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Business Owner Perspectives on Selling to Employees

Insights from In-Depth Interviews

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Why do some business owners choose to sell their companies to their employees?

This report examines why business owners choose to transition ownership to employees, most often through an Employee Stock Ownership Plan (ESOP).

Drawing on in-depth interviews, it brings forward business sellers' motivations in their own words—what triggered their search for an exit or succession solution, how they evaluated more common exit pathways—such as private equity, strategic sale, family transfer, or management buyout—and why employee ownership emerged as the best fit.



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The Institute for the Study of Employee Ownership and Profit Sharing conducts research on all forms of employee ownership. For more information, visit smlr.rutgers.edu/InstituteEO.

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Introduction

For owners of closely held businesses, choosing how to sell their company can be one of the most important decisions they will ever make. Most pursue familiar exit paths, such as a private equity buyout or a transfer to family members. But a small number will choose a different route: selling the business *to their own employees*.

Why do some business owners take this less-traveled path? What financial, practical, and personal considerations lead them to choose employee ownership—an option that remains relatively uncommon in the United States? To answer these questions, we went directly to the source: the business sellers themselves.

This report is based on in-depth interviews with 23 business owners who transitioned ownership of their companies to their employees—most through an Employee Stock Ownership Plan (ESOP), and some through alternative arrangements. They share, in their own words, what motivated them to do so, what they learned along the way, and what they wish they had known at the outset. Together, their reflections offer a rare window into the decision-making processes that lead business owners to choose employee ownership.

Research shows that ESOPs can benefit both firms and workers by boosting performance, strengthening engagement and retention, and spreading wealth more broadly—yet adoption remains limited, with only about 250 created each year.¹ Because ESOPs typically come into being when a current owner chooses to sell to employees, the owner's decision is a critical hinge point, and understanding it better is therefore essential to any effort to expand use of ESOPs. Despite this, the perspectives of business sellers have received surprisingly little attention to date.

This report is intended to fill that gap. By documenting and sharing the stories of business owners who have chosen employee ownership—and presenting their perspectives in their own words—we aim to help other owners to better understand how it can work for them. The accounts we have compiled illuminate how selling to employees can resolve key challenges and meet financial goals, while also preserving a company's unique identity, the jobs it provides, and the legacy its owners have built.

¹ National Center for Employee Ownership (June 2024).

Methodology

Over several months in 2025, we interviewed 25 individuals (19 men and 6 women) representing 23 companies that had undergone employee ownership transitions.² Of these 25, 16 were the company founders, seven were non-founder owners at the time of the transition, and two were current CEOs with direct knowledge of a sale to employees. We sought to capture a broad cross-section of companies by size, industry, and geographic location, as well as a variety of seller experiences. Our primary focus was on ESOPs, but we also included five companies that transitioned to other forms of employee ownership to illustrate the wider range of available models.³

Our in-depth, semi-structured interviews explored why and how selling business owners chose to transition to employee ownership: what motivated the decision, what obstacles they overcame, how they now reflect on the process, and what guidance they would offer to their peers.

The Conventional Exit Playbook

When it comes time to plan for succession or exit, business owners often face a familiar menu of options. These include selling to a private equity firm or to a strategic buyer in an external sale or pursuing a management buyout or transfer to family members internally. In some cases, owners choose liquidation, closing the business and selling its assets.

Every exit pathway has its advantages—and its risks. A private equity sale may provide cash upfront, but it also comes with the possibility of workforce disruption and the likelihood that the business will be resold. In family-owned firms, selling or gifting a business to children or heirs may seem ideal in theory, but may not always be feasible or prudent. Management buyouts offer another exit route, but they usually depend on individual leaders committing substantial personal capital. While this limited menu of options may not fit all business owners' goals or circumstances, many choose from it anyway, unaware of alternatives.

² We identified prospective interviewees by contacting advisory firms and nonprofit organizations with experience facilitating employee ownership conversions, and by leveraging our Institute's existing network of contacts with employee-owned companies.

³ The sample is not intended to be statistically representative: it skews toward lower and mid-market firms, which represent the bulk of ESOPs nationally, and omits publicly traded corporations and partial ESOPs in C corporations. For more details on the individuals we interviewed and their companies, see Appendix 5.

Sidebar: Common Options for Business Owners Considering a Sale

External Sale:

- ✓ **Private Equity Sale** – Sell to an investment firm that buys businesses to grow, restructure, and later resell for profit.
- ✓ **Strategic Buyer** – Sell to another company in your industry (competitor, supplier, or customer) seeking synergies or market expansion.
- ✓ **Initial Public Offering (IPO)** – Take the company public by selling shares on the stock market.

Internal Sale:

- ✓ **Management Buyout** – Sell to one or more managers, without including employees broadly.
- ✓ **Family Succession** – Transfer ownership to children or other relatives.
- ✓ **Employee Ownership** – Transfer ownership to employees.

