

# Employee Ownership Pays Off



Courtesy CTD

## ► The catalysts

**Capitalizing on assets:** Western North Carolina is home to an array of skilled textile workers. Textile suppliers, cutters, pattern makers, sewers, and more live in the region. Some have been there for decades, or longer, and have a background working in the regional textile industry that declined due to offshoring and automation beginning in the 1990s. Many are immigrants who brought rich textile skills with them when they moved to the region.

**Opportunity for new perspectives:** Many small textile businesses of 5 – 50 employees exist in the region, but they may not have enough marketing or connections to ensure that they have consistent work. In addition, business owners are often individuals

approaching retirement, and there may not be a succession plan that is easy to put in place to ensure that these businesses and jobs remain in the region.

### ► Strengthening the economy:

Successful pairing of demand for American-made textiles with the work of small firms in western North Carolina and surrounding states is making the region’s economy more resilient. These businesses provide not just jobs for the region’s residents, but opportunities to build wealth and control of business decisions through employee ownership.

## ► The value opportunities

Partners in the Western Piedmont region of North Carolina recognized an opportunity to revive the sewn goods industry by connecting the existing assets with real market demand. In 2013, worker-owned textile business Opportunity Threads turned to Burke Development, Inc. (BDI) and the Manufacturing Solutions Center (MSC) in Conover, NC to look for ways to collaborate with other businesses in the region to manage an increase in demand that had outpaced the firm’s

capacity. Opportunity Threads made a deliberate decision to share its commercial success rather than scale the business up and down as demand changed over time, since this strategy might help to stabilize jobs in its own enterprise as well as in businesses that could use more work. MSC was a natural partner, as it supports technology transfer, commercialization and research and development (R&D) among manufacturing firms. BDI is public/private nonprofit economic development agency for Burke County, North Carolina that expanded its past activities in recruitment to also promote local ownership of firms.

The partners formed the Carolina Textile District (CTD), which is structured as an LLC and co-directed by Opportunity Threads Founder Molly Hemstreet and Sara Chester of Burke Development, Inc. Working in “coopetition,” other private sector partners recognize that their competitive advantages over other forms of production are greater when competing firms work together cooperatively. Sara Chester, co-director of CTD, says, “Coopetition engenders a sense of community and collaboration. Members call each other with problems. They’re working together on shared projects and acquiring shared equipment.”

## ► The demand

CTD coordinates demand for sewn goods with production capability, with a focus on a growing market segment called “crafted production.” In crafted production, clients desire small runs, short turn-around for products, customized products with quality production, and direct-to-consumer distribution such as through websites, Etsy shops, and other methods. These companies may be



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small social enterprises, and some are businesses that are scaling up beyond the capacity of home production. This type of production is evolving to meet consumer demand. Similar to increasing consumer interest in local or organic foods, a growing number of customers are asking where clothing and other sewn products come from and if working conditions are safe and fair, says Chester. The profile of entrepreneurs working with CTD are mostly young (67 percent are under 40 years old) and hold common values including supporting U.S. jobs and working with manufacturers who pay living wages. Many of these are start-up companies with little previous experience working in textiles.

CTD recognized that this demand existed, but also realized that this kind of demand is different from large orders with established companies that many area businesses had been accustomed to. CTD has an application process for clients wishing to have their concept for sewn goods produced. The application helps CTD staff to gauge clients' knowledge of textile production, sustainability of business, and readiness for production. Clients who move forward have a paid consultation with CTD's network coordinator and are matched with partners in the network who can provide the needed pieces of supply chain and production. Several members of CTD often fulfill orders, filling gaps at various points in the supply chain or sharing a large contract.

To aid in the matching process, CTD maintains a database of textile-related companies, along with key characteristics such as products, services, capabilities, minimum order size, and pricing. To build capacity, CTD seeks grants for equipment and conducts outreach to build the workforce. Thirteen paid member firms (who collectively employ 400 people in North Carolina, South Carolina, Virginia, and Tennessee) form the core



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of the CTD membership and benefit from enhanced social and political capital that come from cooperation, as well as access to shared equipment and legal support. However, nearly 400 firms across the U.S. are part of the full network that can be matched up with clients. As of 2018, nearly 1,500 entrepreneurs have applied, received information and these types of support, and nearly 150 entrepreneurs or scaling companies have already completed a production run. Together, CTD, support partners, and private sector members form a value chain, which is a network of partners who work to fulfill their own goals and toward commonly held values.

### Putting it together: Employee ownership strategies that improve resilience

By 2015, CTD's initial partners recognized opportunities to work across industry sectors in the region,

beyond textiles, and formed the nonprofit The Industrial Commons to provide resources and support to more firms. CTD functions as one social enterprise program of The Industrial Commons to bring textile partners together in a network. The Industrial Commons operates other social enterprises that solve industrial problems in the related manufacturing sectors of wood products, furniture, metal working, fiber, hosiery, and craft beverages. One area of expertise that has been beneficial to rooting economic success locally is worker ownership.

Interest in employee ownership and other bottom-up business strategies has increased in western North Carolina and surrounding areas. Opportunity Threads is a success story that provides a model for employee ownership within the region. Founded in 2008 by a native of Morganton,

North Carolina, Molly Hemstreet, Opportunity Threads employs about two dozen individuals, many of whom are Mayan immigrants to the region from Guatemala. Workers are hired on with the opportunity to become a worker-owner after a 12 – 18-month vetting process. As owners of the firm, the workers make decisions together and share the successes of the company by focusing on profit, growth, and productivity, alongside democratic workplace principles. For Opportunity Threads, worker ownership has provided a pathway to economic success for the employees and their households by offering stable jobs with fair pay.

