NATIONAL CENTER FOR EMPLOYEE OWNERSHIP

Employee Ownership in the U.S. Food System During COVID-19:

New Evidence on Outcomes for Firms and Workers

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EXECUTIVE SUMMARY

The NCEO conducted a first-of-its-kind study to examine whether and how employee ownership affected firms and workers in the U.S. food system during the COVID-19 pandemic. Drawing on an industry-focused survey of food businesses with employee stock ownership plans (ESOPs) and a comparison group of non-ESOP food businesses, along with retirement plan filing data and qualitative interviews, we found that employee ownership was associated with substantial benefits for firms and workers during the height of COVID-19 across a variety of measures.

We gratefully acknowledge the participation of the survey respondents, who make this research possible.

WORKFORCE RETENTION:

- ESOP food companies laid off fewer workers than comparable non-ESOP companies in 2020, the year the pandemic struck: the median involuntary separation rate was 2% for ESOP companies, compared to 5% for non-ESOP companies.
- ESOP companies also had fewer workers quit in 2020, with a median 6% quit rate for ESOP companies versus 20% for non-ESOP companies.
- ESOP companies were much less likely to see retaining key employees as a very large challenge compared to non-ESOPs (6% versus 22%).
- On net, the workforce of ESOP companies in the food system were less likely to shrink in 2020 (38% versus 41%) and more likely to stay the same (42% versus 39%) compared to non-ESOP companies.

BENEFITS AND RETIREMENT SECURITY:

- In the food sector, consistent with data on ESOPs overall, benefits offered to workers at ESOP companies tend to be better. Among ESOP food companies, 89% offer an employer-paid health insurance plan, compared to 71% of non-ESOP companies. 86% of ESOP companies offer paid sick leave compared to 69% among the non-ESOP companies.
- ESOP food companies are more likely to offer a secondary 401(k) retirement plan than non-ESOP food companies are to offer any 401(k) plan (70% versus 68%).
- The median assets of an employee at an ESOP food company in their ESOP account alone is higher than the median household's assets nationwide across all retirement accounts.
- ESOPs were much less likely to reduce contributions to benefit plans in response to the pandemic: 6% did, compared to 17% of the comparison group.

FIRM PERFORMANCE:

- ESOP company respondents feel more strongly positive about the performance of their workforce through the pandemic compared to the non-ESOP companies (56% vs. 47% rate them excellent).
- ESOP company respondents were more likely to have seen an increase in revenue from 2019 to 2020 (53% versus 35%) and more likely to say their company fared better than competitors during the pandemic (52% versus 45%).
- ESOP company respondents were asked to consider the impact of their ownership structure on their handling the pandemic. Most saw a positive (44%) or neutral (50%) effect.

These findings provide evidence that ESOP companies can and do reward their workers generously while remaining resilient and competitive, even in the face of economic headwinds.

INTRODUCTION

Past research has suggested that employee ownership through ESOPs can help companies and their employees thrive even in difficult economic times. Many of these studies have focused on publicly traded companies, which typically have only a small portion of shares owned by employees and may not enjoy the effects of significant or 100% employee ownership in closely held firms. As well, rigorously sampled company surveys—one of few sources for key data on firm revenues, payroll, and benefits—have been rare in the literature, as have industry-specific studies.

In the project outlined below, we focus on privately held companies in the food production, distribution, and sales system. We draw on a survey of food companies with ESOPs and comparable non-ESOP food companies, supplemented by retirement plan filing data and interviews with ESOP company management.

THE U.S. FOOD SYSTEM

According to U.S. Census data, there are 830,682 firms in food-related industries.[1] The food system encompasses producers who grow and manufacture food, wholesalers and distributors, and retail and food-service companies who sell to consumers. Within the United States, the food industry is responsible for approximately $1 trillion of annual expenditures.[2]

According to the Kaiser Family Foundation analysis of the American Community Survey, 3.4 million individuals work in food production industries. The largest shares of these workers are in animal production and processing (38%) and crop production (30%); 7% work in seafood, and the remaining 25% work in other food manufacturing, including bakeries, beverage manufacturers, and fruit and vegetable preserving and other specialty food processing. An additional six million work in grocery and food retail, and 12 million work in restaurants and food service. [3]

The pandemic shook the food sector in numerous ways. At the onset of COVID-19, the food-service industry was devastated, while retailers benefited in many cases because of the decrease in demand for food typically supplied to restaurants, coupled with increased demand for grocery stores.[4] As the pandemic ebbed and flowed and macro-economic conditions changed, companies grappled with supply-chain disruptions, labor supply issues, and inflation.

EMPLOYEE OWNERSHIP AND ECONOMIC RESILIENCE

"Employee ownership" refers to an arrangement where a company's employees own shares in their company or the right to the value of shares in their company. The most common structure for **broad-based** employee ownership in the U.S. is the employee stock ownership plan (ESOP). Approximately 6,237 U.S. companies have an ESOP, covering 10.2 million employees, of which 1.5 million are in privately held companies.[5]

Most ESOPs are created in the process of selling a business, as an ESOP can buy a departing owner's shares in pre-tax dollars on terms that are highly favorable to the owner, the employees, and the business itself. Selling owners can sell any portion of their stock to the ESOP, and they can defer tax on the gain from the sale if certain requirements are met.

An ESOP is a type of qualified retirement plan that invests primarily in company stock and holds its assets in a trust for employees. An ESOP may own 100% of a company's stock, or it may own only a small percentage. ESOP participants accrue shares in the plan over time, and are paid out by having their shares bought back, typically after they leave the company.