Transitioning Ownership to Employees

Beyond these conventional succession routes, there exists another, less-traveled pathway: selling one's stake in the business—in whole or in part—to the employees. Such *employee ownership transitions* can enable sellers to meet their liquidity and retirement needs on their own terms, while maintaining business continuity and preserving jobs for the existing workforce. As our report shows, this pathway to exit can bring unique benefits to owners of closely held businesses—and to their workforce as well.

What is an ESOP?

The most common form of employee ownership in the United States is the Employee Stock Ownership Plan, or ESOP. Created under federal law by the Employee Retirement Income Security Act (ERISA) of 1974, ESOPs are qualified retirement plans that invest primarily in a company's own stock. Originally designed to help workers build wealth through ownership, ESOPs have become attractive to business sellers thanks in part to incentives enacted by Congress. ESOPs allow business owners to sell all or a portion of their equity stake at fair market value, transfer ownership to employees in a well-regulated manner, and, in many cases, secure significant tax advantages (see the sidebar entitled “Tax Advantages” for more details).

Functionally, an ESOP allows business owners to convert some or all of their equity into cash without the need for an outside buyer. The ESOP trust holds the seller's shares on behalf of the plan participants (the employees). The ESOP trust may borrow funds to purchase the shares from the selling owner, using future company profits to cover the cost of repayment over time.

Shares are allocated to employees' ESOP accounts annually, at no cost to them, turning workers into owners while providing liquidity to the seller. Importantly, employees themselves *do not pay for the shares out of their own wages or salaries*; rather, the cost of shares is funded by future company earnings.

While ESOPs account for the vast majority of broad-based employee ownership arrangements in the United States, they are not the only model. Other structures—such as worker cooperatives and employee ownership trusts (EOTs)—extend the benefits of employee ownership to a broader range of businesses and circumstances. These alternatives can offer simpler options that are particularly well-suited to smaller or more mission-driven firms.

Sidebar: Key Features of ESOPs

Structure and Governance

Shares held in trust on behalf of employees. A trustee represents participants, ensures fair transactions, and holds fiduciary responsibility. Employees do not manage the firm directly.

Financing

ESOPs are typically financed through bank loans, seller notes, or a combination of both. Owners may sell shares gradually or all at once, allowing for phased succession or full exit. Employees typically pay nothing out of pocket.

Regulation and Administration

Governed by ERISA and overseen by the U.S. Department of Labor, ESOPs require annual valuations and compliance filings. Plan administration is often handled by third-party administrators.

Employee Participation

Employees earn shares over time based on an allocation formula. Participation is broad-based and automatic after eligibility.

Tax Advantages

Employer contributions are tax-deductible; C corp sellers may defer capital gains under Section 1042; and S corp ESOPs are not taxed on their ownership share.

Repurchase Obligation

Companies must buy back vested shares at fair market value when employees leave—an important long-term planning responsibility.

Culture and Performance

Firms combining employee ownership with participatory practices show higher engagement and lower turnover, according to research.

From Solving Challenges to Advancing Broader Goals: Why Business Sellers Choose Employee Ownership

Our interviews suggest that the decision to pursue an ESOP sale often unfolds in two stages.

First, a concrete problem or trigger—such as the need for succession or liquidity—drives owners' initial exploration of their options. Second, after assessing the available pathways, they come to view an employee ownership transition as uniquely capable of solving the problem and meeting their financial goals—and also advancing a broader set of priorities.

Challenges related to major turning points in the life of a business owner or of their company commonly prompt owners to begin seeking out options for sale. These can include:



An upcoming
retirement
or career change



The need to
buy out a co-owner
or partner



A period of growth that
requires strengthening
talent retention and
employee engagement



An impending estate
or capital gains
tax liability.

Why do some conclude that, among the available alternatives, a sale to employees is the right path forward? Often, the decisive factor is the realization that employee ownership provides a means to convert equity into cash while protecting the aspects of their company that matter to them most—for example, its workforce, its name and brand identity, or its purpose. In our interviews, most owners described their decision as both *strategic* and *values-driven*: a financially sound solution that also safeguarded the business they had built. Sellers consistently noted that, relative to other options, the ESOP best enabled them to accomplish their financial aims and their wider priorities simultaneously. Below, we outline the specific circumstances and reasoning that led different owners to make this choice.

Case Study: Sullivan Tire and Auto Service — From Family-Owned to Employee-Owned

“This is not a story about fame and fortune,” begins Paul Sullivan, former co-owner and current Vice President of Marketing at Sullivan Tire and Auto Service in Norwell, Massachusetts, “but rather a story about risk and courage and devotion to family.” Originally one of ten children, Sullivan is the son of founder Bob Sullivan, who started the company along with his wife, Mary, in 1955. Five of his siblings are still living, four of whom had become co-owners of the business after their father passed away. But according to Sullivan there is also “one adopted child - the Sullivan brand.”

