



# BECOMING EMPLOYEE-OWNED

## A SMALL BUSINESS TOOLKIT FOR TRANSITIONING TO EMPLOYEE OWNERSHIP

FROM THE SAN FRANCISCO OFFICE OF SMALL BUSINESS  
IN PARTNERSHIP WITH THE DEMOCRACY AT WORK INSTITUTE



EXPLORE



ASSESS



STRUCTURE



COMPLETE



SUPPORT

## INTRODUCTION

The San Francisco Office of Small Business, in partnership with the Democracy at Work Institute, has created this small business toolkit to introduce Legacy Businesses to the succession strategy of transitioning to employee ownership.

Legacy Businesses listed on the Legacy Business Registry are officially recognized as long-standing community-serving cultural assets in the city of San Francisco. The Office of Small Business intends the Registry be a tool for providing education and assistance to Legacy Businesses to encourage their continued viability and success. To that end, the Office of Small Business and the Democracy at Work Institute are pleased to present “Becoming Employee-Owned,” a small business toolkit for businesses interested in transitioning to employee ownership.

## WHAT IS EMPLOYEE OWNERSHIP?

Small businesses that are employee-owned are organized as worker cooperatives. A worker cooperative is owned and controlled by its employees. It is a value-driven business that puts worker and community benefit at the core of its purpose. The two central characteristics of worker cooperatives are:

- Workers own the business and participate in its financial success on the basis of their labor.
- Workers vote for their representation on the board of directors, with the principle of one worker, one vote.

In addition to their economic and governance participation, worker-owners engage in day-to-day operations through participatory management structures.

Researchers and practitioners estimate that there are 300-400 democratic workplaces in the United States, employing around 7,000 people and generating over \$400 million in annual revenues. The number of worker cooperatives has grown steadily over the past 20 years and increasingly includes longstanding businesses that have been sold to their employees by their owners. Any business can be a worker-owned and -controlled business. In the U.S., worker cooperatives tend to be concentrated in the service and retail sectors.

## WHY EMPLOYEE-OWNERSHIP?

Transitioning your small business to employee ownership can have positive impacts on employee engagement, productivity, and retention; anchor a lasting legacy for your efforts building the business; and offer a financially rewarding exit path that can be supported by experienced professional assistance. Small business owners throughout the United States are increasingly seeing employees as highly desirable buyers because their expertise operating business offers continuity, which buoys company value, and because of their commitment to the main street social fabric that could be jeopardized by outside buyers.

# BECOMING EMPLOYEE-OWNED | IS IT FOR ME?

## HOW DOES IT WORK?

An employee-owned business is owned and controlled by its employees.

While there are a number of legal entity options – corporations, LLCs, trusts – they all share equity ownership that gives employees real risk and reward, and a path for employee participation to voice their desires, and to improve their work life.

A business **owned** by its employees...

...and **controlled** by its employees.

**EQUITY INVESTMENT**



**EMPLOYEE OWNERS**



**BOARD GOVERNANCE**

**RISK AND REWARD**



**PARTICIPATORY MANAGEMENT**



If you agree with one or more of the following statements, employee ownership is worth exploring for your company.

## IS IT RIGHT FOR MY BUSINESS?



I want the positive impacts I've built into my business – good jobs, connection to our community, best practices in our sector – to last beyond my time as the owner.



I believe the risks and rewards of ownership can reinforce a culture of high quality work and shared responsibility that improves productivity and the bottom line.



I want to receive a fair value from the sale of the business I have built and feel the employees might value the company as much, or more, than an outside buyer.



## LARGE WORKER COOPERATIVES IN THE UNITED STATES

Company Name	Location	Workers	
Cooperative Home Care Associates	New York City, NY	1,900	<a href="#">source</a>
Green Taxi Cooperative	Denver, CO	800	<a href="#">source</a>
Taxi Drivers Association of Austin	Austin, TX	500	<a href="#">source</a>
Union Cab of Madison Cooperative	Madison, WI	260	<a href="#">source</a>
Home Care Associates	Philadelphia, PA	245	<a href="#">source</a>
Rainbow Grocery	San Francisco, CA	243	<a href="#">source</a>
Alexandria Union Cab	Washington DC	227	<a href="#">source</a>
Union Taxi Cooperative of Denver	Denver, CO	220	<a href="#">source</a>
Namaste Solar	Boulder, CO	160	<a href="#">source</a>
Equal Exchange	Boston, MA	140	<a href="#">source</a>
Alvarado Street Bakery	Petaluma, CA	116	<a href="#">source</a>
Casa Nueva	Athens, OH	72	<a href="#">source</a>
Si Se Puede Women's Cooperative	New York City, NY	65	<a href="#">source</a>
Island Employee Cooperative	Stonington, ME	60	<a href="#">source</a>
Cooperative Care	Wautoma, WI	55	<a href="#">source</a>
Isthmus Engineering	Madison, WI	50	<a href="#">source</a>
Circle of Life Caregiver Cooperative	Bellingham, WA	50	<a href="#">source</a>
The Cheese Board Collective	Berkeley, CA	50	<a href="#">source</a>
Hub Bike Coop	Minneapolis, MN	45	<a href="#">source</a>
New School of Montpelier	Montpelier, VT	44	<a href="#">source</a>

