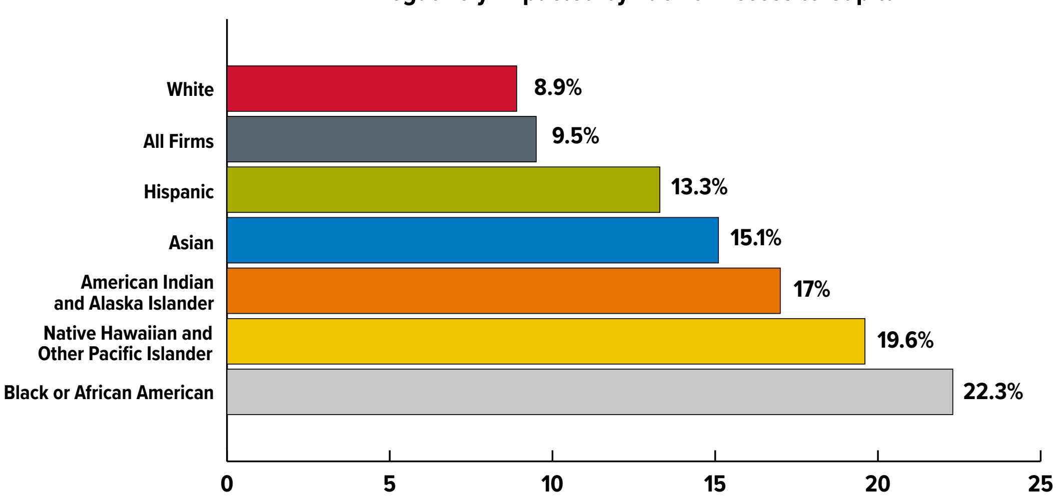
Lack of Access to Capital

Minority veteran business owners who are nearing retirement need access to capital to help grow their business, develop and retain employees, acquire technical expertise, and fund various business succession options, including selling the business to employees. This is a challenge facing all veteran business owners who rely heavily on personal savings and credit cards to fund and expand their businesses.[13]

Gaining access to capital becomes even more challenging for minority veteran business owners. For example, it is not uncommon for Black and Hispanic business owners to receive less financial support from private investors. In comparison, white male veterans, some with credentials from West Point or Ivy League universities, are better connected and can sometimes secure business funding from private investors.[14]

However, similarly credentialed minority business owners face wide disparities in gaining access to capital. Research conducted prior to the COVID-19 pandemic for the Ewing Ewing Marion Kauffman Foundation[15] found that a lack of access to capital disproportionately affects all minority entrepreneurs. While only 8.9 percent of white business owners reported that a lack of access to capital negatively impacted profitability, 13.3 percent of Hispanic business owners and 22.3 percent of Black business owners said a lack of access to capital hurt their profitability.

Percent of Entrepreneurs Reporting Profits Negatively Impacted by Lack of Access to Capital



Source: Hwang, V., Desai, S., and Baird, R. (2019) "Access to Capital for Entrepreneurs: Removing Barriers," Ewing Marion Kauffman Foundation: Kansas City

Other research found that the biggest challenge women veteran business owners experienced was also limited access to capital and noted that one out of every two women veteran business owners was turned down for a loan by a creditor.[17]

More concerning, the COVID-19 pandemic triggered an economic downturn which caused many small independently owned and veteran-owned businesses to struggle to remain afloat,[18] forcing many veteran business owners to use personal funds to keep their businesses open.[19] The pandemic has accelerated a need for these business owners to rely on personal savings to keep their businesses operating. Even before the pandemic, a Federal Reserve study in 2019 found that minority-owned businesses relied to a greater extent on personal savings and personal credit scores, and both tended to be lower than those of white business owners.

A series of imminent failures are expected to constitute 20-30 percent of the entire small business sector. According to a recent survey by the Center for the New Middle Class,[20] the second quarter of the lockdown recorded a 25 percent drop in the number of 55 and older business owners. Another study by the National Bureau of Economic Research, noted there was a drop of 41 percent and 32 percent, respectively, from February 2020 to April 2020 in African American and Hispanic business owners due to the COVID-19 pandemic.[21]

As an example, Maria, a Hispanic female veteran business owner, noted:

"The COVID pandemic has hurt our business sales and is making it very difficult to keep the business going."

For veteran business owners, any business disruption will have a significant negative impact on their financial well-being. About two of every three veteran business owners (66 percent) rely on their business as their primary source of income.[22]

Compared to their male counterparts, women veterans are slightly less likely to rely on their business as their primary source of income. Finally, Hispanic veterans are more likely to rely on their business as their primary source of income than white and Black veteran business owners.

Reliance of Business as Primary Source on Income

Owner Characteristics	Business – Owner's Primary Source of Income
Non-Vets	70.8%
All-Vets	66.2%
Male Vets	66.3%
Female Vets	62.2%
Black Vets	61%
Hispanic Vets	70.7%
White Vets	66.3%

Source: Annual Business Survey, 2019: Owner Characteristics of Respondent Employer Firms by Sector, Sex, Ethnicity, Race, and Veteran Status for the U.S.

A Black veteran business owner we interviewed cited the importance of having access to capital to finance the company's conversion to an employee stock ownership plan, noting:

"We needed $150K to $200K to finance our company's conversion to an employee stock ownership plan. The only way we were able to secure the loan was to work with a bank we had a long-term relationship with."

A number of minority veteran business owners we interviewed also expressed concern about the possibility of losing some of their government contract revenue by no longer qualifying as a small, disadvantaged business under the 8(A) SBA Contracting Program if they sell their company to employees through an ESOP transaction. To qualify for the program, a small business must be owned and controlled by a socially and economically disadvantaged individual.