The need for new approaches to business ownership is critical for the region’s economic resilience. Nearly half of privately held businesses with employees in western North Carolina are estimated to be owned by baby boomers. This accounts for over 132,000 jobs, with a payroll of \$4 billion and sales of \$26 billion, according to research conducted by Project Equity, a partner from outside the region. This has the potential for significant economic impact, and potential displacement of workers, as the region’s business owners age. These firms have longstanding capabilities and connections with partners, and they offer employment for the regions’ residents. Transitioning ownership of existing businesses to employees may be a mechanism to preserve firms with aging owners as productive assets in the region. Worker-owned cooperatives and employee stock ownership plans (ESOPs) are ways to structure businesses to connect workers’ productivity to profitability and decision-making.

In addition to operating several social enterprises, The Industrial Commons offers support to businesses interested in learning more about worker ownership and democratic workplaces more generally. Over 25



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businesses have received training and consultation on worker ownership structures; of these, four are actively converting to worker ownership while five more are considering it. In addition, several public sector entities supporting private enterprise have received training, including Small Business and Technology Development Centers and regional councils of governments (which often also serve as U.S. Economic Development Administration-designated Economic Development Districts to support the building blocks of regional economic resilience). These public sector partners can amplify and extend the work of The Industrial Commons to root economic resilience locally.

### The bottom line: Replicating successes

The Carolina Textile District has become a proven success model of connecting demand with production and building community capital. By establishing The Industrial Commons, these value chain partners are beginning to work with more firms in more sectors that share the same goals of being more competitive, more profitable, and stronger. This could ultimately lead to new value chains in wood products, metal working and more emerging from the CTD model. Other economic development partners in the region are also supporting emerging value chains.

The Industrial Commons has already recognized an opportunity



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to capture economic value from underutilized resources through its newest enterprise, Material Return. Material Return identifies the waste streams from textile and furniture companies as potentially valuable inputs for new products. Material Return is a much newer value chain, but it has already had interest from early adopters in finding profitable ways to reuse waste materials. This new enterprise has the potential to create benefits for partners from multiple economic sectors that share the same opportunity of producing waste that can be reused.

### Funding the value chain

Grants have provided valuable seed funding for both The Industrial Commons and its enterprises. Initial grant funding in 2013 from the North Carolina Rural Economic Development Center and U.S. Department of Commerce Investing in Manufacturing Communities Partnership supported personnel to begin to work with textile clients and provided resources to develop the sector as a regional



cluster. Additional grant support for The Industrial Commons has come from the Appalachian Regional Commission, J.M.K. Prize for Innovation from the J.M. Kaplan Fund, One Foundation of West Virginia, Catholic Campaign for Human Development, and the Communities Thrive Challenge, a program of The Rockefeller Foundation and the Chan-Zuckerberg Initiative.

Shared textile manufacturing equipment enables value chain partners to access specialized equipment and improve their productivity. For example, an advanced cutter was supported through a grant from the Appalachian Regional Commission.

CTD generates income to cover staffing by offering fee-for-service opportunities that are in demand among entrepreneurs

looking to produce domestically. CTD offers targeted technical assistance to businesses on an hourly rate for services such as sourcing materials and fabrics and finding a qualified contractor who can take on needed aspects of textile production, such as design, pattern-making, printing, or cut and sew. Paid workshops for entrepreneurs and others include Crafted Production and Democratic Workplaces, Interactive Sewn Goods Webinars (a five-part series) and Sewn Goods 101 Workshop. The development of the workshops that CTD offers to businesses was funded by grants, although offering the workshops and fee-for-service consultations for clients now makes CTD nearly self-sufficient. New revenues over time will offer the opportunity to continue to grow networks and programming.

## Information sources:

Molly Hemstreet, Sara Chester, and Paul Castelloe (2017). *Rooting Economic Change: Harnessing Industry Knowledge, Value Chain Networks, and Worker Ownership in Manufacturing to Bring Real Benefits to People and Communities*. Morganton, NC: Opportunity Threads, The Carolina Textile District, and The Industrial Commons

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Personal communication with Sara Chester and Andrew Crosson

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# the wealthworks inventory

Documented by Molly Hemstreet, Sara Chester, and Paul Castelloe in the report *Rooting Economic Change*, community capitals built through the work of the value chain include the following:

- ▶ **Individual capital:** Local residents have new skills and understanding related to crafted production, high-quality job creation, and worker ownership
- ▶ **Intellectual capital:** Heritage manufacturing knowledge is maintained, while new production models related to crafted production and worker ownership are developed
- ▶ **Social capital:** District partners have deeper trust and relationships; creation of value chain network
- ▶ **Natural capital:** Through the use of recycled and upcycled materials, zero-waste manufacturing, green production, the Material Return enterprise will create a circular economy for textile waste to become new marketable products
- ▶ **Built capital:** Revitalization of unused textile manufacturing spaces, creation of innovative new spaces such as a manufacturing center for Millennial workers
- ▶ **Political capital:** Building collective power and voice for textile manufacturing firms and workers; vision of a new and different kind of labor movement
- ▶ **Financial capital:** More revenue and larger customer base for small- to mid-sized manufacturing firms
- ▶ **Cultural capital:** Rural Appalachian lifeways are maintained; Mayan lifeways are adapted to Appalachia
- ▶ **Local ownership and control:** A focus on crafted production ensures quality at scales appropriate for locally owned businesses; businesses are increasingly interested in employee ownership and democratic approaches to work, which ensures local control of business decisions and assets
- ▶ **Better livelihoods:** Democratic workplaces create better quality jobs with more stability and higher wages