Source links are available at [BecomingEmployeeOwned.org/resources](http://BecomingEmployeeOwned.org/resources)

## A YARD AND A HALF LANDSCAPING

In 2014, workers became the owners of A Yard and A Half Landscaping, an organic landscaping company based in Waltham, MA, with a workforce of 35. Founded in 1988, the transition to a cooperatively owned and operated LLC was the fulfillment of a five year plan by the founder to increase the leadership and managerial skills of workers for succession. In retiring, she exited with the rewards of the sale and the knowledge that her passion to create a work environment that empowered personnel would continue. The company has since grown and has added revenue streams to increase off-season work after the desire was voiced by the new owners.



## METIS CONSTRUCTION

In 2015, the employees of Metis Construction, a 36-employee residential and commercial building company in Seattle, WA, became participants in an employer ownership trust that holds the business' assets in perpetuity on behalf of the workers. The business was founded in 2007 by a builder who believed that the pride of shared ownership would reinforce the sense of craft and shared responsibility he saw exhibited in employees' work. The seller remained on as an employee and one of the owners and has seen business literacy and engagement in key operational issues increasing from his new co-owners.



## A CHILD'S PLACE

A Child's Place is a 50-worker daycare center in East Elmhurst, NY, that began in 1979 and is planning to transition to an employee-owned cooperative corporation in 2018. The founders have pursued employee ownership to preserve their mission of quality, family-centered care, while also resisting the rapid gentrification of their neighborhood. The business has had an essential role in the neighborhood's fabric for over a generation. While the business assets will be sold, the founders will retain ownership of the property and lease to the business, establishing a positive long term partnership between the previous and new owners.



## ROCK CITY ROASTERS

Rock City Roasters is a 25-worker café and bookstore in Rockland, ME, that became a cooperative corporation in 2018. The founder started the business in 1992 and saw in the sale an opportunity to reward workers for their efforts building the business, assurance that the café's character as a main street community center would continue, and an ongoing revenue stream by financing a portion of the transaction's loan herself. Workers in the rural Maine region are often tempted to leave for opportunities elsewhere, but the new employee owners of the café are investing for the long term.



## A SLICE OF NEW YORK

A Slice of New York is a 33-employee cooperative corporation consisting of two retail pizzerias in San Jose, CA. The owners began preparing to exit the business after 10 years but felt a strong loyalty to their longstanding employees. They had seen the positive incentives of broadly held stock in previous tech industry jobs and embraced practices that shared surpluses with workers, culminating in the business sale. The transition took over a year and was completed in 2017. One of the selling owners continues as the general manager of the cooperative for a phased exit and has become an advocate of the path for other businesses in the region.



## THE NEW SCHOOL OF MONTPELIER

The New School of Montpelier is 45-employee cooperatively owned school that serves students with severe disabilities in Montpelier, VT. The private business was founded in 2005 and began exploring options for the owner-director to exit as she looked ahead to other projects. Driven to find an option that ensured the highest quality service, the business was sold to its employees in 2015. To avoid interrupting state licenses, the legal entity was maintained. The state regulator that granted renewal in 2016 noted that the employee-owners' governance of the school was "unusual yet apparently quite effective."





# BECOMING EMPLOYEE-OWNED | THE PROCESS

## WHAT ARE THE STAGES OF THE TRANSITION?

Converting a small business to employee ownership can be a practical solution for ownership succession, job stabilization, and employee retention. The process takes an investment of resources and professional assistance to ensure success and long-term benefits. While unique for each business, the process generally has five stages. Below is an outline of the stages, with approximate durations and costs, though these can vary widely depending on the complexity of the business and the readiness of employees to become owners.