Under the Small Business Act, certain individuals are presumed socially disadvantaged: Black, Hispanic Americans, Asian Pacific Americans, Native Americans (including Aleuts and Native Hawaiians), and Subcontinent Asian Americans. Individuals who are not a member of one of the groups listed can be admitted to the program if they show—through a "preponderance of the evidence"—that they are socially disadvantaged. For instance, an individual may show social disadvantage due to race, ethnic origin, gender, physical handicap, long-term residence in an environment isolated from the mainstream of American society, or other similar causes. In addition, a socially disadvantaged individual must show economic disadvantage by submitting a narrative and personal financial documentation about income, assets, and net worth.

However, qualified business owners who sell up to 49 percent of their firms to employees through an ESOP transaction and maintain majority ownership will continue to be eligible for the program. Somewhat confusing though, there are conflicting state regulations where certain states may permit a qualified business to maintain its 8(A) status after converting to an ESOP with more than 49 percent employee ownership. Most important, there is pending federal legislation, the Promotion and Expansion of Private Employee Ownership Act of 2021, that will allow ESOP S Corporations to continue to qualify for SBA programs including the 8(A) program.

We hope the research presented in this report will inform legislators about the benefits of employee buyout strategies, including ESOP transactions, for preserving the wealth of minority veteran business owners and will encourage them to pass this needed legislation. There is also a need to provide more educational support and access to financial and legal advisors to help these business owners grow their businesses and acquire the needed capital for financing business succession strategies.

There is a need to provide more educational support and access to financial and legal advisors to help these business owners grow their businesses.

Insufficient Succession Management Planning

Another significant challenge for many minority veteran business owners is not having a plan in place for identifying and developing the right talent for business continuity. In our interviews, 11 (55 percent) firms do not have someone in place to replace the owner after retirement, and only six (30 percent) have recently begun an informal process for identifying and developing a successor. A number of minority business owners interviewed noted their businesses were heavily dependent on their being the face of the business, and they worried that their clients/customers may be unwilling to do business with a new leader. This concern highlights the significant challenge of the key-man risk faced by these veteran business owners.

Tina, a female Black veteran business owner, identified one of the challenges she faced with identifying and developing talent for succession, saying:

"I deal with so much confidential information that I worry the transfer of clients to my current set of employees would create issues. I don't think any member of the current staff is able to take over or has the capacity to do so."

Another female Black veteran business owner noted:

"We do not have the right employees in place. I'm not sure that [present staff] would allow me to exit or allow me to execute an ESOP. I probably need to bring in additional talent over the next three to five years."

Grey, a disabled female Hispanic veteran business owner, indicated she has begun the process of training her daughter as her successor, despite the lack of a formalized succession plan. According to Grey:

"I am working on transferring the business to my daughter. I recently began training her through a hands-on approach on the operations and management of the business. There is no documented succession plan, but I am enacting a verbal one."

Maria, a female Hispanic veteran business owner, has been struggling to find a new management team to continue running the business, saying:

"There is no one working for us who has the business knowledge for running the business."

Echoing Maria's challenge, Johnson, a male Black veteran business owner, noted:

"We have plenty of employees with great leadership skills given their military experience, but they lack the necessary business knowledge for running a business. It took me years to learn these skills myself."

It is clear that the issue of management "bench strength" and the availability of senior managers to carry on the business is central to the succession issue for these businesses. Thus, there is an urgent need to provide minority veteran business owners access to affordable succession management planning and programs.

Limited Access to Mentors and Networks

Several minority veteran business owners we interviewed, particularly owners of highly successful businesses generating $5 million or more in revenue, attributed much of their success to having access to mentors and veteran business owner networks that provided them with needed expertise and help in developing new business. However, many other minority veteran business owners we interviewed noted their inability to find mentors and their limited access to business networks.

Social capital is critically important for all companies, and even more so for small business owners. Minority veteran business owners' inability to connect with mentors and networks could have detrimental effects on business continuity. Some veterans aren't sure how to build a network or who they should approach.[24]

One female Hispanic veteran business owner told us that networking is how many veteran business owners gain access to needed expertise and new business. However, she finds it very difficult gaining access, saying:

"There is definitely an old boys' network that is very difficult for a Hispanic female to break into."

"There is definitely an old boys' network that is very difficult for a Hispanic female to break into."

CASE STUDY LIMITED ACCESS TO MENTORS AND NETWORKS

A Black male veteran business owner described the challenges he experienced in finding a mentor. He searched for over 15 years, and during that time, he faced at least two challenges. First, some of the people he thought could be a mentor ended up acting in their self-interest. For example, one potential mentor agreed to lend their expertise to a project. However, they didn't follow through, and the veteran business owner lost the contract. The second challenge was the owner's inability to develop meaningful relationships with other veteran business owners. He noted:

"It's challenging to establish relationships with people who don't know you and are unfamiliar with your business and expertise."

However, one successful strategy he used to find a mentor was meeting other business owners through professional associations. He met with several and eventually developed a relationship with a suitable mentor. Their relationship began by co-sponsoring events and working on projects. Over time—about two years—a mentor-protégé relationship formed.

The veteran business owner and the mentor became part of a program sponsored by the SBA, the Mentor-Protégé Program (MPP), under which a small company (protégé) is paired with a large company (mentor). As a part of the program, the large company can purchase up to 50 percent of the small company. If a large company buys a smaller company, the larger company is interested in the survival of the small company. About a month ago, the owner executed an agreement, in which the larger company purchased a share of the veteran's business. They are now waiting for approval from the SBA.

Both the veteran-owned company and the mentor benefit from the relationship. The mentor can take advantage of the protégé's veteran status and compete for additional contracts through a joint venture, while the veteran owner secures new business opportunities, including contracts in the private sector. Most beneficial is the protégé's ability to gain access to the mentor's experience, expertise, tools, and leadership strategies. His business is doing fine, as the relationship has clearly helped him land new business and generate additional revenue.

