Employee ownership is a business model in which a company is owned and controlled by the people who work for the company. Employees are able to become stakeholders for the business through ownership of stock or shares. The Main Street Employee Ownership Act improves access to capital and supports the transition to these models. According to the most recent data published by the National Center of Employee Ownership, there are over 6,500 Employee Stock Ownership Plans (ESOPs) with more than 14.7 million participants. The following are the most common types of EO models:

- Employee Stock Ownership Plans (ESOP) are the most common choice for employee ownership. ESOPs are available to S and C Corporations which sell all or part of company shares to a trust for employees. The trust is administered on behalf of employees who earn their shares as a retirement benefit.
- Employee Ownership Trust (EOT), also called Perpetual Employee Trusts, is an indirect form of ownership where a company sells its shares to a trust not administered by the employees. Employees benefit from profit-sharing, in which a portion of company profits are allocated to employees.
- Worker Cooperatives are 100% employee-owned and managed as employees purchase shares representing their voting power in the company. This business structure promotes democratic decision making as employees elect a Board of Directors, which are typically employee-owners.

View our related small business guides here: Succession Planning, Business Valuation, Finance

You can also receive free professional business advice and free or low-cost training from your local Small Business Development Center!

Employee Ownership Models

Regardless of industry or location, EO business models have many benefits, one of which is they can serve as an exit strategy for owners looking to transition their business. Many owners may not have a succession plan for their business and may not have considered options to transfer control or leadership.

More than 50 million workers quit their jobs during the Great Resignation. As a result, many firms increased wages though EO can serve as an alternate benefit to attract and retain talent. Deciding what option is best for your business depends on factors unique to your business structure. Although each method provides employees an amount of ownership or control over the business, they still have notable differences. Here is a deeper look into various employee ownership options:

Employee Stock Ownership Plans

ESOPs are a form of retirement plans, funded by the business, that allows a company to give shares of the enterprise to their employees. An employee may have needed to work at a company for a certain amount of time in order to reap the benefits of an ESOP. When owners of ESOP’s retire or leave a company, they can turn their shares into stock or cash. Here are additional resources on Employee Stock Ownership Plans:

- Employee Stock Ownership Plans (ESOPs) – IRS
- Employee Stock Ownership Plan (ESOP) Facts – National Center of Employee Ownership
- What is an employee stock ownership plan (ESOP)? – CapitalOne

Employee Ownership Trust

A trust which holds shares of a company for an employee. This makes sure that employees will have a share in the profits and a say in company governance. An EOT can be permanent or have a long-term holding in the company. These shareholders can also sell their shares without the legal responsibility of capital taxes. Here are additional resources on Employee Ownership Trusts:

- The Emergence of Employee Ownership Trusts in the US – Aspen Institute
- Employee Ownership Trusts – Project Equity
- What clients need to know about employee ownership trusts – Investment Executive

Worker Cooperatives

Firms where members own and operate the business. In a worker cooperative, all employees are allowed to contribute their ideas freely and have a say in company decisions. Employees are able to hold on to their share of the business until they leave the company. Similar to ESOPs, not all employees are made immediate members of the cooperative. Employees may need to have worked at the company for a certain amount of time in order to take part. Here are additional resources on Worker Cooperatives:

- What is a Worker Cooperative? – United Stated Federation Worker Cooperative
- What is an Employee Co-op? – Employee Ownership Foundation

Advantages & Disadvantages of EO

Owner Benefits

- Succession Planning – EO provides an opportunity for business owners to adopt a hands-off management style as employees are more invested in day-to-day business activities. When the company's owners or prominent leaders decide to leave, employees are equipped to continue business operations.

- Tax Benefits – Depending on the model, business owners of employee-owned firms may be eligible for tax deductions, such as contributions to stocks and cash contributions. Additionally, S Corporations are often not required to pay federal and state income tax depending on the percentage of shares owned by employees. Always consult a tax professional.
- Employee Recruitment and Retention – Employees are more likely to stay at the company to continue receiving financial benefits in addition to the other positive attributes of working for an employee-owned business. Moreover, EO is an attractive quality for job seekers.

Employee Benefits

- Build Wealth – Similar to investing in a 401(k), employee ownership may act as a retirement plan and generate wealth for the duration of their employment at the company.

- Ownership Culture – Employees may feel a greater sense of pride and responsibility toward the success of the business as they have a personal stake in its performance.
- Increased Motivation – Employees are more motivated to perform well at work when they align with the company’s values. People may be more likely to work for a company they believe provides important products and services that they feel passionate about.

Disadvantages

- Mission Drift – As decision-making is a cooperative effort between business owner and employees, there is a risk of disagreement on the mission or direction of the business. This could result in tension among the organization or leadership derailment.

- Upfront Costs – When selling company shares to an ESOP, the business must be able to make an immediate cash payment to the buyer. The cash flow dedicated to an ESOP may greatly limit the cash available for short-term business operations. Small startups may experience delayed profits or growth because of the initial investment required.
- Recordkeeping and Regulatory Restrictions – Though the tax advantages are clear, documentation requirements may be arduous as the IRS guidelines regulate compliance in order to receive maximum benefits. There are many administrative functions required to effectively operate an employee ownership plan. Additionally, other government agencies may have additional rules and standards. For example, ESOPs are regulated by the Employee Benefits Security Administration (EBSA).

Employee-Owned Business Statistics

The National Center for Employee Ownership reports that in 2024:

- The number of ESOP companies was approximately 6,533 with more than 10.7 million active participants and $2.1 trillion in assets.
- ESOPs are most prevalent among the manufacturing sector (20%), followed by Professional, Scientific, & Technical Services sector (21%), and Finance, Insurance, & Real Estate sector (12%).
- Between S Corporations and C Corporations, S Corporations make up 65% more of total ESOP participants

Employee Ownership Resources

- National Center for Employee Ownership – nonprofit charitable organization which aims to help EO thrive through access to resources, research, workshops, and more.
- Employee Ownership Foundation – nonprofit organization which sponsors data collection and research programs to help develop effective employee-owned companies.
- U.S. Federation of Worker Cooperatives – grassroots membership organization which advances worker-owned, -managed, and -governed workplaces through education, advocacy, and the development of worker cooperatives.
- National Cooperative Business Association – membership organization for jointly owned

and democratically controlled businesses. They advance the shared interests of the cooperative community through collaborative partnerships, advocacy, and public awareness.

- ESOP Association – largest advocacy organization for EO in the world and works to make these financially and structurally feasible for business owners.
- Employee Ownership Expansion Network – national nonprofit whose mission is to expand EO across the U.S. through a supportive network of State Centers.
- Project Equity – a nonprofit organization which aims to build economic resiliency in low-income communities through employee-owned business development and creating local entrepreneurial ecosystems.
- Rutgers Institute for the Study of Employee Ownership and Profit Sharing – global hub at Rutgers University which studies and reports on various employee ownership and profit sharing models.

Additional Small Business Resources

Already in business or thinking about starting your own small business? Check out our various small business resources:

- View small business help topics here: Small Business Information Center
- View more business reports here: Small Business Snapshots
- View industry-specific research here: Market Research Links
- View business plans samples here: Sample Business Plans
- View our small business cybersecurity resources here: Cybersecurity
- View our pandemic business resources here: COVID-19 Publications

Remember, you can also receive free professional business advice and free or low-cost business training from your local Small Business Development Center!

Photo by Dylan Gillis on Unsplash