From its humble beginnings in a “shack on a dead-end street,” the chain of automobile service centers has grown to more than 130 locations and a workforce of around 1,500 over its 70 years of operation. Sullivan explains how he and his family have always felt a sense of obligation to the communities that they serve throughout New England, saying that they are proud of the work they do for local police and fire departments and the support they provide to area schools and sports teams.

As the second generation of Sullivans got older, they were eventually confronted with the question of what to do with the company. Sullivan is adamant that they never wanted to sell to private equity or to a competitor, even though some would-be buyers had made them generous offers: “It’s not in our upbringing to take a big boatload of money and just ride off into the sunset, forgetting the brand.” Preserving that singular identity and widely-recognized name was incredibly important to the siblings, as was honoring the contributions of the workers that they had “always viewed as an extended family.”

In October 2023, the Sullivans held a meeting with employees at their corporate headquarters in Norwell and announced that they would be selling the business. “You could hear a pin drop,” Sullivan recalls, “because everybody knew their lives would be affected instantly.” But few were expecting what they heard next: “I said to everyone, look to your right, and look to your left—and shake hands with the new owners! We have sold the company to you.”

Sullivan Tire had transitioned to 100% employee-ownership through an ESOP, a development that received considerable attention from both local and national media at the time.⁴ In addition to staying on as VP of Marketing and the public face of the

⁴ Primack (6 November 2023) and MacLeod (8 November 2023).

company, Sullivan remains Vice-Chair of the Board and his elder brother Robert, the Chairman. “I’m just an employee now,” he says, “but my brother and I continue to help shepherd this brand into the future.”

In a press release accompanying the announcement, Paul Sullivan remarked that “[w]hen Bob and Mary Sullivan started the company, they decided that respecting our employees and their families was going to be a key foundation of Sullivan Tire; this ESOP will carry on that belief.”⁵

Why Owners Say They Sold to Employees: Practical Challenges

Business owners are often spurred to explore a sale of all or part of their company by practical challenges that demand a solution—such as the need to plan for retirement, buy out a partner, or enhance employee retention. This section describes the most common initial circumstances that first led our interviewees to consider employee ownership.

Owner retirement or exit

An anticipated exit by the owner—whether due to retirement or another reason—was the most common motivator. Of the 23 sellers we spoke with, 15, or nearly two-thirds, cited the need for a succession plan or impending retirement as the main initial driver of their decision to transition ownership to their employees.

For many of these owners, employee ownership offered a practical solution, enabling them to convert equity into cash at a fair market price, while in some cases taking advantage of tax incentives unique to ESOP transitions.

Roger Ryberg, former CEO of Windings Incorporated, is one such owner. After decades at the helm of the Minnesota-based manufacturer of specialty electromagnetic components, he faced a question familiar to many business owners: *how should he step back from running the company while realizing financial value from what he had built?*

Ryberg had acquired the company in 1983, and about a decade later found himself pondering his own future. Recognizing that his tenure in executive leadership would “have to come to an end sometime,” he

“ An ESOP provided the means to retire gradually or exit on their own terms—sometimes in stages.”

⁵ Sullivan Tire and Auto Service (3 November 2023).

opted for a gradual ESOP sale as his long-term succession plan. “If I were immortal, I would still be working there, because I loved it,” he says. “But I realized that I wasn’t going to be able to do that.”

In 1998, Ryberg hired an attorney and a valuation firm to help him establish an ESOP that initially owned 13% of Windings’ shares. Over the next ten years, he gradually sold more of his equity to the ESOP, until it held 100% of company shares—making the company 100% employee-owned in 2008. Ryberg retired as CEO but remained on the Board of Directors for about another decade before finally deciding to step away completely. He says his involvement today is limited to “cheering for my former colleagues from the bleachers.”

Another common motivation for exit is not retirement but the desire to pursue new opportunities. “A. B.,” who requested that we not use his real name in this report, is the founder of a digital marketing firm headquartered in the Northeast. After spending years juggling the daily responsibilities of a CEO, “A. B.” came to feel that his role as an executive was leaving him with ever less time for the creative work that had originally inspired him to start the business. Decades away from retirement age, yet seeking a fresh start, establishing an ESOP enabled him to pursue a second career in a different creative field while continuing to serve as board chair of the marketing firm he founded—which has continued to thrive.

Retirement or exit of a business partner

If ownership is shared among multiple individuals, challenges can arise when some co-owners want to sell their stake while others prefer to retain the business. Those intending to stay on may find it difficult to finance a buyout. Here too, employee ownership can provide a useful solution to what can be a thorny problem. Whether the situation involves sibling owners—one ready to cash out and others wishing to remain owners of the firm—or business partners at different stages of their careers, an ESOP can enable a fair and orderly exit on the part of one owner while allowing others to maintain continuity.