Providing minority veteran business owners more opportunities for developing mentoring relationships and participating in business networking events is necessary to ensure the continued sustainability of these businesses.

Almost 80 percent of businesses owned by people of color do not have a formal plan for business succession.

Lack of a Business Succession Strategy

Many minority veteran business owners we interviewed who are nearing retirement have no viable business succession plan in place and lack the time and knowledge to develop a business exit strategy. A recent study found that almost 80 percent of businesses owned by people of color do not have a formal plan for business succession, thus risking the opportunity for wealth transfer to future generations as well as loss of jobs and innovation potential.[25] In our study, 12 (60 percent) firms had no business succession plan in place, and two (10 percent) were just beginning an informal process.

Cordell, a male Black veteran business owner with a disability, mentioned the significant impact the pandemic had on the company's business plans, noting:

"The business has declined due to the pandemic, and employees have been reduced by about half. There is uncertainty about the viability of the business."

Johnson, a male Black veteran business owner, has no business succession strategy in place, explaining:

"I have been focusing on growing the business, and now that I am getting closer to retirement, I need to start thinking about what do next. I need professional help to provide me with options."

The Institute on Assets and Social Policy discovered that the disenfranchisement in the history of minorities has led to less generational wealth than that of white people.[26] It is critically necessary for minority veteran business owners to have viable business succession strategies in place to preserve the wealth they created for the next generation. However, our research and other noted studies identified some of the business succession challenges Black and Hispanic veteran business owners currently face. These include:

- Lack of succession management because of an inability to identify, develop, and retain talent who know the business and have leadership skills.
- Disputes among family members with conflicts arising from priority differences and vision/value disparities between the next generation and business patriarchs. These make succession planning with family difficult for some minority-owned businesses.[27]
- A perception that business succession is too technical and complex. Many minority veteran business owners lack access to known experts who can advise on business succession strategies and believe that developing a business succession strategy is too costly.
- Tax and legal issues such as the tax cost incurred during the process of a business transfer, e.g., inheritance tax/capital tax. Especially if the founding owners were unable to make adequate provisions, the successor may end up putting the firm in financial distress.[28]

Succession planning is a timing issue, too. A male Black veteran business owner expressed concern over a decline in business volume due to changes in strategy and the pandemic, further explaining:

"It's not a priority to create a succession plan as business volumes are currently suffering, and we need to focus on growing the business."

CASE STUDY A BUSINESS WITH NO SUCCESSION PLAN

Naim is a male Black veteran business owner who has operated a logistics company for the past 10 years. His company is an LLC engaged in shipping and transportation primarily to the Middle East. The company recorded $415,000 in revenues in 2020, with the average employee earning $3,500 monthly without any additional benefits, he explained, given their high cost. He seeks to retire in about 13 years and speculates on his ability to sell the business, possibly to another veteran or one of his nephews who is not a veteran. He noted he is primarily focused on growing the business in the short to medium term and currently has no designated successor or documented, formal succession plan.

Naim expressed that his lack of business succession planning was due to the amount of time he needs to focus on running the business, his lack of knowledge about business succession options, and his inability to identify the right talent to take over the business when he retires.

He also has expressed concerns that the business' success is based on his being the face of the business. He hopes that his eventual exit strategy will benefit his long-term financial well-being. He noted that he needs future financial security to maintain his standard of living and quality of life. Currently, for example, his medical expenses alone account for 15-20 percent of his yearly income. He feels he will need to supplement his future income with new streams of revenue and estimates that he will need to realize $2.5 million to $3.5 million when sells the business.

IV. INSIGHTS INTO SUCCESSFUL BUSINESS SUCCESSION STRATEGIES

Providing minority veteran business owners with information about various business succession strategies can help them decide what option makes the most sense for their businesses. There are a number of business succession strategies that minority veteran business owners can consider depending on the financial success of the business and leadership preferences. These include:

- **Selling to a Competitor or a Strategic Buyer**
  Depending on the industry in which a business operates, there is the possibility of selling to competitors who are seeking greater market share or to a strategic buyer who may not be a competitor but may see the retiring owner's business as a complementary addition to their firm.

  The acquiring firm typically is seeking a profitable product or service. The capacity in which the business continues to exist is at the discretion of the new owner who may seek to consolidate operations or relocate the business. Selling to a competitor is often thought to allow the business owner to negotiate a higher price. However, some risks with this option include a scenario in which the competitor is buying the business to shut it down or acquiring its assets/business but not its employees. A competitor might also relocate or merge the business, so the legacy business does not continue.

- **Selling to a Private Equity Firm**
  Some owners can sell their businesses to private equity firms. This exit strategy involves a buyer that is purchasing the business on the premise of a risk-versus-reward decision. The challenge is having a sustainable cash flow that meets the criteria of the private equity firm. Often, the goal is to improve the operational efficiency of the business and sell it at a future date for a profit. The risk for a small business is that many private equity firms avoid businesses with fewer than 100 employees. Another risk is

that some private equity transactions might involve plans to shrink employee count and reduce wages and benefits, all of which would threaten the continued legacy of the business.

While there are no published government statistics quantifying the outcome of selling to a competitor or private equity firm, veteran business owners should weigh these options with the potential risks and rewards in mind.

Bob, a white male veteran business owner, has created a successful IT consulting business with 35 employees and gross sales exceeding $10 million. He has been approached by both competitors and private equity firms for a possible acquisition of his business. He expressed concern that both options could be great for him but not so great for his employees. He noted:

"I feel very loyal to the employees who have served with me in the military and helped me grow the business. If I do sell my company, the buyer must provide some equity or compensation for my employees. I am also looking into the possibility of selling the company to my employees with an ESOP."