ESOPs are most commonly used to buy the shares of owners of closely held companies. They do this through the use of pre-tax corporate profits contributed to an employee ownership trust for the benefit of employees; employees do not buy the shares. Congress has provided significant tax benefits to companies and sellers that use ESOPs. In return for the tax benefits, **ESOPs cannot be used to share ownership just with select employees, nor can allocations discriminate among employees.**

A large body of research has found evidence that ESOPs benefit firms and workers in multiple ways, including evidence to suggest that employee ownership may help companies weather crises like COVID-19:

- A 2017 study found that publicly traded ESOPs and other employee-ownership structures are linked to greater employment stability in the face of economic downturns, in the context of both macroeconomic negative shocks and firm-specific negative shocks.[6]
- A 2013 study tracking the entire population of ESOP companies over ten years (1998-1999) found that privately-held ESOP firms were only half as likely as non-ESOP firms to go bankrupt or close and only three-fifths as likely to disappear for any reason.[7]
- A 2004 study found companies with employee ownership stakes of 5% or more were only 76% as likely as firms without employee ownership to disappear over a 13-year period, compared to all other public companies and to a closely matched sample without employee ownership.[8]
- A 2020 study conducted by Rutgers University and SSRS, and funded by the Employee Ownership Foundation, an affiliate of The ESOP Association, found that majority employee-owned companies with ESOPs outperformed non-employee-owned companies during the early days of the COVID-19 pandemic in the areas of job retention, pay, benefits, and workplace health safety.[9]
- Most recently, a 2022 study by the NCEO in partnership with Employee-Owned S Corporations of America (ESCA) found evidence that companies with ESOPs retained or added more employees in 2020, the first year of the pandemic, than comparable non-ESOP companies, controlling for size, industry, and location.[10]

POTENTIAL MECHANISMS

Why might employee-owned companies be more resilient, and why might workers at employee-owned companies fare better? Several mechanisms suggest themselves and have been explored in the literature:

- **Employee retention and recruitment.** Employees in an ESOP are financially incentivized to remain with the company, as their account balance of company stock will typically grow over time. ESOP companies may also tend to have corporate cultures which foster a sense of buy-in and inclusion among workers. The ESOP may also be a useful recruiting tool.
- **Ownership culture and alignment of interest.** With well-executed communications and culture surrounding the ESOP, ESOPs can create an alignment of interest between employees and the company. Employees may be more motivated to act with an eye to the company's success, recognizing that they stand to gain from an increase in the company's value. There may also be better communication flowing from rank-and-file staff to leadership, allowing the company to adapt to changing conditions more quickly.
- **Long-term thinking.** ESOP company management may tend to take a sustainability-minded approach, prioritizing the future well-being of the company and employees over short-term outcomes.
- **Investment in employees.** ESOP companies may be more likely to reward and invest in their employees with more generous benefits.

RESEARCH QUESTIONS

The project was designed to help answer the following questions:

- Did having an ESOP help food-system companies weather the difficulties of the pandemic and/or take advantage of new opportunities?
- Were workers at ESOP food companies at an advantage compared to workers at similar non-ESOP companies during the height of the pandemic?
- Were ESOP companies able to compete effectively?
- Did the ESOP help these companies maintain lower turnover during the worst of the pandemic?

These are not easy questions to answer. Collecting original data is necessary, particularly in terms of revenue, turnover, and individual account balances at private companies. We built on the research of others in the space with a combination of multiple quantitative and qualitative methods:

- A survey of executives at ESOP and non-ESOP-owned companies in the food system.
- Retirement plan data from the Department of Labor.
- Interviews with management at ESOP food companies. Case studies drawing on these interviews are presented throughout the report. **(Case study interviews were conducted separately from the survey.)**

ESOPS IN THE FOOD SYSTEM

We identified food-related ESOP companies from Department of Labor retirement plan filing data, using a list of NAICS industry codes (see Appendix C). There were a total of 258 privately held ESOP companies in food-related industries as of the end of 2019:

Table 1. Privately held ESOP food companies, 2019

NAICS	Description	Number of ESOP Companies	Percent of Total	Active ESOP Participants
11	Agriculture	60	23%	10,643
31-32	Manufacturing	57	22%	20,056
42	Wholesale Trade	42	16%	35,520
44	Retail Trade	66	25%	258,681
72	Accommodation/Food Services	33	13%	6,713
	Total	258	100%	331,612

SURVEY DATA

To conduct the survey of food companies, we contracted with Braun Research, Inc. (BRI)*, a nationally respected survey research firm, to collect data from executives at ESOP food companies and a comparison group of non-ESOP food companies.

The survey was conducted from November 2021 to March 2022 through telephone and online. All eligible contacts were offered an incentive in the form of a charitable contribution to encourage participation.

For the ESOP group, we provided BRI with the full list of 258 ESOP food companies. BRI contacted the entire list using a mixed-method approach including phone, online, and text message outreach. The survey received valid responses from 112 of these companies, or 43% of all ESOP food companies.

A response rate this high gives us great confidence that this sample of ESOPs reaches beyond a purely self-selected sample of convenience. Surveys of executives are notoriously difficult and response rates are often in the single digits. The 43% response rate for ESOP companies is remarkable in that context. As well, we sought to minimize selection bias by having the survey administered through a third-party vendor not affiliated with the NCEO, and by having the vendor repeatedly contact the entire set of ESOP food companies to solicit responses. All of this makes us more confident that these results can be generalized to the universe of ESOPs in the food system.

The ESOP sample closely matches the universe of all ESOP food companies in terms of industry. The largest divergence is in retail trade, which accounts for 19% of ESOP survey respondents compared to 25% of all ESOP food companies. This provides further evidence that the survey results can be generalized to the population of ESOP food companies as a whole.

For the comparison group, the polling firm used Dun & Bradstreet and other listings to contact food businesses with no ESOP, and received 222 valid responses.

Table 2. Industries of ESOP survey respondents

NAICS	Description	ESOP Responses	Universe of all ESOPs
11	Agriculture	24%	23%
31-32	Manufacturing	27%	22%
42	Wholesale Trade	18%	16%
44	Retail Trade	19%	25%
72	Accommodation/Food Services	12%	13%

*BRI employs techniques and standards approved by various survey research organizations, including those with whom BRI is an active member, including AAPOR (American Association for Public Opinion Research), MRA/CMOR (Market Research Association/Council on Marketing and Opinion Research), and CASRO (Council on American Survey Research Organizations).