Dan Kenary, a craft brewing entrepreneur who co-founded the Boston-based Harpoon Brewery / Mass. Bay Brewing Company in 1986, shares how an ESOP helped to facilitate the exit of one of his former partners, with whom he had owned roughly 90% of the company. (The remaining minority equity stakes were distributed among six other co-owners.) Kenary recounts that, in 2014,

we came to a fork in the road after 28 years of being partners: he wanted to sell and I didn’t. I was in my mid-fifties and still loved what I was doing. We had set up this incredible business with a wonderful group of people. I’ve never been a guy who’s just about getting a check, so I thought: is there a way we can keep this going – and bring others along for the ride?

After researching employee ownership and listening to a handful of presentations on the subject, Kenary decided to pitch the other six owners on the idea of using a leveraged ESOP to buy out the individual who wanted to sell – and give those shares to employees. It took less than two hours of deliberating for them to

come back to him with the news that they had unanimously decided to proceed with his plan. Cobbling together loans from five different banks, Harpoon was able to purchase the exiting partner's 48% stake in the business and turn it over to a newly created ESOP trust.

While the company later ran into significant financial headwinds, and would ultimately terminate its ESOP in conjunction with a corporate merger, Kenary believes that the transition to partial employee ownership did bring notable benefits for at least a time, and also averted a full sale to an outside buyer.⁶

Need to strengthen retention and motivate workers

Other business owners choose employee ownership as a retention tool and a way to motivate workers.

Michael Hart, for example, was drawn to the idea while exploring ways to “incentivize and retain my best guys.” He recalled having heard about ESOPs while a graduate student in the 1970s, and began a gradual process of selling his Texas firm EEA Consulting Engineers to an ESOP in the mid-2000s.

Today, he is proud of the fact that the ESOP is delivering tangible benefits for EEA's workforce of around 125 employee-owners, with the share price outperforming the S&P 500 over the last ten years and the average account balance now around \$150,000. Hart believes that the ESOP gives EEA an edge in recruiting and retaining the next generation of leaders.

Interest in financial diversification and tax benefits

Others are attracted to ESOPs by their financial advantages. One major motivator is the ability to diversify personal assets concentrated in the business one owns, while another is the potential to reduce capital gains taxes.

Kristopher Amplo, owner of J.C. Steel Erectors in New York, completed a 49% ESOP sale in 2025 while still in his 40s. “Many think an ESOP is just for the 65-year-old looking to retire,” he says, “but it's actually a tremendous opportunity for younger owners like me, too—to take some money off the table and give employees a stake in the business.” For Amplo, the ESOP is not about exit, since he plans to remain in leadership. Rather, it provides a tax-advantaged way to diversify his assets and increase financial flexibility while strengthening retention and ensuring that employees share in the company's long-term success.

For some sellers, an ESOP sale can also reduce the taxable value of their estate, helping to ease future estate tax obligations. This can be especially important for family-owned firms where heirs are expected to assume ownership but may not have the liquid assets needed to cover those tax responsibilities.

⁶ For more on Harpoon's merger with Finestkind Brewing LLC and the formation of Barrel One Collective, see Mass Brew Bros (2 January 2025).

Values and Broader Priorities

For many business owners, the path toward employee ownership begins with a concrete business or personal challenge. As our interviewees considered their options, and as some reflected on the implications of different exit pathways, many came to recognize that employee ownership offered the best way to both address the challenge and at the same time advance a broader set of values-based priorities that extend beyond the purely financial.

Preserving jobs

A recurring theme across our interviews was the desire to safeguard the livelihoods of long-time employees. Many owners emphasized that protecting jobs was an important motivation for choosing an employee ownership transition.

This factor loomed large for the owners of NHS Northstar, a provider of community-based services for individuals with developmental disabilities headquartered in Chisholm, Minnesota. The company was founded in 1988 by a team that included Thomas Ruper, who remained a co-owner until he and his partners transitioned it to 100% employee ownership in 2017.

Ruper recalls attending a meeting with those partners prior to the sale at which they discussed an acquisition offer they had received from a larger company in their industry. While the proposal was attractive from a purely financial perspective, they weighed the implications for their workforce and small local community, where NHS Northstar continues to be a major employer. They knew that selling to a competitor could result in layoffs.

“We have 5,000 people in our town,” Ruper says, “and our offices were--and still are--right on the busiest corner of the main street.”

We’re sitting around the table and we’re saying: all of these people that have been with us for 20 or 25 years could be gone...We’re going to sell this thing, but all of these people who helped us along the way--they could all be gone.

Rewarding employees

Paulo Rodriguez Heyman, founder and president of the remediation and restoration contractor Renova Environmental Company, which is headquartered in Ocean Township, New Jersey, was relatively young when he first started the business in 2006. But after guiding it through a difficult period that nearly ended

“ An ESOP is an opportunity for younger owners to take some money off the table and give employees a stake in the business.”

in bankruptcy, he wanted to do something meaningful to recognize one particular employee who had been central to Renova's turnaround and newfound success.