- **Passing the Business to Family**
  Many entrepreneurs want to keep their business in the family to ensure a family legacy. While this exit strategy involves grooming successors over time, some children or relatives may have no interest in the business. Similarly, some family members may not have the technical and leadership skills needed to run the business. A key consideration for this option involves having a viable succession management program in place for identifying and developing a business successor. The advantage of this option is the owner can stay on in a transitional or advisory role. The disadvantage is that most families with small businesses have a significant portion of their family wealth tied up in the illiquid asset of the company itself. Therefore, they need to sell all or part of the company to make this wealth liquid so that they can get on with the next part of their lives and also pass wealth onto members of their family.

  After an exhaustive review of the research, our best estimate based on existing surveys, is that family members take over the business from a retiring business owner in no more than 20 percent of the cases. It is this fact that elevates the employee ownership buyout option to the top of the list regarding veteran small business owners. If the retiring business owner wishes to preserve legacy and secure a good price to make the value of the business liquid to the family (secure cash for the next stage of their lives or to pass onto family members), the employee ownership buyout becomes a major consideration.[29]

  Two veteran business owners we interviewed were considering passing the business to a family member when they retire. In both cases there was concern whether the family member was committed to running the business. One female Hispanic veteran business owner told us:

  "I am concerned that my son will just try to sell the business once he takes over. I really would hope that he is willing to continue growing the business. I feel we owe this to our employees."

- **Selling the Firm to Employees**
  Owners of small to mid-sized businesses seeking viable succession options can consider selling all or part of their business to employees. An employee ownership strategy can benefit the business owner, the employees, and the communities where these businesses are located. For small businesses, a common employee buyout strategy is to create a worker cooperative. For mid-sized businesses, the business owner can establish an employee stock ownership plan (ESOP) and sell all or a percentage of the business to employees. Another strategy is to sell to an employee ownership trust (EOT).

  The risk of considering a sale to the employees is that these three options generally only are feasible in companies with a stable business, a solid record of sales, and a management team in place. In addition, for companies that do not have hard assets (such as those found in manufacturing firms) to collateralize bank loans, the amount an ESOP can borrow in a leveraged buyout transaction will be limited. In service firms that sell to ESOPs, it is likely that a large percentage of the credit will come from a self-financed loan from the retiring business owner. Nevertheless, there are several possible federal programs under consideration to provide loan guarantees when such ESOPs receive bank or other loans.

The following is a summary of three typical employee buyout options.

- Worker cooperatives are 100 percent or nearly 100 percent worker-owned companies where employees invest in ownership stakes and typically make decisions based on one person/one vote, rather than having voting rights based on the number of shares of stock held. Retiring business owners can sell to a worker cooperative, with the acquisition financed by credit mainly comprised of a combination of a loan funded by the retiring business owner, a loan from a banking institution, a loan from a community development financial institution (CDFI), and a government loan guarantee. A CDFI is a private financial institution that is 100 percent dedicated to delivering responsible, affordable lending to help low income, low wealth, and other disadvantaged individuals and communities join the economic mainstream.
- An employee stock ownership plan (ESOP) is a retirement plan that purchases shares of a company and holds them on behalf of employees who participate in the plan. When the company share price rises, plan participants share in the financial gains. When the share price falls, plan participants share in the loss. When employees retire or leave the firm, they are paid market value for their ownership stake in the business. For this reason, employees at ESOPs are known as employee owners because they share in the risks and rewards of ownership. An important element of ESOPs is that in the vast majority of cases employee owners incur no out-of-pocket expense to acquire shares in the company. The purchase is financed using credit based on a loan from the retiring business owner along with a loan from a commercial bank and other sources, such as government loan guarantees.
- An employee ownership trust (EOT) is a form of ownership that is relatively new in the United States. To become an EOT company, the current owner creates a trust that will own some or all of the business. There is no legal definition of what separates an EOT from similar trusts. However to be an EOT, the purpose of the trust should include the well-being of the company's employees. The trust may include other purposes as well, such as preserving legacy, community benefit, or social and environmental goals. The company makes a contribution of cash to the trust, which uses that cash to buy shares from the current owner. The trust can buy full or partial ownership of the business. In some cases, the owner chooses to offer seller financing that may be combined with a loan from a banking institution and a government loan guarantee.

An employee buyout strategy [makes it] likely to continue operations, thus benefiting the community in which it is located.

The benefits of an employee buyout strategy are that retiring business owners are compensated through the sale of the company, employees of the successor employee-owned entity have an ownership stake in company that can create long-term wealth for their retirement, and the company is likely to continue operations, thus benefiting the community in which it is located.

A Black veteran business owner noted:

"You have to find money to convert to an ESOP while maintaining business revenue and cash flow. You must also find a lender who understands how to finance an ESOP transition."

Two business owners interviewed for this study successfully sold their companies to employees through an ESOP transaction, and one company was converted to a worker cooperative. One-third of business owners we interviewed were interested in learning more about selling their firms to employees. All companies interested in ESOPs have had exposure to at least one business owner who successfully sold their business to employees. The most common reasons they were interested in exploring ESOPs were the continuity of the business and the ability to reward their employees, many of whom are also veterans. Business owners considering ESOPs shared at least four things in common: (1) they had revenues of $5 million or higher, (2) they were in professional services (e.g., management consulting, financial accounting, leadership development) or IT, (3) they had been in business five-plus years, and (4) their workforce was educated and highly skilled.

However, they all cited several challenges in selling their firms to employees, including having no program in place for identifying and developing successors and an inability to generate sufficient revenues to extract a fair price from the business. More than 50 percent of the business owners admitted to having no business succession plans in place, despite planning to retire in 10 years or less. As to willingness to consider employee ownership, some business owners disclosed the following:

Lawonda, a female Black veteran business owner, noted:

"Yes, I would consider it if it means me getting some value out of the business and keeping employees employed and improving their circumstance."