Table 3. Survey response counts

Category	Number of respondents
ESOP group	112
Non-ESOP comparison group	222

We weighted the non-ESOP comparison respondent group to match the ESOP respondent group on industry subgroup and size. This helps control for other factors besides having an ESOP that could explain differences between the two groups. All percentages below for the non-ESOP category are from the weighted sample.

IMPACT OF THE PANDEMIC ON TURNOVER, REVENUE, AND JOBS

ESOP companies are more likely to have seen an increase in revenue from 2019 to 2020 (53%) compared to the comparison group (35%).

Table 4. Change in revenue from 2019-2020

How did your company's revenue in 2020 compare to 2019?	ESOPs	NON-ESOPs
Increased, by 10% or more	29%	19%
Increased, by less than 10%	24%	16%
2020 revenue was about the same as 2019	13%	20%
Decreased, by less than 10%	12%	19%
Decreased, by 10% or more	23%	26%

We asked both groups to report their 2020 voluntary quit rates and involuntary separation rates—that is, the number of workers who quit (voluntarily) and the number who were laid off or fired (involuntarily) in 2020, divided by the total number of workers employed in 2020.

Here we see stark differences between the groups: ESOP food companies' involuntary separation rate was roughly half that of non-ESOP companies, and ESOP companies' voluntary quit rates were also substantially lower. This is strong evidence that ESOP food companies both laid off fewer workers during 2020 and also had fewer workers quit their jobs.

This squares with the finding below (Table 14) showing that ESOP respondents found retaining key employees less of a challenge, and is evidence that ESOPs were associated with meaningfully higher employee retention in 2020.

Table 5. Involuntary separation rates

Excluding retirement, what was your 2020 involuntary separation rate? (By that we mean, the 2020 involuntary separation total divided by total 2020 employment)	ESOPs	NON-ESOPs
Average	7%	14%
10th percentile	0%	0%
25th	0%	0%
50th	2%	5%
75th	8%	25%
90th	20%	45%

Table 6. Voluntary quit rates

Excluding retirement, what was your 2020 voluntary quit rate? (By that we mean, the 2020 quit total divided by total 2020 employment)	ESOPs	NON-ESOPs
Average	13%	21%
10th percentile	0%	0%
25th	2%	6%
50th	6%	20%
75th	19%	30%
90th	38%	50%

For reference, at the national level among all businesses, quit rates for 2020 were 27.9% and layoffs and discharges rate 32.4%.

Tables 7 and 8 break out separation rates by change in company revenue from 2019 to 2020. As would be expected, companies that experienced a drop in revenue tended to have the highest involuntary separation rates, and companies that grew in revenue had the lowest. The lower separation rates for ESOP companies persist regardless of whether revenue decreased, stayed the same, or increased.

Table 7. Involuntary separation rates by change in revenue

	Average involuntary separation rate – ESOPs	Average involuntary separation rate – Non-ESOPs
Revenue decreased from 2019-2020	13%	16%
Revenue was about the same from 2019-2020	8%	13%
Revenue increased from 2019-2020	4%	13%

Table 8. Voluntary quit rates by change in revenue

	Average voluntary quit rate – ESOPs	Average voluntary quit rate – non-ESOPs
Revenue decreased from 2019-2020	7%	24%
Revenue was about the same from 2019-2020	13%	14%
Revenue increased from 2019-2020	16%	19%

CASE STUDY

Crop Quest: Day-one ESOP as a mechanism for integrity

Crop Quest is a 100% ESOP-owned agriculture consulting company, headquartered in Kansas and providing services to farms throughout the High Plains region. Their staff agronomists advise farmers on technical production decisions such as pest control, fertilizer, and irrigation methods.

Crop Quest was founded in 1992 as an employee-owned company—a relatively uncommon model, compared to the more typical case of an existing company being sold to an ESOP. Its founders were several dozen employees of a Kansas agriculture consulting company. They decided to form their own company with a bottom-up management philosophy and values-based culture baked in from its inception, and landed on the ESOP model. They pooled personal capital and founded Crop Quest, which has since grown to employ 87 mostly professional staff.

Charter member and president Dwight Koops credits Crop Quest's ESOP and ownership culture with making employee-owners "motivated to do what's right." Like many ESOP companies, Crop Quest invests effort in training employees for the long haul, and gives its employees substantial input in decision-making, in keeping with the company's founding philosophy. Crop Quest has so far successfully weathered the labor supply effects of the pandemic: its turnover rates have remained at their normal level, and it has paid salary increases on schedule.

According to Koops, the ESOP benefit is held in high regard by employees as "something they're not going to get at other places."

We asked respondents how many employees they had at the beginning of 2020 and at the end of 2020. From that information we tracked the differences in net employment reported below.

Among the ESOP companies, 38% saw a net decrease in jobs across 2020, 42% retained the same number of employees, and 20% had more employees at the end of 2020. Among that 20%, a total of 1,833 new jobs at companies with ESOPs were created.

The average percent change in total employees over 2020 is +15.7% for the ESOP group compared to +2.7% in the comparison group. There is a great deal of variation across both groups, with one new ESOP company expanding its workforce exponentially during 2020 driving up the average.

Among companies who lost workers, the average decrease was 21% for ESOP companies and 26% for non-ESOP companies. ESOP companies' workforces were slightly less likely to shrink (38% versus 41%) and slightly more likely to stay the same (42% versus 39%).

Table 9. Percent change in net employment in 2020

Approximately how many workers [full and part time] were employed by your company at the BEGINNING/END of 2020?	ESOPs	Non-ESOPs
Mean percent change	16%	3%
Median percent change	0%	0%
Decreased by more than 20%	13%	15%
Decreased by between 10% and 20%	10%	16%
Decreased by less than 10%	15%	10%
No Change	42%	39%
Increased by less than 10%	15%	2%
Increased by between 10% and 20%	2%	5%
Increased by more than 20%	4%	14%

"We think [the ESOP] creates loyalty, gives us longevity in our employees, and it makes people, particularly the managers making the decisions, think like an owner."