### EXPLORE **Varies | \$0**

**WHAT:** Key stakeholders, generally the owners, study the idea and decide that it is worth pursuing

**WHO:** The selling owner; a local advisor who can offer confidential guidance; sometimes key employees

### ASSESS **3-6 months | \$5,000**

**WHAT:** Experienced professionals affirm that a financial, legal, and organizational transition is feasible

**WHO:** The selling owner; trusted outside professional advisors

### STRUCTURE **6-12 months | \$10,000**

**WHAT:** A transition team establishes the sale terms and any organizational or leadership changes

**WHO:** The selling owner; a representative team of the employees; professional advisors

### COMPLETE **3-6 months | \$10,000**

**WHAT:** Loans are drawn, the company legally changes hands or entity, and a founding board is elected

**WHO:** The selling owner; the employees; professional advisors; lenders

### SUPPORT **Varies | \$25,000**

**WHAT:** Ongoing training addresses leadership and operational gaps, and orients management to new roles

**WHO:** The employees; professional advisors

# BECOMING EMPLOYEE-OWNED | QUICK ASSESSMENT



This quick assessment can help guide an early conversation with an experienced professional assistance provider. The structure of employee ownership transitions can be flexible, and can be designed to meet desires and address concerns.

## WHAT ARE YOUR DESIRES?



I want to exit the business while ensuring it carries on its positive community impacts.

I want to stay in the business and strengthen our work with a culture of shared ownership.

I want to receive the best value for the sale of the business, and a lasting revenue stream.

I want to reward employees for helping to build the company.

I want the benefits and lessons of business ownership to be accessible to all.

## WHAT ARE YOUR CONCERNS?



I worry that an outside buyer could lower the quality of the company's goods or services.

I worry that a sale could be complicated and take a long time.

I worry that there could be few or no buyers, or that offers will not meet my financial needs.

I worry that my absence would leave gaps in key business activities that no one is ready to fill.

I worry that a change in ownership could lead to a loss of customer confidence.



The questions below help a technical assistance provider seek the best business supports, and can help reveal if specific resources can be accessed.

## COMPANY SITUATION



Is the company 30 or more years old?

Has the company significantly contributed to the history and character of your location?

Does the company have 20 or more employees?

Are more than half of the company's employees people of color?

Is the company financially healthy?



# BECOMING EMPLOYEE-OWNED | EXPLORE STAGE



**EXPLORE**

ASSESS

STRUCTURE

COMPLETE

SUPPORT



## GOALS

**WHAT:** Key stakeholders, generally the owners, study the idea and decide that it is worth pursuing

**WHO:** The selling owner; a local advisor who can offer confidential guidance; sometimes key employees

In the Explore stage, the owner learns the benefits and options of employee ownership and decides whether to invest further time and resources. During this stage it is helpful to have a knowledgeable local champion of the idea to speak to in confidence, and an opportunity to see how other businesses have made the transition. The essential question is whether employee ownership will meet the outcomes desired by the seller. Outcomes may be financial security, community benefit, or maintaining the legacy of the business.



## CHECKLIST



I have learned the stories of other businesses that have become employee-owned.

I understand the potential benefits of employee ownership for me and for my business.

I have a good sense of my own financial needs and timing in selling the business.

I am willing to frankly assess employee's leadership gaps and work to address them.

I have considered how the employees compare to potential outside buyers of the business.



## RESOURCES

[Becoming Employee Owned – Company Stories](#)

[DAWI, UWCC – Successful Cooperative Ownership Transitions](#)

[Project Equity – Case Studies: Business Conversions to Worker Cooperatives](#)

[ICA Group – Ensuring Your Legacy: Succession Planning & Democratic Employee Ownership](#)

[OEOC – An Owners Guide to Business Succession Planning](#)

Resources are available at [BecomingEmployeeOwned.org/resources](https://BecomingEmployeeOwned.org/resources)

# BECOMING EMPLOYEE-OWNED | ASSESS STAGE



EXPLORE

**ASSESS**

STRUCTURE

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SUPPORT



## GOALS

**WHAT:** Experienced professionals affirm that a financial, legal, and organizational transition is feasible  
**WHO:** The selling owner; trusted outside professional advisors

In the Assess stage, experienced professionals are invited to look at whether the value of the business will be enough to meet the seller's needs. The advisors will propose the best legal structure for the sale to preserve value and maintain continuity. They will also examine the organizational capacity to take on new leadership and managerial responsibilities if the owner exits. A recommendation will either be made to move forward or to make changes that will increase company value and employee readiness.



## CHECKLIST



My business has had a recent valuation by a qualified outside professional.

A legal path to employee ownership is outlined that would help seller and buyers retain value.

My hands-on work role is documented, and employees are being trained for the time I may exit.

The employees are surveyed to measure attitudes that support ownership culture.

I have a realistic willingness to invest the time and resources to transition to employee ownership.