Naim, a male Black veteran business owner, stated:

"The first consideration would be if the business was larger and the employees are interested. In the current state of the business, it doesn't seem viable. I would consider it if the business improves."

Bob, a male Hispanic veteran business owner, is considering selling his company to the employees. He said he and several other business owners liked the idea of selling their companies to employees and knew about other business owners who had done so via an ESOP. However, he and the others found it difficult to get good advice on creating an ESOP. Bob noted:

"My own lawyers and accountants were not very familiar with ESOPs. It took me a while to find people who know about this strategy. I feel more business owners would consider this strategy of they knew more about it."

CASE STUDY SELLING TO AN ESOP

Cate, a white female disabled veteran, created a highly successful government contractor professional services business. Over a 19-year period the business grew to 80 full-time and part-time employees, generating over $12 million in revenues. In considering a business succession strategy, Cate's primary concerns were ensuring the continuity of the business and rewarding her employees. She felt that selling to a competitor or private equity firm might not achieve these objectives. After much consideration, she decided to look into the option of creating an ESOP to begin selling the company to employees.

Her biggest challenge in establishing an ESOP was finding professional ESOP service providers who could help with the legal and accounting issues. Another challenge was finding a bank that was familiar with ESOP funding and trusts. In 2018, she created an ESOP and sold 30 percent of the company to her employees. Her plan is to sell 100 percent to the employees when she retires in five years.

She knew it was critical to have a management team in place to run the business when she steps down. Working with a newly established board of directors, she and they worked on identifying and developing multiple employees as part of a business succession management program. The goal is to ensure the next leader understands the business and has the skills to continue growing the company.

Cate also plans to continue as a member of the board of directors to help with the leadership succession and to be a trusted advisor. All in all, she felt selling the firm to the employees was a win-win-win. She will be very well compensated when all of her shares in the business are sold, her employees will benefit as equity is distributed to them in an ESOP trust to be accessed once they vest and either leave or retire, and the business stays intact and continues to grow and benefit the communities it serves.

CASE STUDY CHALLENGES OF SELLING TO EMPLOYEES

One Black veteran business owner noted a significant challenge he faced selling the firm to employees by converting to an ESOP—losing the company's veteran status. He explained:

"The greatest challenge when converting to an ESOP was losing our veteran status. Initially, our company was structured as a 100 percent ESOP company. But the Veterans Administration would not allow this if we wanted to keep our ongoing contracts that were approved based on our veteran's status. So, we lost all the money we paid for the first set of consultation and filing/administrative fees. That was a significant amount. Then, we had to regroup and start the process over. In the end, in order to keep our government contracts, we structured our company so that it is 49 percent ESOP owned and 51 percent veteran owned."

He noted that all costs had to be paid a second time for this final conversion, a significant expense when lawyers, consultants, and others must be paid fees.

As noted in this study, many minority veteran businesses are not large enough to use an ESOP strategy for selling their firms to employees. Seventy-five percent of the businesses have average annual revenues of $5 million or less and employ 50 or fewer people. Thirty percent had revenues of $1 million or less and employ 20 or fewer workers. The lower revenue ranges and employee counts make these businesses better suited for a worker cooperative form of employee ownership as a succession plan.

In worker cooperatives, employees typically invest in ownership stakes, sharing in the risks and rewards of the business. When worker cooperatives are used as employee buyouts, depending on the firm, credit can be used by the acquiring worker cooperative. This might involve self-financing by the retiring business owner or a cooperative loan fund or CDFI. Workers typically make decisions based on one person/one vote, rather than having voting rights based on each individual's number of shares of stock, thus creating a more democratic environment for business decision making.

The cost of conversion to a worker cooperative is estimated at around $50,000 over a two-year period, making it relatively easy to obtain financing for the transaction through nominal employee contributions and available financing. While financing of employee ownership conversions remains a concern, there is a greater flexibility in financing this type of conversion, with a possible mix of outside funding sources and seller financing.

Bringing more stakeholders in to share the fruits of successful business can be a key to addressing wealth inequality. By placing workers' needs before investors' profits, successful worker cooperatives democratize wealth rather than concentrating it. Through sharing risk, cooperatives make business ownership possible for entrepreneurs of all backgrounds. They build skills and participation in the workforce. Shared ownership can even be a means of preserving small businesses and saving good jobs when owners retire.

Many minority veteran businesses are not large enough to use an ESOP strategy for selling their firms to employees.

CASE STUDY A WORKER COOPERATIVE EMPLOYEE BUYOUT

Maria, a female Hispanic veteran business owner, worked for many years developing a successful agricultural-based business with two other partners. They created an LLC and grew the business over 25 years to $5 million in revenues and 30 employees. A number of the employees were with them from the very start. The management team was all about the same age, and all were planning to retire within five years. They knew that they needed to develop a business succession strategy to secure their financial well-being in retirement and, equally important, to secure the ongoing financial well-being of their dedicated employees.

Their first challenge was deciding on who would be able to continue running the business. Many of the employees lacked the knowledge of how to run a business, including financial management, operations, sales, and customer support. Maria and the other partners identified five employees who potentially could learn the management side. First, they wanted to ensure that each employee had an interest in developing these skills and in eventually moving into a different role. One employee was not so sure and was happy to continue as a supervisor. The other four employees were very interested in the opportunity to advance. The partners agreed to have each employee work part of their day with the management team to observe the day-to-day running of the business and to become acquainted with the firm's key service providers.

Over the next two years, the management team sought advice on possible business succession options, agreeing that they had no interest in selling to a competitor. An owner of a landscaping business with whom they were familiar told them about forming a worker cooperative, allowing both the partners and employees to benefit. The partners sought legal and accounting advice and discussed with their employees the possibility of going this route. All three partners agreed to pursue this strategy, and 18 employees agreed to buy in. The company was planning to complete the transaction by the end of 2021.