Randy Stepherson, Owner, Superlo Foods[15]

Table 10. Raw change in net employment in 2020

Approximately how many workers [full and part time] were employed by your company at the BEGINNING/END of 2020?	ESOPs	Non-ESOPs
Mean change	-13	154
Median change	0	0
Decreased by more than 50 employees	12%	20%
Decreased by between 25 and 50 employees	7%	5%
Decreased by up to 25 employees	18%	15%
No Change	42%	39%
Increased by up to 25 employees	8%	7%
Increased by between 25 and 50 employees	6%	1%
Increased by more than 50 employees	6%	12%

Table 11. Percent change in net employment in 2020

	ESOP	Non-ESOP	ESOP	Non-ESOP	ESOP	Non-ESOP
	Decreased		No Change		Increased	
Up to $50 million	44%	43%	40%	43%	16%	14%
More than $50 million	30%	45%	40%	21%	30%	34%

Table 12. Percent change in net employment by industry subgroup

ESOP food companies rate the performance of their workforce more highly than the comparison group: 56% rate it "excellent" compared to 47% of non-ESOP companies.

How would you rate the performance of your workforce through the pandemic and shutdowns?	ESOPs	Non-ESOPs
Excellent	56%	47%
Good	31%	33%
Just fair	10%	20%
Poor	3%	--

We asked respondents to choose from a list of steps taken in response to the pandemic and associated shutdowns. For most of these steps, ESOP companies and non-ESOP companies took them with similar frequency, though ESOP companies were less likely to reduce contributions to benefit plans, less likely to have to cut hours, and less likely to close one or more operations temporarily.

Table 13. Steps taken in response to the pandemic

Which of the following steps did your company take in response to the pandemic and shutdowns? (CHOOSE ALL THAT APPLY)	ESOPs	Non-ESOPs
Reduced hours for one or more employees to avoid layoffs	22%	31%
Furloughs	51%	18%
Reduced base pay for executives	21%	21%
Layoffs	21%	22%
Closed one or more of our operations temporarily	18%	32%
Reduced base pay for non-executives	11%	15%
Closed one or more of our operations permanently	7%	3%
Reduced contributions to benefit plans	6%	17%
[None]	25%	18%

Retaining key employees was seen as much less of a challenge among the ESOP group, and finding qualified labor and availability of current employees slightly less of a challenge. This squares with the above findings on lower turnover rates for ESOP companies.

Table 14. Challenges encountered during the pandemic

Businesses faced many challenges during this period. How much of a challenge was each of the following?	ESOPs	Non-ESOP	ESOP	Non-ESOP	ESOP	Non-ESOP
	Very large challenge		Somewhat of a challenge		Not really a challenge	
Difficulty retaining key employees	6%	22%	29%	36%	65%	42%
Availability of current employees to work	19%	24%	43%	39%	38%	37%
Attracting needed new employees	45%	40%	36%	44%	20%	16%
Finding qualified labor	38%	42%	45%	30%	17%	28%
Ramping up workplace safety protocols	14%	17%	53%	47%	34%	36%
Access to capital	8%	11%	9%	30%	83%	59%

CASE STUDY

Clarkson Grain: Ownership culture drives innovation

Clarkson Grain, based in Illinois, supplies grain, oilseed, and ingredients to food manufacturing and livestock companies. They source specialty corn and soybeans from growers, with a focus on organic and non-GMO ingredients. Its ESOP was established in 2016 and owns 30% of the company.

From the beginning, the pandemic significantly affected grain and soybean processing companies like Clarkson. Shipping was made more difficult as a result of port bottlenecks and, in particular, difficulties in procuring drayage service (land transport of shipping containers). Much of the soybean market is in Asia, the first COVID-19 epicenter; the postponement of the 2020 Olympics in Tokyo affected several of Clarkson's large contracts. Within the US, as the restaurant industry reeled from the pandemic, demand for tortilla chips fell steeply, which accounted for a large portion of demand for Clarkson's corn.

The workforce of growers for Clarkson's products—largely rural, outdoor and dispersed—was relatively unaffected until the Omicron variant surge in late 2021.

Clarkson employs 55 people; its headcount and turnover rates held steady throughout the pandemic. Clarkson's non-production staff went remote for three months beginning in March 2020, and staggered shifts were implemented for production workers to minimize exposure.

Tim Junge, Clarkson's CFO, believes the ESOP has made Clarkson's workers feel incentivized to identify opportunities for innovation and greater efficiency. This has resulted in ideas for efficiency improvements flowing up from production workers to management.

As an example, workers on the production team at Clarkson's corn processing plant identified a significant opportunity to improve efficiency. Clarkson processes white, yellow, and blue corn. After processing one type of corn, the production line must be reset and cleaned before switching to a different color. The production team realized that, with better information from the sales department about the timelines for order fulfillment, they would be able to reduce the amount of time spent switching the line over—for example, by processing as many blue corn orders in a row as possible before switching to white, rather than repeatedly switching back and forth. Clarkson successfully implemented this improvement through communication between the sales and production teams.

LOOKING AHEAD

We had the respondents think about the next six months regarding an array of developments. Here respondents in ESOP companies are feeling more optimistic about employment growth, while neither group is intensely optimistic. The two groups generally have similar expectations about future wage growth at their respective companies. Neither group expect a price drop on what they pay for goods and services. Both groups foresee an increase in their selling prices in the next six months, with ESOPs much more likely to envision a large increase.