## RESOURCES

[ICA Group – Business Valuation Basics](#)

[DAWI – A Brief Guide to Understanding Employee Ownership Structures](#)

[SELC – Legal Guide to Cooperative Conversions](#)

[Ownership Associates - Ownership Culture Report](#)

[W2O – Ownership Culture Self-Assessment](#)

Resources are available at [BecomingEmployeeOwned.org/resources](https://BecomingEmployeeOwned.org/resources)

# BECOMING EMPLOYEE-OWNED | STRUCTURE STAGE



EXPLORE

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## GOALS

**WHAT:** A transition team establishes the sale terms and any organizational or leadership changes  
**WHO:** The selling owner; a representative team of the employees; professional advisors

In the Structure stage, employees will become engaged in preparing for the transition. General information will be offered to all employees to gauge interest, and a smaller group will regularly meet to understand the details of the sale and give input on the terms. The group usually focuses on gaining financial literacy and understanding how governance and management will operate under employee ownership. At the same time, advisors are at work structuring bylaws, securing capital, and addressing any special needs.



## CHECKLIST



A meaningful percentage of employees have signed commitment of interest letters.

A representative team employees forms to regularly meet, learn, and advance the transition.

Governing documents are written or amended to reflect employee ownership.

A business plan is communicated to employees to show their investment, debt, and risk.

Financing for the sale is secured from capital providers.



## RESOURCES

[ICA Group - Democratic Governance](#)

[CFNE, PE, DAWI - The Lending Opportunity Of A Generation](#)

[ICA Group - Intro to Bylaws](#)

[DAWI - Decisions in the Process of Business Transition](#)

[SELC - Think Outside the Boss](#)

Resources are available at [BecomingEmployeeOwned.org/resources](http://BecomingEmployeeOwned.org/resources)

# BECOMING EMPLOYEE-OWNED | COMPLETE STAGE



EXPLORE

ASSESS

STRUCTURE

**COMPLETE**

SUPPORT



## GOALS

**WHAT:** Loans are drawn, the company legally changes hands or entity, and a founding board is elected  
**WHO:** The selling owner; the employees; professional advisors; lenders

In the Complete stage, all activities – legal, financial, and organizational – intersect to finalize the transaction. Purchase agreements are signed by employees. New legal entities are ratified and founding boards chosen. Loans are drawn on for the initial cash payment to the seller. If any leadership or management structures are planned for the execution of the sale, they begin. This stage requires committed attention from either an advisor or an internal champion to move slow external processes forward and keep employee morale high.



## CHECKLIST



New legal entities or amendments are ratified.

The initial (or full) cash payment is made to the seller.

Purchase agreements are signed by the employees with a schedule for any future payments.

A founding board of directors begins fiduciary responsibility and management oversight.

A path to ownership is established for future employees who are not part of the sale.



## RESOURCES

[DAWI - Investing in Worker Ownership](#)

[UWCC - Cooperative Equity and Ownership](#)

[ICA - Internal Capital Accounts](#)

[Britton and Stewart - Selling Stock to Employees... and Sheltering Capital Gain](#)

[NCEO - A Conceptual Guide to Employee Ownership for Very Small Businesses](#)

Resources are available at [BecomingEmployeeOwned.org/resources](https://BecomingEmployeeOwned.org/resources)

# BECOMING EMPLOYEE-OWNED | SUPPORT STAGE



EXPLORE

ASSESS

STRUCTURE

COMPLETE

**SUPPORT**



## GOALS

**WHAT:** Ongoing training addresses leadership and operational gaps, and builds ownership culture

**WHO:** The employees; professional advisors

In the Support stage, the development of ownership practices and attitudes is guided through the inevitable bumps and growing pains. Employees gain business literacy to see how their everyday effort can reward them financially. They set personnel practices that foster engagement. Roles for the board, management, and members are established. Training from professional associations, business schools, and cooperative experts assures that educational needs are not deferred by operational ups and downs.



## CHECKLIST



A management and employee training program is defined and has an annual budget.

The company is a member of an association that can offer ongoing education to employees.

A calendar of activities and trainings for the board, management, and employees is defined.

The company has open book practices that engage employees in financial operations.

The company has personnel practices that support employees to improve their work life.



## RESOURCES

[U.S. Federation of Worker Cooperatives](#)

[National Center for Employee Ownership](#)

[DAWI – Fundamentals of Worker Cooperative Development](#)

[DAWI - Creating a Member Engagement Plan](#)

[UWCC - A Learning and Training Tool for Understanding Worker Cooperative Finances](#)

Resources are available at [BecomingEmployeeOwned.org/resources](http://BecomingEmployeeOwned.org/resources)

## BECOMING EMPLOYEE-OWNED | NEXT STEPS



**EXPLORE**



**ASSESS**



**STRUCTURE**



**COMPLETE**



**SUPPORT**

### **CONTACT THE LEGACY BUSINESS PROGRAM**

Thank you for taking the time to read this employee ownership toolkit and complete the Quick Assessment on page 8. If you think employee ownership may be right for your business, your next step is to contact the Legacy Business Program:



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**OFFICE OF SMALL BUSINESS**

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