

# Critical Industries & Employee Ownership

Assessing the Risks of Business Succession  
to U.S. National & Economic Security

April 2025



## Ownership succession trends put the vitality and productive capacity of the U.S. industrial base at risk.

There is bipartisan consensus that a robust industrial base is at the core of America's national and economic security. Several federal agencies have identified industries with particular strategic significance, spanning sectors such as information technology, manufacturing, transportation and logistics. Using the most recent lists by the Department of Commerce (DOC) and Department of Defense (DoD), 20% and 9% of all companies are defined as operating in a critical sector.<sup>1</sup>

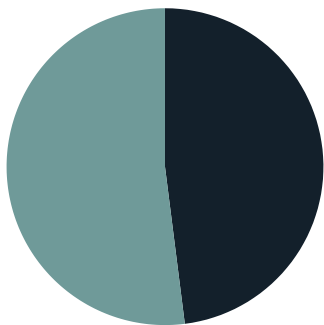
Baby boomers make up the largest group of business owners in the country.<sup>2</sup> As this generation has been reaching retirement age—a phenomenon known as the silver tsunami—a record number of privately held businesses are faced with a change of ownership in the coming years.<sup>3</sup> Too often exiting business owners either 1) close the business for lack of an interested buyer or family successor or 2) are faced with selling to a competitor or financial buyer that may not be committed to keeping jobs and production in the region or even the United States.<sup>4</sup> Either scenario may hurt our national productive capacity.



### **Silver Tsunami**

*Refers to the present phenomenon of record number of business owners preparing to sell their businesses. It poses significant retention risk to the American industrial base if those businesses close or sell to buyers not committed to domestic employment and production.*

Over half (52%) of firms defined as critical by the DOC and the DoD have an owner that is aged 55 or older. This means that 14% of American businesses are both operating in critical industries and are likely to undergo an ownership transfer in the next five to ten years. At a conservative estimate, this translates to around 900,000 American companies that could be at risk.<sup>5</sup> Policymakers can bolster the viability of employee ownership as a succession alternative to counteract these threats to the U.S. industrial base.



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**U.S firms operating in critical  
industries that are likely to face  
near term business succession**

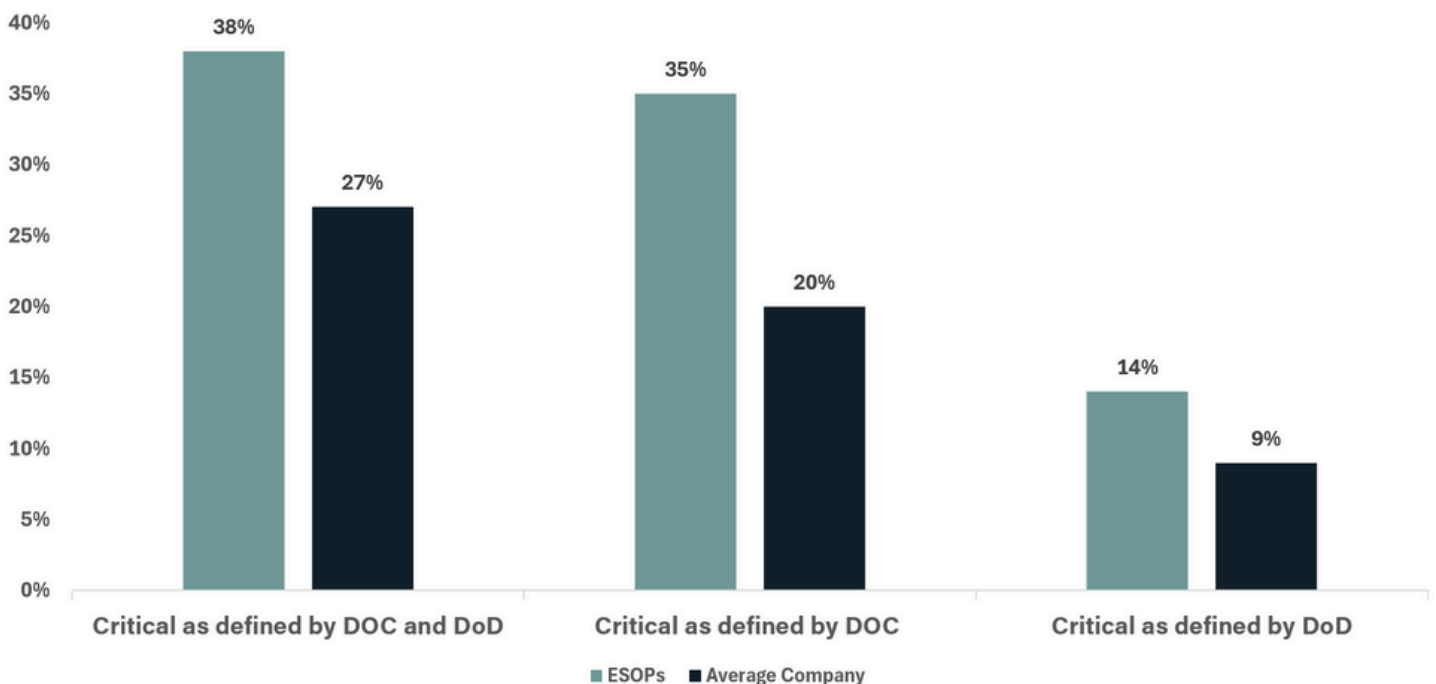
## Employee Stock Ownership Plans (ESOPs) are a prevention tool.