Table 15. Changes expected in the next six months

Please assess how you expect employment at this company to change over the next 6 months?	ESOPs	Non-ESOPs
Increase a lot	3%	9%
Increase somewhat	47%	27%
Remain the same	46%	53%
Decline somewhat	--	10%
Decline a lot	3%	2%
Please assess how you expect wages paid to this company's average worker to change over the next 6 months?		
Increase a lot	13%	8%
Increase somewhat	57%	58%
Remain the same	29%	31%
Decline somewhat	--	3%
Decline a lot	--	--
Please assess how you expect prices our business pays for goods and services to change over the next 6 months?		
Increase a lot	46%	34%
Increase somewhat	49%	35%
Remain the same	5%	25%
Decline somewhat	--	4%
Decline a lot	--	1%

Please assess how you expect our company's selling prices to change over the next 6 months?		
Increase a lot	21%	9%
Increase somewhat	56%	61%
Remain the same	18%	24%
Decline somewhat	4%	5%
Decline a lot	--	--
Please assess how you expect our company's capital/investment spending to change over the next 6 months?		
Increase a lot	10%	8%
Increase somewhat	31%	33%
Remain the same	52%	52%
Decline somewhat	4%	6%
Decline a lot	4%	1%

PERCEPTIONS OF THE IMPACT OF THE PANDEMIC

ESOP companies are more likely to report seeing strongly positive effects from the pandemic compared to similar non-ESOP companies (13% large positive vs. 3%). Still, roughly half of both groups' experience was negative.

Table 16. Perceived overall effects from the pandemic

Overall, how has this business been affected by the Coronavirus pandemic?	ESOPs	Non-ESOPs
Large positive effect	13%	3%
Moderate positive effect	19%	24%
Little or no effect	18%	16%
Moderate negative effect	30%	44%
Large negative effect	21%	12%

ESOP company respondents were more likely to say they fared better than competitors during the pandemic: 52% said their company fared somewhat better or much better than most competitors, compared to 45% of non-ESOP companies. Very few in either group feel they did much better or much worse.

Table 17. Perceived pandemic effects compared to competitors

How would you say your company fared relative to competitors during the pandemic?	ESOPs	Non-ESOPs
Much better than most	6%	7%
Somewhat better than most	46%	38%
About the same as most	45%	50%
Somewhat worse than most	2%	4%
Much worse than most	--	2%

Table 18. Perceived effects of the ESOP on handling the pandemic

ESOP company respondents were asked to consider the impact of their ownership structure on their handling of the pandemic crisis. Few saw a negative impact and most saw a neutral (50%) or at least somewhat positive effect (44%). Clearly, many factors aside from ownership went into how companies dealt with the crisis. Still, it is evident that most ESOP companies did not see it as a hindrance, despite the substantial cash benefits flowing to workers.

How has being employee-owned affected your company's ability to respond to the coronavirus crisis, if at all?	ESOPs
Very positive effect	17%
Somewhat positive effect	27%
Neutral or no effect	50%
Somewhat negative effect	6%
Very negative effect	--

"Our mission is to be a company of Oklahomans feeding Oklahomans and it's not Oklahomans selling groceries just to the rich folk, it's not Oklahomans feeding some Oklahomans, we really want to feed all our neighbors."

Marc Jones, President and CEO, Homeland[16]

Figure 1. In your own words, how did being employee-owned affect dealing with the coronavirus crisis?

In this open-ended response question, ESOP companies commonly mentioned adaptability, commitment, flexibility and nimbleness, and a long-term or ownership mindset.

For those who saw a positive impact from the ESOP, many mentioned that having a tightly-knit employee culture in place before the pandemic helped them deal with it: “Already had a tightly-knit employee team so we were able to manage and adapt.”

Several respondents mentioned long-term-focused management strategy growing out of the ESOP: “Being employee owned allowed us to make decisions focused on doing the right thing for our business and our communities in the long-term rather than decisions focused on quarterly results.”

In terms of safety measures, good existing communication helped: “Being employee owned helped us be more communicative with our employees and we were more in touch with their day-to-day safety concerns.”

Among the relatively few with negative reactions, several mentioned the debt they incurred in their recent transaction making it tough to deal with the pressures of the pandemic.

BENEFITS

Across most categories, workers at ESOP companies are offered a stronger benefit package, with particularly striking differences in employer-paid health insurance (offered by 89% of ESOP companies compared to 71% of the comparison group) and paid sick leave (86% versus 69%). See Table 19.

Among the ESOP companies that offer 401(k) plans in addition to the ESOP benefit, 76% also offer matching contributions. Among the 68% of the comparison group that offers a 401(k) at all, most of them make matching contributions (95%).

Table 19. Benefits offered

Which of the following benefits are offered at your company? (CHOOSE ALL THAT APPLY)	ESOPs	Non-ESOPs
Employer-paid health insurance	89%	71%
Paid sick leave	86%	69%
Tuition reimbursement for certain types of schooling	49%	31%
Profit sharing	46%	24%
Stock options	25%	23%
401[k] plan	70%	68%
[None]	2%	6%
N	112	222

Table 20. Employer retirement contributions

Does your company make an employer match or other employer contributions to the 401(k) plan? (Among respondents who offer a 401(k))	ESOPs	Non-ESOPs
Yes	76%	95%
No	23%	5%
N	78	151

The gap between ESOP and non-ESOP companies in employer-paid health insurance and paid sick leave is most striking in smaller companies with $50 million or less in revenue, as shown in table 21. Nearly all larger ESOP companies offer employer-paid health insurance.

"The culture that's created from that is one of, 'If I've got skin in the game, I'm going to be more energetic every day and do a better job.'"

Jim Frank, Retired President and CEO, Litehouse Foods[17]

Table 21. Benefits offered by revenue

Which of the following benefits are offered at your company? (CHOOSE ALL THAT APPLY)	ESOPs	Non-ESOP	ESOP	Non-ESOP
	$50 million or less in revenue		More than $51 million in revenue	
Employer-paid health insurance	82%	42%	98%	83%
Paid sick leave	84%	58%	87%	76%
Tuition reimbursement for certain types of schooling	34%	14%	64%	53%
Profit Sharing	44%	12%	49%	36%
Stock Options	24%	13%	24%	35%
401[k] plan	60%	42%	82%	78%
[None]	4%	34%	--	--

CASE STUDY

Homeland: Worker-driven governance hybrid ESOP/union model promotes sustainability

HAC Inc. is a regional supermarket chain that operates 78 stores in Oklahoma, Kansas, and Georgia under the Homeland name, employing approximately 3,200 workers. Employees formed an ESOP to buy Homeland from its former parent company in 2011. United Food and Commercial Workers Local 1000 has represented Homeland store workers for many decades, and in 2011 the union leadership and Homeland management negotiated an unusual hybrid union/ESOP corporate governance model: Homeland's board of directors includes two union representatives and a store manager representative, in addition to the CEO, the CFO, and at least five independent directors.