"I was looking for a way to acknowledge that person's contributions," Heyman recalls, "and figured I'd do that with some form of equity. But I was reluctant to take on a partner." At the same time, he realized that it would not make sense to offer equity to just one employee: while there was certainly "one standout," others had also "gone above and beyond," and retaining them was important to him as well.

To avoid giving up control of the company, Heyman transferred 49% of Renova to an ESOP through a combination of gifts and sales of equity, while holding on to a 51% stake himself. Although he is open to increasing the ESOP's ownership share in the future, this approach has allowed him to remain fully in charge of the business while also achieving his objective of rewarding his employees. Heyman reports that the arrangement is already "creating meaningful wealth" for the workforce even after just a few years. The average ESOP account balance in 2023 was around \$100,000—with the highest-paid individuals having accumulated more than twice that amount.

Recognizing employees as partners in the business

Across our interviews, sellers again and again described their employees not simply as staff, but as partners in the success of their enterprise—individuals whose commitment, ideas, and hard work made the business what it is.

Michael Knapp, who started the software and technology company Green River in 2000 out of the basement of his Guilford, Vermont, home, is emblematic. "I always had the sense that Green River didn't belong to me. It was built by the folks who worked here, particularly those who have been here for many years. This was as much their company as it was mine."

He had long assumed that the business would either be acquired by another software firm, sold to private equity, or sold to a select group of employee managers when it came time for him to step away. But when he started to actually research his options, he found that each of these paths was fundamentally at odds with the future he envisioned for Green River. He says that "for most private equity firms who would buy us, their goal would be to quadruple the company's value and then sell five years later. But it's not what we wanted."

Knapp ultimately decided that the best way forward would be to sell to the employees instead. As of 2024, Green River is 100% ESOP-owned and has embraced a unique model of democratic governance where every worker is able to take part in decisions about the future of the company.

Protecting the company's independence

For some business owners, maintaining the autonomy and identity of their company is crucially important. By selling to employees rather than to a large competitor or an outside investor—who may have no ties to the local community—they help ensure that the business remains rooted where it was built.

William Stockwell—the fourth-generation owner of Stockwell Elastomerics, a custom silicone gasket manufacturer in Philadelphia—went to great lengths to ensure that this independence could not easily be undone. He worried that even after adoption of an ESOP, an outside buyer could still purchase the company in the future and try to relocate it out of Pennsylvania.⁷

In order to protect the long-term independence of the business that his great-grandfather had founded in 1919, Stockwell set about creating a number of different “poison pills” to deter would-be takeover bids. These included a provision that any outside offer would need to be approved by a supermajority of ESOP participants, as well as a non-transferable lease on the property held by a family trust. He felt it was vitally important to establish a “moat around the company” that would safeguard both his family’s legacy and the firm’s innovative spirit. “When small manufacturing or specialty distribution companies get snapped up by private equity,” he laments, “you lose innovation and all of those special nuances of that business are gone.”

A common thread across interviews was business owners’ desire to “do the right thing,” while securing a fair return if they could. Their reflections underscore that a sale is not only a financial transaction.

⁷ Since ESOP trustees have a fiduciary responsibility to act in the best financial interests of the plan participants, they might not be able to justify turning down a lucrative outside offer. One of the highest-profile examples in recent years of an ESOP termination resulting from a sale to an outside buyer involved the Colorado-based craft brewery New Belgium Brewing, which was acquired by an international beverage conglomerate in 2019. The transaction elicited a wide variety of reactions from advocates of employee ownership, who viewed it alternately as a success or failure of the ESOP model. For more on New Belgium, see *Fifty by Fifty* (10 December 2019) and Mazewski (January 2025).

Case Study: American Reading Company — Preserving Purpose and People

American Reading Company (ARC) is an educational services provider headquartered in Blue Bell, Pennsylvania that provides literacy curricula and teacher learning systems in both English and Spanish for K-12 schools. Founded by a Philadelphia school teacher, Jane Hileman, ARC found success at increasing the academic achievement of schools across the country and saw significant revenue growth as a result. After buying out three rounds of investors, Hileman became the sole owner of the company while also serving as CEO.

As she began to contemplate retirement and the need for a succession plan, Hileman considered various alternatives. The management team and much of the staff had been with the company for many years, with average tenures of over a decade. Her daughter Gina had also been working in various roles at ARC – from stocking shelves in the warehouse to writing new curriculum materials – since graduating from college.

Hileman and the team started exploring options for an external sale and ended up fielding multiple nine-figure offers, including from private equity firms. But she was uneasy about going the PE route, fearing that an external buyer would not understand the culture of the company. She likens the prospect of a PE sale to “giving away your child to someone in a different country”:

They come in, they hand you money, and you go away. You don’t have to hear from them again. But can you sleep at night? I wouldn’t have been able to sleep at night. I would have felt like my whole life had been wasted and I had thrown it all away to get rich.

