ICA GROUP
CHILD CARE

Six Myths about Worker Ownership

for Child Care Businesses

MYTH #1: My employees can't afford to buy the business

In a conversion to employee ownership, workers are not expected to raise the funds needed to purchase the business. Instead the ICA Group works to structure financing for the sale. This often includes a blend of seller financing and loans, which the business pays back through its profits over time. We work closely with a national network of lenders familiar with worker ownership.

To become an owner of the business, workers purchase a member-share. The price of this share is set in proportion to the profits the worker is expected to receive for owning a share. The price of a share typically ranges from $200-$1,000 for child care businesses and can be structured as a payroll deduction that is paid over time.

MYTH #2: My employees are not cut out to be business owners

Very few people enter the child care industry because they want the responsibilities of ownership, whether it's poring over financial statements, making tough human resources decisions, or ordering more paper towels. Converting to employee ownership does not mean teachers and administrators take on these responsibilities alone.

In most small businesses one owner acts as shareholder, board, and CEO. In worker cooperatives these roles are distinct responsibilities shared by more people and determined based on each worker-owner's interests and skills. The ICA Group will work with you to develop a succession plan that outlines these roles and responsibilities and builds the capacity of your staff while also identifying needs for outside support. This may mean training and promoting staff, bringing outside experts onto the board of directors, or hiring a bookkeeper.

However, for all employees to make informed decisions, they do need a basic understanding of the health of the business and how the business makes money. The ICA Group provides ongoing training to help employees understand the profit drivers of the business and to interpret its financial statements. Trainings range from basic to advanced financial concepts and are customized to meet the needs of the business.

> Many workers report that ICA's financial training is one of the most valuable aspects of the conversion process and the lessons in budgeting, financing, and sales have substantial personal and professional payoffs.

MYTH #3: My employees won't be able to make money

It is not the case that worker-owned businesses don't make money. In fact, a recent study from Rutgers University found that converting to worker ownership boosts businesses' profits by as much as 14 percent.[1]

Why are worker-owned businesses often so successful? Because understanding and having a real stake in the business changes how staff engage with their daily work. Many child care workers are passionate about caring for children and helping them learn and grow. But, the business of child care also involves many unpleasant, boring, and hard tasks: engaging with challenging parents, keeping the center tidy and inviting, and hours of paperwork. When workers have a personal financial stake in the success of the center and understand how their job fits into this larger picture, these tasks can become more meaningful. Workers go about their daily routines as if the owner were watching – because they are the owner! Furthermore, with the insight of both a worker and an owner, staff often come up with new and better ways to do things and these improvements can make a meaningful difference in profitability.

As an added advantage, on average worker-owned firms also have half the employee turnover of conventional firms, saving thousands a year on hiring costs.

MYTH #4: My employees won't be able to agree on how to run the business

When many people think about a cooperative, they envision a flat organizational structure with collective decision-making. In reality, this is not the typical structure for employee-owned companies. Management hierarchies stay essentially the same when the business converts to employee ownership. At child care businesses, directors, assistant directors, and other leaders continue to manage the day-to-day operations of the business, including supervising staff, setting shift schedules, and making purchasing decisions.

What does change is that each worker-owner gets one vote to select the board of directors, receives financial information about the company's performance, and has formal channels to share feedback and ideas. The board of directors elected by the workers approves annual budgets, selects and evaluates the director, and makes strategic decisions for the firm. Worker-owners typically make up a majority of the board. Significant decisions, such as whether to open a new location or close the business, may require a full vote of the membership. The ICA Group will work with you to determine and document which types of decisions are made at the management, board, and membership levels.

MYTH #5: My employees don't want to own the business

It may seem unlikely that workers would turn down the opportunity to receive the profits generated by their work or have more say over their working conditions. Yet, when owners first

[1] Harvard Business Review. https://hbr.org/2018/08/why-the-u-s-needs-more-worker-owned-companies

talk to their staff about employee ownership, they are often met with skepticism, resistance, and even fear. In our experience these reactions often come from:

- A fear of the unknown
- A fear of change
- Concern about being scammed
- Uncertainty about their own skills and abilities

It is important to think about how and when to approach workers about this opportunity. An ICA consultant can help you work through these reactions with your staff, make the process clear and concrete, and provide needed training and support.

> "We worried A Child's Place might be downsized by a new owner or have to close. Those looking to buy our business could not guarantee it would continue as a daycare. So, we decided to solve the problem in a way we never dreamed possible. We would sell A Child's Place to the very people we knew would take care of it best: the staff who worked there"
>
> –Linda Coles, owner of A Child's Place

Every employee does not need to become an employee-owner for the conversion to employee ownership to work. Many successful worker-owned businesses start with a core group of owners and grow their membership over time. It is also common to limit membership eligibility to full-time staff who have worked for the business for a certain period of time.

MYTH #6: Selling to workers is expensive and complicated

Converting your business to worker ownership typically takes six months to a year, which is comparable to sales involving outside parties. Owners may find the process takes more upfront planning and discussion than other paths to exit. However, because your workers are familiar with the business, many of the day-to-day transition activities may be simpler. Read the ICA Group's *Ensuring Your Legacy: A Guide to Exit Planning for Child Care Business Owners* to learn more about how the process compares to other exit options.

Selling your business can be stressful no matter what exit path you choose. Unlike a traditional sale, organizations like the ICA Group are available to support the transition process and continue to train and support staff after you exit.

Contact Us

Contact the ICA Group for more information and to schedule a free consultation. We have limited grant funding to provide comprehensive support to businesses at no charge. Contact us to find out if you qualify.

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Learn more at www.icagroup.org/childcare