

A Guide to Employee Ownership Transition

by John Abrams

Adapted from

Companies We Keep: Employee Ownership and the Business of Community and Place
by John Abrams (Chelsea Green Publishing, 2nd Ed., 2008)

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Restructuring an existing business to employee ownership is complex, and daunting. It brings up endless questions; not all have easy answers. There is no single set of rules to guide the process, and this is a dynamic, growing movement; therefore, new approaches and understandings are being created all the time. The following is an attempt to: 1) outline a possible agenda for moving through the process and, 2) provide some helpful resources.

1. First and foremost, you the owner(s), must have an interest in examining the possibilities, the benefits, the detriments, and the obstacles, and at least a philosophical commitment to a democratic workplace.
2. Given that, identify a few key employees to work with in the exploratory phase. If it is not possible to identify some such people, or at least one or two, this might not be the right thing, or the right time.
3. Remember, there are no right answers, and there is no business exactly like yours. This is an inquiry to discover how *your business* might transition to a new form, and whether it is an appropriate direction.
4. Read whatever you can (or whatever appeals to you) from the Reading List below and spend some time on the websites listed in the last section. Distill the nuggets - the ones that seem to apply to your sensibility and your situation. Talk with your key employees about the readings - what have you (all) learned that may be useful?
5. At this point it is important to hire a consultant with employee ownership knowledge and experience to help you navigate (a few are listed at the end of this document). The consultant can help you undertake an internal examination and do a preliminary feasibility assessment and risk analysis. Dig deep. When short on knowledge, use common sense to work through as far as you can. These are some of the questions you'll need to answer:
 - What does the owner(s) want? When?
 - What do the key employees want?
 - Where do the needs intersect? Where are there tensions?
 - What is your initial sense of the value of the company?
 - What does the future of the company look like?
 - How committed are the key employees to the future of the company?
 - How committed is the owner(s) to taking this step?
 - How will the purchase be financed?
 - How much can the business afford to pay out to the owner(s)?
 - What form of ownership seems most appropriate to current company realities?

- Cooperative Corporation?
 - Employee Stock Option Plan/Cooperative hybrid?
 - Limited Employee Stock Option Plan?
 - Simple expanded partnership (not ready for - or inclined to - employee ownership)?
 - Other?
- How will decisions be made?
 - What will be policy decisions and what will be management decisions?
 - What kind of ownership training will be needed?
 - What kind of management training will need to occur to prepare for the owner's departure (if this is part of the plan)?
6. If the results of this inquiry are generally positive and indicate that it may make sense to move forward, summarize all findings and draw conclusions about the following:
 - Here's where we think we're at right now;
 - Here are the remaining questions we have.
 7. It can be very valuable, at this stage (or earlier), to talk with a few other employee owned companies, of roughly your size, about your findings, and your specific questions, and get their reactions.
 8. With consultant's assistance, and with the assistance of an accountant and attorney:
 - Conduct company valuation analysis and prepare financial buy-out scheme;
 - Prepare corporate bylaws;
 - Prepare formal business plan;
 - Prepare an offering statement and legal agenda for reorganization.
 9. At this point you should be prepared to initiate the restructuring and birth the new company.
 10. Go through the steps. Live happily ever after (maybe). Adjust as necessary.

Reading List

(The three books and two articles in **bold**, together, comprise a good overview of the subject.)

Abrams, John. *Companies We Keep: Employee Ownership and the Business of Community and Place*. White River Junction, VT, Chelsea Green Publishing, 2nd Ed., 2008.

Adams, Frank T. and Gary B. Hansen. *Putting Democracy To Work: A Practical Guide for Starting and Managing Worker Owned Businesses*. San Francisco, Berrett-Koehler Publishers, 1992. [Primary focus is Worker Cooperatives.]

Bell, Daniel. *Bringing Your Employees Into The Business: An Employee Ownership Handbook for Small Business*. Kent, Ohio, Kent Popular Press, 1988.