Hileman eventually learned more about ESOPs and realized that employee ownership offered a way for her to secure her financial future, give her daughter and other long-time valued staff the chance to continue on as part of the company, and preserve both the ARC’s culture and its mission of helping all children—but especially the least advantaged—learn how to read.

In 2022, ARC was converted to 100% ESOP ownership through a transaction that involved a mix of seller financing and bank debt. “I think it’s important for the workers to be the shareholders,” Hileman remarks, “because it’s just a totally different situation when someone comes in from the outside who only cares about dollar signs.”

The Economic Case for Selling to Employees

A common assumption is that selling to a private equity firm or strategic buyer maximizes financial return, but several of the sellers we interviewed challenged this view. They reported that ESOP transactions were financially competitive and, in some cases, more compelling than external sales. Their experiences suggest that selling to an ESOP can constitute a financially rational decision as well as one that is aligned with broader mission or legacy objectives.

In 2016, Jim Balestrieri concluded a multi-year process of selling his social services firm MyPath to an ESOP. The company, which is headquartered in Oconomowoc, Wisconsin and employs roughly 1,800 people—the large majority of them women—is now 100% employee-owned. Reflecting on the decision to pursue employee ownership rather than a sale to private equity or a corporate buyer, Balestrieri maintains that, in his experience, “there are some darn good financial reasons for doing this. I don’t subscribe to the idea that you get more money by not going with an ESOP.”

“ ESOPs allow owners to convert their equity into cash at fair market value—often with significant tax advantages—while preserving what makes their business distinctive.”

Most of our interviewees indicated that selling to employees was about as financially advantageous as other alternatives. Dave Campbell, the President and CEO of Pennsylvania-based building materials firm Benjamin Obdyke Incorporated, notes that “what has impressed me is how much the [ESOP] advisors I worked with were able to mirror a private equity deal. I don’t really feel I left anything on the table that I could have gotten if I’d gone a different route.”

Sellers also reflected on how to weigh risk alongside reward. MyPath’s Balestrieri underscored the importance of taking a broader view of financial risk—one that includes the possibility of clawbacks:

If I had sold the company to a [large private equity-owned provider of home-based care services] I might have gotten more money—but the jury’s out on that. You have to factor in the risk of a clawback. If they base the purchase price on historicals and projections, the purchasing company can claw back some of the price two or three years later. Just because you get a dollar amount doesn’t mean you get to keep it.

He illustrated with a hypothetical: “In 2019, what if I’d sold to a public company with a clawback and then COVID hit?” As an ESOP-owned firm, “we pivoted fast during COVID. Even with outbreaks, our staff stayed committed. You don’t even see a blip in our numbers—our people were so dedicated. You want to risk that with a clawback? I don’t want to live that way.”

Most sellers we interviewed said that an employee ownership transition met or even exceeded their personal financial goals, though a few acknowledged that they opted for an ESOP sale even when an outside buyer was willing to pay more. This situation arose in cases where such a buyer had offered to pay a premium for the company, as ESOPs are required by law to purchase shares at no more than *fair market value*.⁸

Seller Reflections on ESOP Tax Benefits

The competitiveness of ESOPs rests in part on their distinctive tax advantages. Unlike other exit options, ESOPs offer benefits to both selling owners and to the company itself, substantially altering the after-tax economics of a deal. Many of the owners we spoke with stressed the importance of factoring in potential tax benefits when evaluating the possibility of an employee ownership transition.

One interviewee observed that the ESOP structure is fairly unique in giving him the opportunity to personally defer taxes. When he recently sold part of an equity stake in his company to an ESOP, the provisions of Section 1042 enabled him to defer capital gains taxes so long as he reinvested the sale proceeds into qualified securities (see the sidebar entitled “Tax Advantages” for more details). For more details). The tax savings are “real money,” he says, and made the ESOP transaction more attractive.

Other sellers we spoke with agreed that Section 1042 can be key. Paulo Rodriguez Heyman, founder of Renova Environmental Company in New Jersey, says that he initially viewed the 1042 treatment as “an afterthought,” but later realized that “this is something that’s really beneficial to me.”

Whereas the 1042 capital gains deferral can alleviate taxes for the seller, another tax exemption can in certain cases benefit the companies themselves post-sale: in S corporation ESOPs, the portion of earnings attributable to the ESOP’s ownership stake is exempt from federal income tax, allowing firms to reinvest those savings in their operations and workforce. Tracy Till, co-founder of the marketing agency Butler Till in Rochester, New York, explains that for her company, this meant that “becoming an ESOP would cut out a huge portion of taxes. If we didn’t have to pay those on an annual basis, we could put the savings right back into the business—to expand services, strengthen the team, and build for the future.”

