Who We Are

The Employee-Owned Contractors 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 and the Federal Government Benefit 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:

- 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. A first of its kind of research report leveraging Contractor Performance Assessment Rating System (CPARS) data was published in June 2024. *Outperform and Outlast – 100% Employee-Owned Contractors Top the Charts* confirms that 100% ESOP federal contractors receive higher CPARS scores than other government contractors and are also more resilient to acquisition, avoiding consolidation of the defense industrial base.

National Defense Authorization Act (NDAA) FY22 Cleared 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 provided 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.

Through initial implementation of the pilot program, several improvements to Sec. 874 of the FY22 NDAA were identified. Congress included the following improvements in Sec. 872 of the FY24 NDAA:

- 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.

Pilot Program Rulemaking

On October 10, 2024, DoD published a final rule to amend the Defense Federal Acquisition Regulation Supplement (DFARS) to implement Sec. 874 of the FY22 NDAA as well as the improvements contained in Sec. 872 of FY24 NDAA. **The rule became effective on November 25, 2024**. The pilot program, under DFARS Part 270, provides authority to contracting officers to award a sole source follow-on contract to 100% ESOPs, and is authorized through December 27, 2029.

Duplicating the Pilot Program for Government Wide Use

In 2024, Senator Peters, then Chairman of the Senate Homeland Security and Government Affairs Committee (HSGAC), and Senator Ted Cruz, introduced and passed out of committee S.4066, which included a provision to duplicate Sec. 874/Sec. 872 for government wide use. This recent HSGAC activity, along with language in the FY25 NDAA voted out of HASC, signals support for duplication and government wide use.

Modernizing Procurement Practices to Promote Subchapter S-ESOP Contractors

While Sec. 874, implemented through DFARS Part 270, is a strong first step, ECR members believe Congress can further help to grow employee ownership 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.