

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 of 2018](#) created an opportunity for businesses to adopt a [business structure](#) that puts decision-making in the hands of employees as they have stake in the success in the company. The following are the most common [types of employee ownership](#):

- **Employee Stock Ownership Plans (ESOP)** are the most common choice for employee ownership. ESOPs are available to S Corporations and C Corporations which sell all or part of company shares to a trust. 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 employee ownership when a company sells its shares to a trust. 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.

Advantages & Disadvantages of an Employee Owned Business

Advantages

Owner Benefits

- **Succession Planning** - Employee ownership presents 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 most prominent leaders decide to leave, employees are equipped to continue business operations.
- **Tax Benefits** - Depending on the model formed, 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 other aforementioned positive attributes of working for an employee-owned business. Moreover, employee ownership is an attractive quality to 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 choose to work for a company they believe provides important products and services, and they may feel passionate about their work.

Disadvantages

- Mission Drift - As decision-making is a cooperative effort among business owner and employees, there is a risk of disagreement among 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 or private equity firm, 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 startup firms may experience delayed profits or growth because of the initial investment.
- Recordkeeping and Regulatory Restrictions - Though there are numerous tax advantages for employee-owned firms, documentation requirements may be arduous as the [IRS guidelines](#) regulate compliance in order to receive maximum benefits. Data collection, allocating shares, tracking accounts, producing statements for shareholders, and preparing tax forms are some of the administrative functions required to effectively operate an employee ownership plan. Additionally, other government agencies may have further rules and standards, e.g. ESOPs are regulated by the [Employee Benefits Security Administration \(EBSA\)](#). Always consult tax and legal professionals.

Employee Ownership Statistics

The [National Center for Employee Ownership](#) reports that in 2018:

- Over 14 million employees participated in ESOPs, 9 million held stock options, and 11 million participated in stock purchase plans. The number of companies with an **ESOP** was approximately 6,272 with more than 3 million active participants.

- ESOPs are most prevalent among the **manufacturing sector (22%)**, followed by **professional, scientific, & technical services sector (19%)**, and **finance, insurance, & real estate sector (15%)**.
- Between S Corporations and C Corporations, S Corporations make up 5% more of total ESOP participants.

Additional insights:

- [Project Equity](#) estimates that many companies will try to sell their business in the coming decade as a result of retiring Baby Boomers.
- A study from [Rutgers](#) finds that Employee-owned firms are more likely to weather economic recessions as a result of employee retention. In fact, **Employee-owned companies** outperform other firms at **employee retention** at a rate of 4 to 1.
- [Nonprofit Quarterly](#) reports that employee-owned firms felt more prepared to adapt to economic changes caused by the COVID-19 pandemic, and there was less job loss among companies that were majority employee-owned.

Additional Employee Ownership Resources

- [National Center for Employee Ownership](#) is a nonprofit charitable organization which aims to help employee ownership thrive through access to reliable and robust resources and materials, research, live and online workshops, and more.
- [Employee Ownership Foundation](#) is a nonprofit organization which sponsors organizations that participate in data collection and research programs that help develop effective employee-owned companies. They also aim to inform policy makers, media, and the public on the benefits of employee ownership.
- [U.S. Federation of Worker Cooperatives](#) is a grassroots membership organization which advances worker-owned, -managed, and -governed workplaces through education, advocacy, and development of worker cooperatives.
- [National Cooperative Business Association](#) is a membership organization for businesses that are jointly owned and democratically controlled. They advance the shared interests of the cooperative community through collaborative partnerships, advocacy, and public awareness.
- [ESOP Association](#) is the largest employee ownership advocacy organization in the world and works to make employee ownership financially and structurally feasible for business owners.
- [Employee Ownership Expansion Network](#) is a national nonprofit whose mission is to expand employee ownership across the U.S. through a supportive network of State Centers.

- [Project Equity](#) is 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](#) is a global research hub at Rutgers University which studies and publishes reports on various models of employee ownership and profit sharing in the corporation and society around the world.

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](#)

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

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