Homeland has taken steps to make its ESOP a major part of its identity. It has an active communications program to educate employee owners about the ESOP and mentions employee ownership prominently in job postings. ESOP participant account balances have grown as the company continues to pay down debt. The ESOP helps drive employee retention, although, as in many ESOP companies, this effect is most pronounced among a core of long-tenured employees.

Homeland's turnover fell at the beginning of the pandemic and remained lowered throughout 2020, ticking upward in 2021 as the labor market tightened. Homeland has a sick leave policy pre-dating the pandemic, a function of the labor contract negotiated with UFCW at the time of the ESOP transition, and paid bonuses to its essential workforce in March through May 2020.

Worker input, through the union, to Homeland's board eventually fostered a shift in management strategy. At the time of the ESOP transition, management bonuses were tied 100% to profits. This, combined with Homeland's debt-heavy balance sheet at the time, created incentives to cut costs at the expense of future sales. Beginning in 2016, the board began debating whether to change the bonus system to address this issue. The presence of union representatives on the board helped tip the scales towards a focus on the long-term sustainability of the company and the well-being of its workforce. As a result, Homeland ultimately changed its bonus structure to be tied 50% to sales and 50% to profits, shifting managers' incentives towards driving sales growth rather than cutting costs. Homeland successfully implemented this improvement through communication between the sales and production teams.

RETIREMENT SECURITY

We asked the ESOP company respondents to report the median ESOP account balance among their employees. The median balance calculated from all of the reported medians is $30,000. The survey also asked respondents to report median account balances separately for workers with wages below and above $20 per hour. The results show that even among lower-wage workers, the ESOP provides a meaningful financial cushion: $10,000 for the median low-wage worker at the median food ESOP company.

These findings are striking in the context of the overall retirement picture in the U.S. Across all U.S. households, the median retirement savings is $0, and just over 50% of households have any retirement account. Among those with some retirement assets, the median value is $27,113, which represents assets held by the household (which may include multiple workers) across all retirement plans, such as 401(k)s and IRAs. Thus, the median employee at the median ESOP food company has more retirement savings through their ESOP account alone than the median American household has across all their retirement accounts--even setting aside the nearly half of households without any retirement account. [12]

Table 22. ESOP account balances by wage category

		Median ESOP account balance	Median ESOP account balance, less than $20 dollars an hour	Median ESOP account balance, $20 dollars an hour or more
Mean		$75,144	$23,466	$84,090
Percentiles	**10th**	$1,963	$0	$2,270
	25th	$5,000	$1,875	$6,000
	50th	$30,000	$10,000	$28,500
	75th	$80,000	$31,250	$100,000
	90th	$152,500	$52,500	$153,000
None		68	54	56

Department of Labor (DOL) retirement plan data allows us to supplement the survey findings on retirement savings. The DOL is census-level rather than a survey sample, allowing us to look at the entire universe of ESOPs in food. The tradeoff is that the DOL data can only provide averages, not individual account balances; as a result, the averages could be affected by new employees with very small balances and highly-compensated and/or long-tenured employees with large balances.

We analyzed DOL Form 5500 data from 2019 and 2020 to examine retirement assets in ESOPs and 401(k) plans sponsored by food-sector companies. For details on our methodology see Appendix B. The Form 5500 includes fields for total plan assets and the number of participants with account balances. This allows us to measure the average assets per participant in ESOPs and 401(k) plans.

We identified 211 ESOP food companies in the DOL data. Out of these, we identified 112 (53%) as having a separate 401(k) plan, and an additional 18 (nine percent) as having a KSOP, for a total of 62%. See table 23.

Table 23. ESOP food companies in Form 5500 data

NAICS	Description	Number of ESOP companies	Total percent offering separate 401(k) or KSOP
11	Agriculture	40	47%
31-32	Manufacturing	54	71%
42	Wholesale Trade	37	67%
44	Retail Trade	55	74%
72	Accommodation/Food Services	25	28%
	Overall	211	62%

By comparison, data from the Bureau of Labor Statistics shows that 51% of U.S. private employers offer any employer-sponsored retirement plan.[13] This is in line with past findings that ESOP companies are more likely to offer a secondary retirement plan than other companies are to offer any retirement plan at all. [14]

In tables 24-27, we break out the average account balances for ESOP participants (ESOP and any separate 401(k) balances) across industry and plan size for 2019 and 2020 filings. Employees' average ESOP balances are substantially higher than their counterparts' average 401(k) balances at non-ESOP companies, and are accompanied by often substantial additional 401(k) assets.

Note that the Form 5500 data does not make it possible to add up average ESOP and 401(k) account balances (the middle two columns in tables 24-27) to calculate average total retirement balances, because the ESOP and 401(k) plan do not necessarily cover all of the same individuals and not all ESOP companies offer a separate 401(k).

Tables 24-27 include columns reporting the averages at comparison companies with a 401(k). Because the data is sourced from retirement plan filings, this comparison group is made up only of companies that offer a qualified retirement plan.

Table 24. Average assets per participant, by industry, 2019

Industry	ESOPs	Separate 401(k) at food ESOP companies*	401(k)s at comparison non-ESOP companies
Agriculture	$169,594	$26,990	$75,301
Manufacturing	$114,287	$39,437	$54,240
Wholesale Trade	$165,265	$39,907	$70,677
Retail Trade	$52,725	$26,349	$47,977
Accomm./Food Services	$44,280	$7,496	$31,941
Overall	$109,369	$29,963	$55,376

* We treat ESOP companies with no separate 401(k) plan as zeroes in calculating the average, and only include separate 401(k) plans that are not KSOPs. (KSOP assets are counted as ESOP assets.)