An employee buyout strategy can benefit the business owners, their employees, and the communities they serve.

Benefits of Employee Buyout Strategies

Selling to employees by creating an ESOP, a worker cooperative, or an employee ownership trust is a viable business succession option for many minority veteran business owners. An employee buyout strategy can benefit the business owners, their employees, and the communities they serve. The Rutgers Institute for the Study of Employee Ownership and Profit Sharing has conducted and sponsored numerous studies highlighting the benefits of employee ownership. A summary of these key research findings includes the following:

Continued Firm Performance

Studies have consistently found that employee ownership is positively associated with higher firm profitability and productivity. Employee ownership also is linked to greater employee attachment, loyalty, and lower turnover. Surveys of workers of employee-owned firms report that co-workers work hard, are involved in organizational issues, and offer more suggestions for innovations.[30]

Ownership Culture

A contributing factor of employee-owned firms' continued performance is the creation of an ownership culture. Many employee-owned firms, when compared to other businesses, have more complementary policies and programs, including greater information sharing, employee empowerment, and participation in decisions. They also invest more in employee training. Employee ownership and these complementary policies and programs create a positive ownership culture with greater trust in management, greater employee satisfaction and intent to stay with the firm, and greater firm performance and return on equity.[31]

Firm Survivability

Research assessing how employee ownership firms weathered two economic recessions during the 1999 to 2011 period has shown that such firms experience greater employment stability in the face of economic downturn when measured as macroeconomic negative shocks (increases in the unemployment rate, decreases in the employment-to-population ratio) as well as firm-specific negative shocks from declines in sales. Both actual layoffs and the perceived likelihood of layoff were lower for employee-owners than for non-owners. The difference in actual layoffs was particularly strong in the Great Recession year of 2010, when 12.3 percent of non-owners reported being laid off compared to only 2.6 percent of employee-owners.[32]

A significant new study conducted by the Employee Ownership Foundation and the Rutgers Institute for the Study of Employee Ownership and Profit Sharing has shown that majority employee-owned companies with ESOPs outperformed non-employee owned companies during the COVID-19 pandemic in the areas of job retention, pay, benefits, and workplace health safety. The study revealed that ESOPs have been more proactive about ensuring the safety of employees during the pandemic and are generally more optimistic that they will return to business as normal at some point. The following are survey highlights:

Employees were retained at significantly higher rates by employee-owned companies during the pandemic.

ESOP companies were between three and four times more likely to retain staff at all levels than other firms. ESOPs were 3.63 times more likely to retain non-managers, and 3.95 times more likely to retain managers. Stated differently, employee-owned businesses experienced job loss at a rate of less than approximately 25 percent of non-employee owned firms.

Majority ESOP companies were significantly less likely to cut employee hours.

About a third (35.5 percent) of majority ESOP companies cut hours for one or more employees; by comparison, nearly two-thirds (62.9 percent) of other companies cut hours for one or more employees. Further, at majority ESOP companies only 16.4 percent of the workforce saw their hours diminished; at other companies, 25.7 percent of employees saw their hours reduced.

Majority ESOP companies were far less likely to cut employee pay, compared to other companies.

Only about a quarter (26.9 percent) of ESOPs cut pay for any employee, compared to more than half (57.3 percent) of other firms.

Majority ESOPs were slightly more active than other companies in taking steps to protect employees from COVID-19.

Among ESOPs, 98.3 percent took protective measures for employees, compared to 88.9 percent of non-ESOP companies.

Outlook for the Future

The pandemic was a major shock for companies nationwide. Both majority ESOP companies and other firms in the economy reported their estimation of the shock's overall effect on the company similarly. The stark difference between the ESOP and other firms was not in their recognition of the shock of the pandemic, but in their response to it. The results show that ESOP firms were more resilient in responding to the shock in specific ways. Other companies were generally less optimistic about their current performance and chances for future success. In fact, they were nearly six times more likely than ESOP companies to report that their business would never return to its usual level of performance. Thus, employee ownership fosters a commitment to success—and resilience—in the face of economic challenges.

Majority employee-owned companies with ESOPs outperformed non-employee owned companies during the COVID-19 pandemic in the areas of job retention, pay, benefits, and workplace health safety.

V. CONCLUSION AND RECOMMENDATIONS

Veteran-owned businesses are a vital source of wealth creation within the U.S. economy. As noted, veteran entrepreneurs own nearly 13 percent of small businesses generating up to $1.2 trillion annually. However, this positive economic impact is in jeopardy as nearly 75 percent of veteran business managers are nearing retirement, part of a larger trend called the "silver tsunami." Having a viable business succession strategy in place will be critically important to ensure the financial well-being of these business owners, their families, their employees, and the local economies where these businesses are located.

Most concerning, our research shows that minority veteran business owners, particularly Black and Hispanic business owners, are facing many challenges sustaining and growing their businesses.

Overall, minority veteran business owners comprise only eight percent of all veteran-owned firms. Succession among these businesses could take the form of selling to a competitor or selling to a private equity firm. In both cases, there are significant risks to the preservation of the legacy of the business—its history of devotion to its employees, the level of their wages and benefits, their jobs, and the embeddedness of the firm in the community and its tax base.

Succession also could involve passing the firm to a family member. This option may preclude the retiring business owner from turning illiquid wealth tied up in the business into liquid assets to use in the next stage of their life or cause concern that descendants are unable to manage the business. An added risk is that there will not be a daughter or son to take over, which studies suggest is the case more than 80 percent of the time.

> The greatest challenge for these minority veteran business owners' succession planning is the need to ensure the continuity of their businesses.