Selling a closely held business to an ESOP is an opportunity to preserve domestic production while building generational wealth for American workers. Empirical evidence suggests that ESOP companies are shown to be more resilient, grow faster and lay off less workers during economic downturns than competitors.<sup>6</sup> Recent evidence suggests further that ESOP-owned manufacturing firms boast higher labor productivity than their peers, offering one potential remedy to the overall productivity slowdown in the U.S. manufacturing sector.<sup>7</sup>

## ESOPs have a strong track record of operating in critical industries.

The current landscape of ESOPs proves that this ownership structure is well-positioned to be a leader in preserving the national industrial base in critical industries. Depending on the definition of critical industries, ESOPs are 40 to 75 percent more likely to be in a critical industrial sector than the average company. 38% of all ESOPs are defined as critical by either the Department of Commerce or Defense compared to 27% of all firms. 35% of ESOPs are critical as defined by only the Department of Commerce, and 14% by the Department of Defense, compared to 20% and 9% of all firms.<sup>8</sup>

### ESOPs are more likely to operate in a critical industry than the average company.





## **Employee ownership can help convert the risk of business succession in critical industries into a competitive advantage.**

Business succession presents a clear risk to our industrial base, but we can turn those risks into opportunities by creating favorable conditions for the growth of employee ownership. ESOPs face both capital access and regulatory barriers that have impeded the growth of the field, but addressing these issues offers an additional tool to prevent offshoring and the attenuation of U.S. productive capacity. The stakes for getting this right are highest in industries that are critical to our national security.

By reducing the financing and regulatory barriers that currently discourage the sale of U.S. businesses to their employees through an ESOP, policymakers have a bipartisan opportunity to enable U.S. businesses in strategic sectors to remain domestically owned and operated once those businesses are sold. With an expected generational wave of privately held business succession over the next decade, employee ownership is an increasingly important tool to strengthen our economic security including the interests of American workers. Reindustrializing America requires a proactive strategy to confront business succession—employee ownership is uniquely positioned to convert these risks to our industrial base into an enduring competitive advantage.



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**1** Note that as there is some overlap between the different lists, 27% of all companies in the U.S. are defined as critical by both agencies. Analysis conducted based on the following lists: Critical Sectors and Key Goods for Potential Cooperation under the IPEF Supply Chain Agreement (DOC, 2024), National Critical and Emerging Technology (DoD, 2024), per 10 U.S. Code § 4801, Covered Technology Categories for Equipment Financing (DoD, 2024), per 10 U.S. Code § 149(e). Sectors listed matched with 2-6 digit 2017 North American Industry Classification System (NAICS) codes. Critical industry NAICS codes match with most recent firm data from the U.S. Census Statistics of U.S. Businesses (SUSB) 2021 Data Table by Establishment Industry, 6-digit NAICS.

**2** U.S. Census Annual Business Survey (ABS), Characteristics of Business Owners (Employer Businesses) 2021

**3** Wince-Smith, D. (2022, February 25). Bracing for the silver tsunami. Forbes.  
<https://www.forbes.com/sites/deborahwince-smith/2022/02/25/bracing-for-the-silver-tsunami/>

**4** Olin Business School & Brookings Institution. (2023). The tidal wave of transitions on Main Street: Policy Paper 40. Washington University. [https://olin.wustl.edu/\\_assets/docs/research/OlinBrookingsCommission2023-PolicyPaper40.pdf](https://olin.wustl.edu/_assets/docs/research/OlinBrookingsCommission2023-PolicyPaper40.pdf)

**5** Combining sources (1) and (2), the latter of which specifies 2-digit NAICS codes, by calculating percentages of critical industries within 2-digit NAICS codes and assuming owner age is constant across 2-digit NAICS codes. This assumption is robust because most critical industries include 100% or 0% of industries encompassed in 2-digit codes. Critical Industry percentages: Agriculture, Forestry, Fishing and Hunting: 100%, Mining, Quarrying, and Oil and Gas Extraction: 100%, Utilities: 93%, Construction: 0%, Manufacturing: 100%, Wholesale Trade: 4%, Retail Trade: 0%, Transportation and Warehousing: 100%, Information: 41%, Finance and Insurance: 1%, Real Estate and Rental and Leasing: 0%, Professional, Scientific, and Technical Services: 51%, Management of Companies and Enterprises: 0%, Administrative and Support and Waste Management and Remediation Services: 2%, Educational Services: 0%, Health Care and Social Assistance: 100%, Arts, Entertainment, and Recreation: 0%, Accommodation and Food Services: 0%, Other Services (except Public Administration): 0%, Industries not classified: 0%.

**6** National Center for Employee Ownership. (2018, October 11). Research on employee ownership and corporate performance. <https://www.nceo.org/articles/research-employee-ownership-corporate-performance>

**7** Kurtulus, F. A., et al. (2025, January 3). Employee Share Ownership, Management Practices, and Firm Outcomes in U.S. Manufacturing. Federal Reserve of New York. (2024, July 11). The mysterious slowdown in U.S. manufacturing productivity. Liberty Street Economics. Retrieved from <https://libtystreeteconomics.newyorkfed.org/2024/07/the-mysterious-slowdown-in-u-s-manufacturing-productivity/>

**8** Combining source (1) with National Center of Employee Ownership ESOP Database 2024 (2022 data, purchased), matching on 6-digit NAICS Codes.