Ellerman, David P. "Notes On The Co-op/ESOP Debate." Somerville, MA, Industrial Cooperative Association, 1983.

Gates, Jeff. *The Ownership Solution: Toward a Shared Capitalism for the 21st Century*. Reading, MA, Addison-Wesley Press, 1998.

Kamoroff, Bernard, and Jim Beatty. *We Own It: Starting & Managing Coops, Collectives, & Employee Owned Ventures*. Laytonville, CA, Bell Springs Publishing, 1982. [A bit outdated, but useful.]

Industrial Cooperative Association, Inc. "The Internal Capital Account System" 1982.

Logue, John, Richard Glass, Wendy Patton, Alex Teodosio, and Karen Thomas, *Participatory Employee Ownership: How It Works*, 1998. The Worker Ownership Institute. [A well-organized analysis and how-to book.]

Logue, John and Jacquelyn Yates. *The Real World Of Employee Ownership*. Ithaca & London, ILR Press, 2001.

Logue, John. "The 1042 Roll-Over Cooperative in Practice: A Case Study of how Select Machine Became a Co-op." [Excellent article about the nuts and bolts of an employee owned cooperative restructuring using an important IRS tool.]

Pitegoff, Peter. "Worker Ownership in Enron's Wake - Revisiting a Community Development Tactic." *The Journal of Small & Emerging Business Law*. Vol 8:239 [An up-to-date analysis of the state of employee ownership.]

Rosen, Cory, John Case and Martin Staubus. *Equity - Why Employee Ownership Is Good For Business*. Boston, Harvard Business School Press, 2005. [The big picture, primarily about ESOPs.]

Rosen, Cory and Karen Young, ed. *Understanding Employee Ownership*. Ithaca, ILR Press 1991.

Whyte, William Foote and Kathleen King Whyte. *Making Mondragon: The Growth and Dynamics of The Worker Cooperative Complex*. Ithaca, ILR Press, 1991. [Good history and background about the world's most successful organization of cooperatives.]

Employee Ownership Consultants and Useful Websites

- The ICA Group
1330 Beacon Street, Suite 355
Brookline MA 02446
(617) 232 8765
www.ica-group.org
Contact: David Hammer
dhammer@ica-group.org
- Cooperative Development Institute
PO Box 1051
Northampton, MA 01061
(413) 665 1271
www.cdi.coop
Contact: Rob Brown or Noemi Giszpenc
rbrown@cdi.coop or ngiszpenc@cdi.coop
- Ownership Associates
122 Mt Auburn Street
Cambridge MA 02138
(617) 868 4600
www.ownershipassociates.com
Contact: Christopher Mackin
oa@ownershipassociates.com
- U.S. Federation of Worker Cooperatives
1904 Franklin Street, Suite 400
(415) 392 7277
<https://usworker.coop/>
- Canadian Worker Co-operative Federation
41 Aberdeen Street #1
Kentville, NS B4N 2M9, Canada
www.canadianworker.coop
Contact: Hazel Corcoran, Executive Director
hazel@canadianworker.coop
- Vermont Employee Ownership Center
31 Main Street
Burlington VT 05042
(802) 861 6611
www.veoc.org
contact: Jon Crystal
Jon.Crystal@VEOC.org
- Ohio Employee Ownership Center
113 McGilvery Hall, Kent State University
Kent OH 44242
(330) 672 3028

www.kent.edu/oeoc/

contact: John Logue

jlogue@kent.edu

- National Center for Employee Ownership (ESOPS)
(510) 208 1300
www.nceo.org
nceo@nceo.org
- Beyster Institute
1241 Cave St.
La Jolla CA 92038
(858) 822 6000
www.beysterinstitute.org
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- Jerry Tulis, CPA
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- James Steikier, Attorney
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(also with offices in Tampa, FL, Columbus OH, and Charlotte NC)
- James Dean, Attorney
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