

Worker Ownership

What does it mean for your business?

What is a worker cooperative?

A worker cooperative is a business that is owned and controlled by its workers.

Employee cooperatives are almost always for-profit businesses. They sell a product or service to customers, with the goal of generating a profit for the business and its owners. Like conventional businesses, worker cooperatives incorporate with the state, secure appropriate business licenses, pay taxes, and hire employees.

What does it mean for workers to own a business?

“Ownership” of a business gives owners the right to business profits and decision-making about how the business is run. In a worker cooperative, workers can purchase a membership share to become an owner of the business.

- **Profits:** Worker-owners are entitled to a portion of the money the business makes after expenses. This surplus is distributed to workers based on hours worked.
- **Decision-making:** A membership share also grants workers a decision-making vote in the business. Each worker can only own one membership share, and when the cooperative holds elections, they do so on a one person, one vote basis. Worker control can take many forms, but at a minimum, worker-owners elect the company’s Board of Directors and receive information about how the business operates and how it is performing.

How are worker-cooperatives started?

Some businesses are started as worker-owned cooperatives, but many start out as conventional companies. Owners decide to convert their business to worker ownership to preserve their legacy, retain community jobs, reward employees, or simply because it offers a profitable and flexible pathway to sell the business. Often this process occurs as the owner retires or moves on from the business. Other owners choose to continue to work at the business while sharing the risks and rewards of ownership with their employees.

Who is buying the business? Who pays for it?

The business typically takes out a loan to purchase the shares from the selling owner, and then pays off the loan using its profits. In other words, workers are not expected to find enough money to purchase the full value of the company out of their own personal finances—most of the money to finance the transaction comes from the company’s cash flow.

Generally, a small portion of the purchase price is funded by the workers, who purchase a membership share to become worker-owners. Each cooperative sets its share price in



proportion to the profits the worker is expected to receive for owning a share. Typically, this translates to a cost of roughly \$1,000 to \$5,000 per share.

Is this the same as a management buy-out?

No. In a conversion to worker ownership, the shares of the business are transferred from the existing owners to a broad base of employees. All workers who meet certain basic eligibility requirements (such as length of time at the company or hours worked) can become owners, not just management or a small group of workers. In the future, as new workers join the business and meet eligibility requirements, they too will have the opportunity to become owners.

How does the conversion to worker ownership work?

The ICA Group works with business owners of all types to convert their firm to a worker cooperative. We provide simple, straightforward tools designed to ensure that the interests of all parties are addressed. Every business is unique, and so are the objectives of the owners who wish to sell their business. We'll walk you through the three basic phases of transferring your business to your employees:

- **Owner Planning.** ICA works one-on-one with the owner to determine whether a conversion to worker ownership will work for their business and meet their personal and financial goals.
- **Worker Engagement.** Through a series of presentations and trainings, ICA supports workers in learning about worker ownership, developing the skills needed to take over the business, and structuring the new entity.
- **Transaction Execution.** ICA supports both workers and owners in completing the legal and financial transaction.

Who makes the decision to convert the business?

Many decisions are made during the process of converting the business to worker ownership by many stakeholders. Rather than one yes or no decision, conversions are a structured, staged process of information sharing and decision making.

- **The Owner:** Typically, it is the selling owner who decides to start exploring worker ownership. The owner also decides what conditions need to be met in order to sell to the workers, including selling price, any seller financing, and transaction timeline.
- **The Staff:** Once the owner is certain that they want to pursue conversion to worker ownership, workers are presented with the opportunity and given a chance to shape what the converted business will look like. Generally, a steering committee of interested workers, with the support of the owner and the ICA Group, works to develop new organizational policies. This committee gathers input and feedback from all workers throughout the process to ensure that a number of workers will pursue ownership.



- **Individual Workers:** As the transaction structure and new organizational policies are finalized, each individual worker decides whether to purchase a member-share and become an owner.

For both owners and workers, these decisions can be challenging and emotional. Building trust and sharing information throughout the process are necessary for a conversion to succeed.

How long does it take?

In general, the process takes between six months and a year, depending on owner goals, the health of the business, and financing needs. The ICA Group can provide post-conversion support to worker-owners as they develop their ownership culture and learn to successfully run the business. This support can range from a short training series to multiyear partnerships, depending on business needs and interests and funding sources.

What does The ICA Group do?

The ICA Group is a nonprofit business consulting and development firm that has helped convert over 50 businesses to worker ownership. Our staff help support all phases of the process including business valuation, access to financing, worker training, and more. To begin exploring this process, we start with a free owner consultation.

Contact Us

Contact the ICA Group for more information and to schedule a free consultation.

Phone: 617-232-8765

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Learn more at www.icagroup.org

Is your business in New York City or Massachusetts? We have limited grant funding to support businesses who are considering converting into worker cooperatives. Let us know if you're interested in learning more about these programs.