

Transitioning to an Employee Owned Business

Transitioning to an employee-owned business can be complicated or it can be simple. It all depends on the type of business structure you wish to deploy. Transitioning to an employee ownership trust (EOT), a worker cooperative, or an employee stock ownership plan (ESOP), all require distinct steps to ensure a successful transition. Just as every business is different and lends itself better to certain employee ownership structures over others, every business will need to consider the specific steps it will need to take during the transition process, which may differ from company to company, even when companies have the same end goal in mind.

Every transition is unique, and it's important to be aware of the different things that might happen during a transition given the type of employee ownership structure and size of the business. There may be relatively little change when using an EOT. Sometimes the only requirement is changing ownership to the trust. However, in the case of worker-owned cooperatives, the worker owners will also need to elect a board of directors to fill the function of the previous owners. Comparatively, an ESOP requires more changes than an EOT including altering the business to conform to new regulations under labor and tax laws. As a result, a company transitioning to an ESOP may also have to change their corporate structure (C-Corp, S-Corp). The strain of a transition usually falls to management, who will need to be meticulous and thoughtful about the implications of any new operational strategies introduced. The consequences of a poor transition can be serious, both because of the regulation laws in place, but also because corporate structure changes may have broader implications in the overall functions within the company. It's important to create a plan that aids both leadership and employees through any changes. Ultimately, broad based employee ownership is just that, broad. Not all employee-owned business structures are the same and the transitions will require different approaches and considerations.

The benefits of hiring experts

Determining the kind of plan necessary to ensure a smooth transition isn't always easy. It's important to remember that as a business owner, the likelihood of going through more than one transition is extremely small. Thus, it's important to get it right. This is notably a challenge, however—investing your time and your management's time to learn how to transition the business can be costly and there still could be serious mistakes. There are experts that you can hire to help ensure the process goes smoothly. It will put your mind at ease and your management team can devote their time and energy into making the business run normally. There are lawyers, accountants, and consultants that specialize in aiding businesses through ESOP transitions. For co-ops, there are a number of national organizations, like the Democracy at Work Institute and the United States Federation of Worker Cooperatives. There are fewer experts in the area of Employee Owned Trusts, but help may be less needed due to the relative simplicity of EOT transitions. It is also still possible to receive specialized advice for specific tasks as they arise. While hiring professions can be pricey, the saved time and resources and the assurance of a successful transition can make it worthwhile.

Managing Employee Expectations

When beginning the process of transitioning to employee ownership, communication with employees is key to maintaining a positive work environment and clear messaging. Given the type of employee-owned structure a business is transitioning to, employees should have different expectations of the change to come. As was said previously, in the case of an EOT, the change could simply be the transfer of ownership. The day to day operations of the company won't change for the majority of the employees and the decisions will be made from the top down. It's important to communicate this directly to employees, who might otherwise assume that their increase in rights of return equates to an increase in rights of control. In the case of a cooperative, the employees will have to start democratically choosing their board of directors. The daily operations of the business won't necessarily change very much, unless the board of directors decides to do that. The employees may be motivated to educate themselves about how to better run the business, in turn, helping them make better decisions about who to choose as directors. The company itself may implement an education program to help the employees learn about employee ownership and what it means for their particular company.

In all kinds of employee-owned businesses, there may be confusion among new employee-owners about how much input they have in the day-to-day management of the company. However, despite being employee-owners, this is not usually the case. The employees won't be helping to choose the uniforms or equipment that the company uses – smaller-scale decisions that might require quick turnaround. In some cases, they will be able to elect the directors who help make those decisions. In other words, it is more often the case that employee-owners have some broader input over larger or longer-term decisions, but will not necessarily be a core member of a decision-making team. This is why it is important to manage employee expectations early on. If they are expecting to gain a greater amount of control, this could cause tension and disruption within the company. By using clear communication, these problems can be avoided.

Conclusion

Transitioning to an employee owned business can be a complicated process. But this doesn't mean it has to be intimidating. Before implementing any changes at all, you can start laying the groundwork of the unique changes you expect to make given the specific employee owned structure you choose. Excluding EOTs, there are many experts and a lot of resources to help with your transition. Hiring the help you need can ease the stress of the process, and don't be afraid to find a new expert if your current help isn't working out. By planning and reaching out to the right resources, you will be able to better picture what your company will look like post-transition, and you can communicate this vision to your employees. Doing so will ensure that every level of your company is on the same page, making it easy to move the process forward.

Source:

April 2018. [*"Becoming Employee Owned: A Small Business Toolkit for Transitioning to Employee Ownership."*](#) Democracy at Work Institute.