



Who We Are

The Employee-Owned Contractor Roundtable (ECR) is a coalition of federal government contractors organized as private subchapter S corporations wholly-owned through an employee stock ownership plan (ESOP). ECR member companies provide products and services for the U.S. Government, from manufacturing engines and timing belts to developing some of the most advanced combat simulators and sonar detection technologies. ECR members can be located across the entire United States, playing critical roles in several sectors of the American economy.

Since employee-owned companies provide significant benefits to the U.S. economy and unique advantages to rank-and-file workers, the federal government has supported and promoted ESOPs for decades through various growth mechanisms, specifically through tax policy. ECR members believe it is time to modernize federal contracting regulations to align with existing federal pro-ESOP objectives by advancing policies to support and expand employee ownership within the federal contracting arena.

What is a Private, Subchapter S ESOP?

A Subchapter S corporation is a business entity that provides flow-through tax treatment to its shareholders. An ESOP is a qualified defined contribution plan that provides a company’s workers with retirement savings through their investments in their employer’s stock, *at no cost to the worker*. ESOPs are regulated by the Department of Labor under the Employee Retirement Income Security Act (“ERISA”), just like pension funds, 401(k) plans, and other qualified retirement plans.

Congress authorized the S corporation ESOP (“S ESOP”) structure over two decades ago to encourage and expand retirement savings by giving hundreds of thousands of American workers in all 50 states the opportunity to have equity in the companies where they work.

Why America Benefits from Supporting ESOP-Owned Companies

As employee ownership in America has grown, employee-owned businesses have consistently provided the economy, their workers, and their customers with unique and tangible benefits. When a company is owned by its employees, important socioeconomic dynamics arise that benefit workers, the company, the community, and the national economy. Because ESOPs are regulated by a strict legal code that requires ownership to be broadly held across employees, from the mailroom to the boardroom, companies that are ESOP-owned – and particularly those that are majority or wholly ESOP-owned – consistently report better job growth, fewer job reductions during economic downturns, boosted employee savings, and strong protections against foreign acquisitions. Among the data points that underscore the specific value of ESOPs:

Employee-Owner Income vs Non-Employee Owner Income (Ages 28 to 34)

MEDIAN WAGES FROM INCOME	EMPLOYEE-OWNERS	NON-EMPLOYEE-OWNERS
Overall	\$40,000	\$30,000
Single women	\$31,000	\$25,000
Single women of color	\$28,000	\$24,000
Workers of color	\$35,000	\$27,000
Child 0-8 in household	\$40,000	\$30,000
Families of color with young child	\$35,000	\$26,000
All parents	\$39,000	\$30,000
All single parents	\$33,000	\$23,000
Single mothers	\$28,000	\$21,000
Non-college graduates	\$35,000	\$25,000
Under 50k income from wages	\$30,000	\$25,000
Under 30k income from wages	\$22,000	\$18,000
Under 25k income from wages	\$17,160	\$14,000

Source: National Center for Employee Ownership

- Despite the financial stresses caused by the 2008/09 economic downturn and the resulting great recession, **ESOP-owned companies kept far more jobs than other private companies.** According to a 2012 study by Alex Brill, **employment among employee-owned firms increased more than 60% from 2001-2011, while the private sector had flat or negative growth in the same period.**
- **ESOPs reduce wealth inequality in the American workforce.** A 2016 study by Jared Bernstein shows that by increasing wage-earning employees' share of their business capital, **ESOPs reduced the wealth concentration among the top 10 percent of employees by 2.5%.**
- Due to the work culture and structure of an ESOP business, contract officers (CO) and procurement managers (PM) prefer doing business with ESOP contractors because ESOPs can meet contracting deadlines in a more agile manner and reinvest in their company's technical abilities to meet the most challenging federal projects.

National Defense Authorization Act (NDAA) FY22 Clears Way for Contracting Officers to Work with 100% ESOPs

Congress recognized the innovative potential in encouraging DoD to work with businesses wholly-owned through ESOPs and authorized a Pilot Program to Incentivize Contracting with Employee-Owned Businesses in Section 874 of the National Defense Authorization Act (NDAA) for Fiscal Year 2022. Section 874 provides authority for DOD to establish this pilot program to incentivize contracting with businesses wholly-owned through ESOPs by awarding a one-time sole source follow-on contract.

The House Armed Services Committee signaled continued support for DoD implementation of Sec. 874 in their FY23 NDAA Committee Report. Shortly afterward, DoD issued a class deviation memo on November 8, 2022, authorizing the use of Sec. 874.

Congress supported the improvements to Sec. 874 of the FY22 NDAA and Sec. 872 of the FY24 NDAA includes the following:

- Encouraging DoD to prescribe regulations,
- Allowing Sec. 874 to be used by GSA for DoD contracts,
- Clarifying Sec. 874 can be used once per contract,
- Clarifying the subcontracting limitations and
- Extending the pilot program from 5 to 8 years.

The office responsible for prescribing regulations for DoD, Defense Pricing and Contracting, has already opened a case for Sec. 874 of the FY22 NDAA. ECR commends DoD's proactive approach and encourages DoD to not only accelerate rule making but also include the improvements in Sec. 872 of the FY24 NDAA in any prescribed regulation.

Modernizing Procurement Practices to Promote Subchapter S ESOP Contractors

While Sec. 874 is strong first step, ECR members believe Congress can create more employee owners by incentivizing federal agencies to partner more regularly with ESOP companies with strong histories of completing projects in a timely and cost-effective manner. Procurement practices should leverage the unique benefits of the ESOP model to create a pathway for small businesses to become wholly owned through an ESOP as a pathway towards growth outside of small business standards.

Should you wish to learn more about ECR activities, please visit ecrcoalition.com, or contact Matt Scott at matt.scott@ecrcoalition.com.