



Resource Guide

# Employee-Owned Companies



## Why Pursue Employee Ownership?

Employee-owned companies are businesses where the employees own a majority of the company's stock. Employee ownership allows employees, particularly those that are not executives or professional investors, to build wealth and share in the financial success of the business. Inclusivity in ownership empowers workers and creates mechanisms that ensure a more equal distribution of benefits. Employee ownership can also align the interests of a company's employees with those of the company's shareholders, increase retention, and can be used to increase diversity in ownership of the company. Employees at employee-owned companies are less likely to be laid off, receive greater compensation, and have more substantial retirement accounts, resulting in a more secure financial tie with a community.

## Considerations for Employee Ownership

When converting to an employee-owned company, it is important to carefully consider many factors, including:

- Think about what inclusive ownership structure best suits the stage, size, industry, and complexity of your company. If you are just starting your business, consider the inclusivity of your ownership while you have more flexibility (eg. create a stock option plan for employees from the onset)
- Remember that future hires are potential future owners. As the company hires new staff, it may be appropriate to offer stock options as part of the initial contract.
- What, when, and how should employees be eligible for worker ownership plans? Think through the unintended barriers to participation that might arise for certain employees. Make sure your inclusive ownership plan really is inclusive.
- Consider how inclusive ownership structures can contribute to solving business challenges. Having a hard time retaining employees? An employee stock option plan might help.
- Discussions around employee ownership are also an opportunity to help drive shared decision making about a company's long-term leadership goals and succession plans.

## Types of Employee-Owned Companies

**Equity Compensation Plans:** Employees are given stock or granted the right to buy stock or its equivalent from the company. Stock option plans give employees the right to buy company stock at a specified price for a defined number of years into the future. Employee stock purchase plans also provide the option to buy stock, usually through payroll deductions and at a discount. Additional types of equity compensation plans include: phantom stock plans, restricted stock units, and stock appreciation rights. Some companies create plans based on performance shares that function as equity compensation grants that pay out when specific business targets are realized.

**Employee Stock Ownership Plans (ESOP):** This is the most common approach U.S. companies take when pursuing employee ownership. ESOPs are retirement plans that invest in company stock and hold assets in accounts earmarked for employees.

**Worker Cooperatives:** Worker cooperatives are businesses that are owned and controlled by their workers. In traditional worker cooperatives, all shares are distributed exclusively to the workforce. Worker-owners have equal voting power to either make business decisions in a democratic fashion or to elect the business' management.

## Steps to Pursuing Employee-Ownership

1. Review the company's ownership structure or cap chart to determine the percentage of the company that is owned by founders or individuals employed by the company. Knowing the current state is important before planning for any ownership changes.
2. Decide on the type of ownership distribution best suited to your company and develop clear, objective, and equitable guidelines for how employees would qualify for employee ownership
3. If applicable, present the plan to other owners and the Board of Directors, and include a business case for how the employee ownership plan benefits the company.
4. Engage legal counsel. Legal counsel should review the outputs of the process, especially if there is no in-house expertise. Consultants can also provide assistance when developing an appropriate structure.
5. Create a plan to roll out the employee ownership plan, and share and celebrate with your employees.

## Resources

- [National Center for Employee Ownership](#) (NCEO) provides practical resources and objective, reliable information about employee ownership to businesses, employees, and the public.
- Entrepreneur shares insights on [How to Build an Employee-Owned Business](#).
- The [ESOP Blog](#) provides resources and articles about ESOPs and employee ownership.
- Information on worker cooperatives from [Community-Wealth.org](#) and in the Democracy Collaborative paper, [Worker Cooperatives: Pathways to Scale](#).
- The Good Economist is [Building the Case for Worker Ownership](#).
- [Why do some states have more employee owned companies than others?](#) as shared by Forbes.
- Learn more about [Charles River Analytics](#), a 100% Employee Owned company that operates in RI and MA.

## Associated Resource Guides

- Ownership, Board, and Supplier Diversity
- Bonus Programs