Focus on Employee Buyouts

For these reasons, an employee buyout using an ESOP, worker cooperative, or an employee ownership trust is increasingly being considered as an option that manages the business succession, allows the family to gain cash from the sale, and protects the legacy, the community, and the employees going forward.

However, a major challenge facing these business owners is not having access to advisors and capital necessary for a successful business succession strategy involving employee ownership. These owners need access to experienced lawyers or investment banking advisors.

More of these service providers should be supporting the minority veteran business communities. Furthermore, government agencies should provide more affordable funding sources.

Currently, the U.S. Small Business Administration has a fairly new program based on the Main Street Employee Ownership Act that is being implemented to provide loan guarantees for employee buyouts.

Congress must also pass the pending Promotion and Expansion of Private Employee Ownership Act of 2021, that will allow ESOP S Corporations to continue to qualify for SBA programs including its 8(A) business development program for firms owned and controlled by socially and economically disadvantaged individuals.

Many of the minority veteran business owners we interviewed also expressed difficulty in finding mentors who can provide business advice and in gaining access to networks of other military-affiliated organizations and business owners. Many of the most successful veteran business owners we interviewed attributed much of their success in generating new business opportunities to getting much needed advice from other experienced veteran business leaders and having access to veteran business networks.

Mentoring and Networking are Essential

More attention to mentoring and networking is required. There needs to be nationwide communication to all veteran organizations and business associations, highlighting the need to reach out to minority veteran business owners for inclusion in all networking events. Help from foundations and interested organizations also is needed in establishing dedicated mentoring programs for these business owners.

The NJ/NY Center for Employee Ownership, a unit of the Rutgers Institute for the Study of Employee Ownership and Profit Sharing, conducts an annual conference covering employee stock ownership plans and equity compensation.

As a first step toward assisting veteran business owners with their mentoring and networking needs, the Employee Ownership Center, with financial support from The Prudential Foundation, will invite minority veteran business owners—at no cost to them—to attend the next two annual employee ownership business conferences. These conferences provide educational sessions by noted service providers, thought leaders, and owners of employee-owned companies to help attendees learn about the different aspects of employee buyout strategies and create opportunities for networking with service providers and other like-minded business owners.

Our hope is to motivate veteran and business associations, foundations, and government agencies to provide more assistance and resources to ensure the continuity of these valuable businesses.

Critical Challenges

Our research has identified two other significant challenges facing minority veteran business owners nearing retirement. The first is not having an adequate succession management plan in place for identifying and developing a new leader and management team. The second is a lack of comprehensive knowledge of possible business succession strategies for business continuity. Many of the business owners we interviewed indicated that they do not have the time or expertise to implement a succession management plan. Others have said they have employees who have leadership skills and know the technical aspects of the business but lack the necessary knowledge to run the business.

There are many universities and business associations that develop succession management programs. However, many of these programs are designed for large companies and may be too costly for small and mid-sized minority veteran businesses. One resource that can develop a customized plan for these businesses is the continuing education program of the Rutgers School of Management and Labor Relations.

Rutgers is uniquely capable of developing such a custom program, given its long history of serving employee-owned businesses and delivering custom training programs. Rutgers plans to design and offer a succession management program for minority veteran business owners and to seek funding to ensure that it is affordable for them.

The greatest challenge for these minority veteran business owners' succession planning is the need to ensure the continuity of their businesses. Without continuity strategies, companies close, resulting in economic hardships for the business owners and their families, their employees, and the communities they serve.

As noted in this report, many minority veteran business owners are interested in ensuring continuity by learning more about selling their firms to employees via an ESOP, a worker cooperative, or employee ownership trust. The good news is there are many resources available to help minority veteran business owners learn more about these buyout strategies. A list of noted organizations in this report's appendix provides resources, research, and educational programs for creating employee ownership programs.

As this research clearly shows, minority veteran business owners face many challenges implementing effective business succession strategies necessary for preserving the wealth they created for their future financial well-being and the financial well-being of their employees and the communities they serve.

By shedding light on the challenges these owners face, our hope is to motivate veteran and business associations, foundations, and government agencies to provide more assistance and resources to ensure the continuity of these valuable businesses.

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Rutgers Institute for the Study of Employee Ownership and Profit Sharing

The purpose of the Institute for the Study of Employee Ownership and Profit Sharing is to study the various models that have emerged and will emerge of employee ownership shares and profit shares in the corporations and society of the United States and around the world. The Institute studies approaches that broaden financial participation and inclusion in the economy and business organizations and allow employees to be fully engaged and share the rewards of their work.

The Institute studies the incidence, functioning, benefits, and costs of a wide variety of models of employee share ownership and profit sharing. It makes both empirical datasets and qualitative case studies widely available for education and research. Two recent books by Institute scholars are *The Citizen's Share: Reducing Inequality in the 21st Century* (Yale University Press) and *Shared Capitalism at Work: Employee Ownership, Profit and Gain Sharing and Broad-based Stock Options* (University of Chicago Press), both available from online booksellers.

The Institute sustains the **NJ/NY Center for Employee Ownership** that provides technical assistance, executive, professional, and employee education to businesses and individuals exploring employee share ownership. It is affiliated with the nonprofit National Center for Employee Ownership.

Contact

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RESOURCES

Financial Advice

Resources for identifying qualified service providers who can advise business owners on how to access capital include:

The National Center for Employee Ownership Service Provider Directory at **nceo.org/service-provider-directory**, a directory of accounting, legal, and financial firms knowledgeable about financing employee buyout strategies.

U.S. Small Business Administration (SBA) **sba.gov/funding-programs/loans** works with lenders to provide loans to small businesses. The agency doesn't lend money directly to small business owners. Instead, it sets guidelines for loans made by its partnering lenders, community development organizations, and microlending institutions. The SBA helps reduce risk for lenders and makes it easier for them to access capital, which in turn makes it easier for small businesses to get loans. SBA has a fairly new program based on the Main Street Employee Ownership Act that is being implemented to provide loan guarantees for employee buyouts.