Table 25. Average assets per participant, by plan size, 2019

Size (active participants)	Food ESOPs	Separate 401(k) at food ESOP companies	401(k)s at comparison non-ESOP companies
50 or fewer	$193,546	$25,880	$67,772
51-100	$86,457	$46,376	$51,580
101-250	$79,510	$33,220	$48,321
251-500	$90,405	$19,774	$65,385
501 or more	$82,082	$25,004	$49,997
Overall	$109,369	$29,963	$55,376

Table 26. Average assets per participant, by plan size, 2020

Industry	Food ESOPs	Separate 401(k) at food ESOP companies	401(k)s at comparison non-ESOP companies
Agriculture	$186,886	$65,299	$65,888
Manufacturing	$114,118	$66,994	$60,795
Wholesale Trade	$208,940	$88,471	$82,325
Retail Trade	$64,469	$41,863	$55,179
Accomm./Food Services	$41,649	$45,418	$37,758
Overall	$120,023	$61,696	$59,913

Table 27. Average assets per participant, by plan size, 2020

Size (active participants)	Food ESOPs	Separate 401(k) at food ESOP companies	401(k)s at comparison non-ESOP companies
50 or fewer	$226,286	$83,663	$72,351
51-100	$90,179	$77,331	$60,196
101-250	$75,267	$70,970	$57,495
251-500	$96,317	$39,512	$53,617
501 or more	$76,903	$42,210	$52,423
Overall	$120,023	$61,696	$59,913

CASE STUDY

Oliver's Market: Flexibility and Social Purpose

Oliver's market is a 43% ESOP-owned grocery chain with approximately 1,000 employees across four locations in Sonoma County in Northern California. Its founder Steven Maass embarked on the ESOP transition in 2017 "to preserve Oliver's market for years to come and reward the employees who have worked to build Oliver's through employee ownership." The company is also a California social purpose corporation.

Like other grocery stores, Oliver's remained open as an essential business during the early days of covid but saw large shifts in sales between departments. Grocery sales were robust, and panic buying led to shortages of some products; meanwhile prepared foods and deli sales fell as customers prepared more meals at home and daily lunch customers disappeared. In keeping with its social purpose mission, management at Oliver's prioritized avoiding layoffs and successfully rebalanced workers between departments to maintain staff. The company instituted hazard pay at the start of the pandemic and maintained it for over a year, tethering its "hero pay" to covid risk levels as reported in county case data. It immediately placed major emphasis on safety, instituting contact tracing, daily temperature checks for staff, enhanced sanitation measures, and a robust vaccination campaign.

Part of the motivation behind Oliver's ESOP transition was to keep the company local and independently owned. Heading into covid, Oliver's status as a small and nimble company provided advantages, according to Lawrence Jacobs, a grocery buyer at Oliver's. Many large grocers are dependent on a small number of major vendors, but Oliver's was able to leverage close (often personal) relationships with a large network of local suppliers to keep products on their shelves during the early, panicked days of the pandemic. They also used their flexibility to switch creatively between suppliers—for example, taking advantage of the fact that shuttered hotel and restaurant vendors had extra product on hand.

Oliver's employees' ESOP balances have grown rapidly since the ESOP was created in 2017. The company makes approximately $1.5 million in pro rata S-corporation distributions to the ESOP yearly, and average account balances in the ESOP have already grown to be higher than in the company's more than 30-year-old 401(k) plan. Jacobs shared an anecdote of one employee nearing retirement "throwing her hands up as if she'd scored a touchdown" upon receiving her ESOP statement and seeing how much additional savings she had.

CONCLUSIONS

The survey data reported above shows advantages for ESOP food companies in retention, benefits, and firm performance compared to their non-ESOP counterparts. Data sourced directly from retirement plan filings across **all** ESOP food companies adds another layer of evidence for the sizable retirement security advantage for ESOP workers. Finally, in the collection of interviews across several food companies, ESOP company executives describe the benefits of their ESOPs in bolstering employee loyalty, facilitating adaptive strategies through good communication with rank-and-file workers, and prioritizing long-term sustainability over short-term profits.

The following key themes emerged from the study:

ESOPs are retention drivers. The survey findings on retention are striking, with ESOP food companies enjoying both voluntary and involuntary turnover rates of less than half their non-ESOP counterparts during 2020. Consistent with this finding, the companies we interviewed generally credited the ESOP with increasing their ability to attract and retain talent, both during the pandemic and before it.

A persistent theme from the interviews was that different parts of the workforce experience the ESOP benefit differently. Workers at ESOP companies are paid out for their shares only after leaving the company or retiring, and are typically not fully vested until three years of employment. For some workers these factors can make the ESOP benefit seem remote and not relevant to them, particularly in industries with generally frequent turnover and/or a young workforce. The survey data provides evidence that the net effect on turnover is substantial and positive regardless.

ESOP companies tend to be generous employers. The survey data shows ESOP food companies offering more generous benefits packages. Most pertinent during the pandemic are their much higher levels of employer-paid health insurance and sick leave, which hold even when keeping revenue constant. As well, most ESOP companies offer a secondary 401(k) retirement plan with employer contributions—indicating that ESOPs generally exist in addition to, not instead of, other retirement benefits—and ESOP companies were less likely to reduce these retirement contributions as a result of the pandemic. In fact, several of the companies we interviewed discussed how their paid sick leave policies gave workers flexibility and safety as the pandemic hit.

The ESOP retirement benefit can be life-changing. The survey data and the retirement plan data indicate that workers at ESOP food companies have significantly higher retirement account balances than workers at traditionally owned companies. Several of the companies we interviewed shared stories of employees finding themselves with large ESOP account balances, representing something like a windfall of unlooked-for retirement savings. At one company with an ESOP established less than five years ago, workers' average account balances in the ESOP have already grown to be higher than in the company's decades-old 401(k) plan.

An ownership mentality helped food companies react nimbly to COVID. Several companies we interviewed identified ways in which the collaborative, idea-generating culture surrounding their ESOP produced meaningful benefits to the company's ability to handle the pandemic, by identifying opportunities to improve efficiency or shift strategy in response to supply chain issues. Most interviewees felt the ESOP caused workers to approach their work with more engagement and care than they might otherwise. These findings are supported by the survey data, which shows ESOP food companies rating the performance of their workforce highly and seeing themselves as well-positioned compared to competitors.