“A. B.” of “ABC Creative” likewise sees the various tax advantages available to ESOPs as a “key factor in making these deals appealing.” He notes that the extra cash can not only be channeled into investment or enhancements to employee compensation, but also used to accelerate the paydown of debt related to the ESOP transaction itself: “The federal tax exemption is foundational to our ability to pay off the loan so quickly. It makes this model viable, and it’s important for policymakers to keep that piece in place if they want to keep ESOPs around.”

⁸ Strebe (17 August 2021).

Sidebar: Tax Advantages

1042 Rollover (for Selling Owners)

Under Internal Revenue Code (IRC) Section 1042, business owners who sell stock to an ESOP or worker cooperative may defer—or in some cases permanently avoid—capital gains taxes on the proceeds from the sale. Provided that they are reinvested in debt or equity instruments issued by U.S. companies, taxes can be deferred until the eventual sale of these replacement investments. (If held until death, they are additionally eligible for a “stepped-up basis” and can escape capital gains taxes completely.⁹) Currently, to make use of a 1042 rollover in connection with an ESOP transaction, the stock being sold must be in a C corporation and the ESOP must hold at least 30% ownership of the company after the sale.¹⁰

S Corporation ESOP Tax Benefit (for the Company)

Distributions of profits to ESOP-owned shares in an S corporation are not subject to federal income tax, and usually not to state income tax either. This means that a 100% ESOP-owned S corporation pays no federal income tax, and a partially ESOP-owned S corporation pays taxes only on the portion of profits not attributable to the ESOP.

Other Tax Advantages

In addition, contributions to an ESOP are tax-deductible for the company, dividends on ESOP-held stock can in some cases be deducted as well, and employees defer capital gains taxes on increases in the value of their shares until they receive distributions—making this structure tax-efficient for both the firm and its workforce.

⁹ Apton and Francia (2012).

¹⁰ Because the 1042 rollover is only available to sellers of equity in a C corporation, while the federal income tax exemption is only available to ESOPs that own all or part of an S corporation, there may at times be a rationale for converting from one form of organization to another prior to completing an ESOP transaction. Whether or not this is worth considering, however, will depend on the particular circumstances that a seller faces, and consulting with legal and financial experts is always advisable. For example,

Barriers and Hurdles

Given these advantages, why are there relatively few ESOPs? One reason is that, as the Rutgers Institute has documented, even business owners who are motivated to sell to their employees may be deterred by a series of structural and perceptual barriers.¹¹ While the sellers we interviewed ultimately completed successful ESOP transitions, most acknowledged challenges they had to overcome to do so. When asked to reflect on these barriers, their responses revealed certain themes.

Lack of access to high-quality information or knowledgeable advisors

Many business owners are simply unaware that selling to employees is an option, and even when they do learn about the possibility, they may struggle to find experts who are knowledgeable about ESOPs and can provide accurate information to guide them. As Butler Till cofounder Tracy Till puts it, “not everyone in the business arena is aware of the topic of employee ownership.” Indeed, more than one-third of the sellers we interviewed noted that they had first learned about ESOPs from sources other than their most trusted advisors, whether peers in their professional network or even a course in graduate school. In many cases, they encountered the concept of employee ownership only after seeking a second opinion.

“ More than one-third of the sellers we interviewed first learned about ESOPs from sources other than their most trusted advisors.”

Cat Dunham, a retired U.S. Air Force intelligence weapons officer who is the founder and CEO of defense contractor PatchPlus Consulting, remembers that advisors with whom she initially raised the subject of ESOPs tried to dissuade her from pursuing it: “They said to me, ‘ESOPs are complicated and expensive’ – and at the time I believed them.” Even after she had learned more and was committed to establishing one for her company, she discovered that the bank she approached for financing was also unfamiliar with how they worked. “Our accountants actually laughed at the covenants the lender came up with,” she recalls. “It was very clear that they did not understand ESOPs at all.”

some might conclude that the S corporation tax benefit is more attractive than the ability to defer capital gains taxes under Section 1042, because it will enable the company to more quickly pay off seller financing related to the ESOP transaction (as mentioned above).

The SECURE 2.0 Act, passed by Congress as part of the Consolidated Appropriations Act, 2023 and signed into law in December 2022, provides that sales to an ESOP of equity in a S corporation will qualify for a partial 1042 benefit starting in 2028, with 10% of the gain realized on the sale eligible for deferral treatment. Legislation introduced in May 2025 would expand this benefit to full parity in the treatment of all equity sales to ESOPs, regardless of whether the stock is in a C or S corp. For more background on these developments, see Rosen (3 January 2023).

¹¹ Scharf (2024); Blasi, Scharf, and Kruse (2024).

Complexity and cost

Several interviewees cited administrative and compliance obligations both as potential hurdles to completing an ESOP transaction and – for those who remain involved in managing the business after a sale – as a source of ongoing costs. Upfront expenses can include those associated with conducting a feasibility study, obtaining an independent appraisal of the company’s stock, and preparing legal documents and agreements.