The SBA Office of Veterans Business Development (OVBD) **sba.gov/business-guide/grow-your-business/veteran-owned-businesses** promotes veteran entrepreneurship. The OVBD facilitates the use of all U.S. Small Business Administration (SBA) programs by veterans, service-disabled veterans, reservists, active-duty service members, transitioning service members, and their dependents or survivors. SBA programs provide access to capital and preparation for small business opportunities. They can also connect veteran small business owners with federal procurement and commercial supply chains.

Mentoring and Networking

Resources that can help veteran business owners gain access to mentors and networks include:

Veterans Business Outreach Center (VBOC) Program is an initiative of the SBA **sba.gov/page/veterans-business-outreach-center-vboc-program**. It is designed to provide entrepreneurial development services such as business training, counseling, and resource partner referrals to transitioning service members, veterans, National Guard and Reserve members, and military spouses interested in starting or growing a small business.

The Institute for Veterans and Military Families **ivmf.syracuse.edu** offers a variety of programs and resources to help veteran entrepreneurs develop skills and business networks to grow their businesses including **The Coalition for Veteran Owned Business (CVOB)**, a group comprised of industry leaders committed to providing opportunities and growth for veteran and military spouse-owned businesses. This first-of-its-kind national initiative supports the success of veteran-, service member-, and military spouse-owned businesses by connecting them with entrepreneurial education and training, small business resources and solutions, and commerce and supplier opportunities to help connect and educate both sides on doing business together.

Bunker Labs **bunkerlabs.org** is a national nonprofit whose mission is to support and convene military-connected entrepreneurs and small business owners. They accomplish this mission by facilitating an action-oriented, member-led network of entrepreneurs and small business owners, providing practical tools and resources, and highlighting inspirational stories that showcase the possibilities and accomplishments of the community.

GI Go Fund **gigo.org** is a nonprofit at the forefront of bringing dedicated corporate, educational, and nonprofit partners together in support of one common purpose: to give veterans from throughout the country every tool and benefit they need to thrive. With support from corporate sponsors, it developed the Veteran Training Center and Jackson Drysdale Veterans Center in the greater New York City area that provide employment training and resources as well as incubator space for service-connected veteran-owned businesses to develop their companies and connect to business opportunities in the public and private sectors.

SCORE **score.org** is a nonprofit partner of the U.S. Small Business Administration. Its offices are dedicated to helping small business owners start, grow, and manage their companies. Most of the government grant money set aside to help small businesses—many of which are minority-owned—is awarded to local SCORE offices to support operations as they serve business owners through education, mentorship, and coaching.

SBA Mentor-Protégé Program (MPP) **sba.gov/federal-contracting/contracting-assistance-programs/sba-mentor-protege-program** helps eligible small businesses (protégés) gain capacity and win government contracts through partnerships with more experienced companies that are willing to fill the mentor role.

There are a number of Veterans Chamber of Commerce organizations in many states dedicated to helping minority veteran business including the **New Jersey State Veterans Chamber of Commerce** **njveteranschamber.com/about-1** that works with the statewide Hispanic Chamber of Commerce of New Jersey as well as the U.S. Veterans Chamber of Commerce. It is open to all veteran-owned businesses with a mission focused on education, veteran business advocacy, networking, and procurement and supplier diversity events. Its goal is to make New Jersey's economy fairer to veteran-owned and service-connected veteran-owned businesses and encourage veteran job creation.

The **National Veteran-Owned Business Association (NaVOBA)** **navoba.org** provides a direct link for contracting between corporate America and Certified Veteran's Business Enterprises™ (VBE) and Certified Service-Disabled Veteran's Business Enterprises™ (SDVBE) and connects corporate professionals and veteran's business enterprises through networking and training events.

Succession Management Training Program

A resource that can develop a custom program for businesses is Rutgers University.

Rutgers University School of Management and Labor Relations Continuing Education **smlr.rutgers.edu/continuing-education** is uniquely capable of developing a custom training program, given its long history serving employee-owned businesses and developing custom training programs. Rutgers plans to seek funding to make the program more affordable to minority veteran business owners.

Employee Ownership

A resource for establishing a worker cooperative:

Democracy at Work Institute at **institute.coop** is an organization created by the U.S. Federation of Worker Cooperatives to ensure that worker cooperative development in economically and socially marginalized communities is adequately supported, effective, and strategically directed.

Business owners interested in learning more about ESOPs can find multiple resources including:

The ESOP Association **esopassociation.org**, with chapters throughout the U.S., provides resources, research, and educational programs to promote employee ownership. It envisions an America where employee ownership is widely recognized as a catalyst for economic prosperity, where the great majority of employees own stock in the companies in which they work, and where employee ownership enables employees to share in the wealth they help create.

The National Center for Employee Ownership **nceo.org**. is a nonprofit organization that has been supporting the employee ownership community since 1981. It helps business owners make smart decisions about employee ownership, with resources from reliable information on technical issues to inspiration helping companies reach the full potential of employee ownership. The center generates original research, facilitates the exchange of best practices, and helps employee ownership companies build ownership cultures where employees think and act like owners.

Business owners interested in learning more about employee ownership trusts can refer to the resource created by the National Center for Employee Ownership at **nceo.org/article/introduction-employee-ownership-trusts**.

Rutgers Institute for the Study of Employee Ownership and Profit Sharing at **smlr.rutgers.edu/faculty-research-engagement/institute-study-employee-ownership-and-profit-sharing** also provides a large body of research and resources on employee ownership strategies, benefits, and programs, and the **NJ/NY Center for Employee Ownership** at **ownership.rutgers.edu** provides educational programs, workshops and other resources to help business owners learn more about employee buyout strategies.

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