Long-term thinking depends on management culture. The existence of the ESOP in itself does not compel a "long-termist" approach to management. However, ESOP companies may be more likely to have a management culture that prioritizes the long-term prospects of the company and the well-being of its employees. Several of the companies we interviewed described having a sustainability-minded management team, including one case in which the creation of the ESOP helped spur a shift to a more long-term-focused approach.

Employee ownership is not a panacea. ESOP companies in our study were not immune to layoffs and other disruptions. Several new ESOP companies were hard hit by the combination of transaction costs and the pandemic and shutdowns. Among both ESOP and non-ESOP food companies, many saw substantial declines in revenue during the crisis year of 2020, and many were forced to cut payroll.

Still, this study shows unambiguous and remarkable differences in how ESOP-owned food companies were affected by the pandemic. Ownership structure clearly has a role to play in helping workers and businesses in the food system thrive even under extraordinary economic circumstances.

APPENDIX A: DEMOGRAPHICS OF THE SURVEY

Table A1: Industry

NAICS	Description	ESOP responses	Non-ESOP responses	Universe of all ESOPs
11	Agriculture	24%	24%	23%
31-32	Manufacturing	27%	27%	22%
42	Wholesale Trade	18%	18%	16%
44	Retail Trade	19%	19%	25%
72	Accommodation/Food Services	12%	12%	13%

Table A2: Region

Census region	ESOPs	Non-ESOPs
Northeast	13%	13%
Midwest	32%	29%
South	18%	48%
West	37%	11%

Table A3: Employees

Number of employees in 2019	ESOPs	Non-ESOPs
Under 100	38%	38%
100 or more	63%	63%

Table A4: Revenue

Revenue	ESOPs	Non-ESOPs
Up to $10 million	21%	39%
$10 to $50 million	32%	15%
$51 to $200 million	25%	23%
$201 million to $500 million	13%	14%
$501 million or more	10%	9%

APPENDIX B: RETIREMENT PLAN DATA METHODOLOGY

Qualified retirement plans such as ESOPs and 401(k) plans are required to file an annual reporting form, Form 5500, with the DOL. The DOL uses these filings to create datasets containing a wealth of information on all U.S. qualified retirement plans. Importantly, since filing the Form 5500 is mandatory, the DOL's datasets are comprehensive and do not rely on sampling or voluntary reporting. Using the DOL's 2019 Private Pension Plan research file, we identified all ESOP and 401(k) plans in privately held food-sector companies that filed a Form 5500 in 2019. From these we removed:

- Plans with fewer than 10 active participants as of year-end 2019, to exclude inactive plans and very small plans in, for example, holding companies or family-run companies
- Plans terminating in 2019, since they were not operating when the pandemic began in the U.S.
- Duplicate Form 5500 filings for the same plan, keeping only the latest filing, to avoid double-counting
- Instances of multiple plans sponsored by the same company, keeping only the largest plan as measured by active participants, so that each observation (filing) represents a single company
- Plans that filed as an ESOP in one year but not another

This left us with a group of 211 ESOPs and 16,924 comparisons 401(k) plans. We weighted the comparison group to match the ESOP group on industry (2-digit NAICS) and size (number of active plan participants) to account, as much as possible, for differences caused by factors besides the ESOP. Tables B1 and B2 show the demographics of the ESOPs and the weighted 401(k) comparison group.

Table B1: Industry

Industry	Food ESOPs	Comparison 401(k) plans at non-ESOP food companies, weighted percentage
Agriculture	19%	18%
Manufacturing	26%	27%
Wholesale Trade	18%	15%
Retail Trade	26%	24%
Accommodation and Food Services	12%	16%
Total	211	16,921

Table B2: Size

Size (active participants)	Food ESOPs	Comparison 401(k) plans at non-ESOP food companies, weighted percentage
50 or fewer	23%	25%
51-100	18%	21%
101-250	21%	16%
251-500	14%	14%
501 or more	24%	24%
Total count	211	16,921

APPENDIX C: NAICS CODES USED TO IDENTIFY FOOD COMPANIES

NAICS Code	Description
111100	Oilseed and Grain Farming
111210	Vegetable and Melon Farming
111300	Fruit and Tree Nut Farming
111400	Greenhouse, Nursery, and Floriculture Production
111900	Other Crop Farming
112111	Beef Cattle Ranching and Farming
112112	Cattle Feedlots
112210	Hog and Pig Farming
112300	Poultry and Egg Production
112510	Aquaculture
115110	Support Activities for Crop Production
115210	Support Activities for Animal Production
115310	Support Activities for Forestry
311110	Animal Food Manufacturing
311200	Grain and Oilseed Milling
311300	Sugar and Confectionery Product Manufacturing
311400	Fruit and Vegetable Preserving and Specialty Food Manufacturing
311500	Dairy Product Manufacturing
311610	Animal Slaughtering and Processing
311710	Seafood Product Preparation and Packaging

NAICS Code	Description
311800	Bakeries and Tortilla Manufacturing
311900	Other Food Manufacturing
312110	Soft Drink and Ice Manufacturing
312120	Breweries
325300	Pesticide, Fertilizer, and Other Agricultural Chemical Manufacturing
424400	Grocery and Related Product Merchant Wholesalers
424500	Farm Product Raw Material Merchant Wholesalers
424800	Beer, Wine, and Distilled Alcoholic Beverage Merchant Wholesalers
445110	Supermarkets and Other Grocery Retailers (except Convenience Retailers)
445120	Beer, Wine, and Liquor Retailers
445210	Beer, Wine, and Liquor Retailers
445230	Fruit and Vegetable Retailers
445291	Baked Goods Retailers
445310	Beer, Wine, and Liquor Retailers
722300	Special Food Services
722410	Drinking Places (Alcoholic Beverages)
722511	Full-Service Restaurants
722513	Limited-Service Restaurants
722515	Snack and Nonalcoholic Beverage Bars

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