Once an ESOP is established, companies must comply with various legal and reporting requirements.¹² Ellis Guiles, president of the 100% employee-owned Graboyes Commercial Window and Glass Solutions in Bristol, Pennsylvania, notes that “because we have to follow all of the requirements of ERISA [the Employee Retirement Income and Security Act, which regulates pension plans], it does add some complexity to what our finance team has to do throughout the year.”

Difficulty maintaining small business certifications

As cofounder of a company that is certified by the U.S. Small Business Administration (SBA) as both a *service-disabled veteran-owned small business (SDVOSB)* and a *woman-owned small business (WOSB)* – designations that offer certain preferences in federal contracting – PatchPlus’ Cat Dunham had to take special care transitioning ownership to an ESOP in order to protect these designations. This is because companies that are majority-ESOP-owned are generally considered ineligible for such SBA certifications, as it is the ESOP – rather than any natural person – that holds a controlling interest.¹³

For that reason, Dunham has opted to sell just 30% of her equity stake to the ESOP as of 2025, even though she would consider increasing that percentage if she could. “I have to own 51% of every class of share to keep the [SBA] set-aside certifications,” she explains, before adding that PatchPlus is ready and willing to become 100% ESOP-owned in the event that the existing regulations are changed.

¹² Adams Brown (31 October 2024).

¹³ In response to this problem, the National Center for Employee Ownership (NCEO) has introduced its own certification program, through which ESOP companies may become recognized as Majority Minority Employee-Owned (MMEO), Majority Women Employee-Owned (MWEO), or Socially and Economically Disadvantaged Employee-Owned (SEDEO). While these certifications are not recognized by any government agencies or public sector entities, there are private companies and purchaser groups that have committed to using them in their own procurement decisions. At least two of the companies featured in this report (Graboyes Commercial Window and Glass Solutions, and MyPath) have been recognized through the NCEO program. For more information about this initiative, see National Center for Employee Ownership (n.d.-c). And for more background on the difficulty with maintaining SBA designations as an ESOP, see Josephs (29 October 2025).

Concerns about giving up control

Although executive leadership continues to hold decision-making authority in ESOP companies much as in any other private business, some owners still imagine that an ESOP means giving up control.

William Stockwell of Stockwell Elastomerics was one owner who had initially contemplated making the transition to a 100% ESOP in a single transaction, but was hesitant about “all of the governance that would require when I’m used to running the company my own way.”

He instead decided to start by selling just 30% of his equity to his employees, to maintain a controlling share for the time being. As he became more comfortable with the mechanics of the ESOP, Stockwell continued to sell additional equity to the plan trust until the business finally became 100% employee-owned in 2024.

“ Executive leadership continues to hold decision-making authority in ESOP companies.”

Challenges with accessing financing or achieving full liquidity upfront

ESOP transactions may be fully leveraged, seller-financed, or structured as a combination of the two. Because external financing is not always available—or not always available on favorable terms—many transactions rely at least in part on *seller financing*. In these cases, the seller does not receive full payment upfront, but is instead repaid over time with interest according to the terms of a *seller’s note*. Many of the sellers we interviewed self-financed a portion of their transaction—a choice that requires patience.

Although none of our interviewees reported dissatisfaction with the gradual payout structure in hindsight, previous research on barriers to ESOP adoption has found that, among the larger universe of business owners weighing exit options, some who considered but ultimately decided against an ESOP were deterred by having to self-finance at least part of the deal.¹⁴ In contrast, our interviewees who did self-finance expressed no such reservations. As one put it, even self-financing can provide meaningful returns: “Because of the ESOP transaction, I have a seller’s note for the balance that I wasn’t given in cash, with 7% interest. I’m getting a check every month for the interest on that note.”

It bears emphasizing that, while most of the interviewed sellers described at least some obstacles to completing an employee ownership transition, several commented that they had not personally encountered any setbacks. “When you talk about barriers, I’m struggling to think of any,” says Dave Campbell of Benjamin Obdyke Incorporated, which became 100% employee-owned through an ESOP in 2023. Campbell credits the guidance of an expert advisor and tells us that “I haven’t really run into a lot of what I would call ‘barriers’ to doing this transaction. Compared to my previous experiences with negotiating other important deals I would say that this one was painless. “Another seller remarked that “honestly, it’s been seamless.”

¹⁴ Scharf (2024).

Advice from Sellers to Others Considering Employee Ownership

Many of the sellers we interviewed—though satisfied with their outcomes—emphasized that the process brings challenges and requires being well-informed. Several described encountering “unknown unknowns” that only became apparent once the transaction was underway. Below, we share reflections from sellers about what they wished they had known before beginning their employee ownership journey and the advice they would offer to others considering this path.

Start planning early

“I would say that if you're in your early 50s and thinking that you might like to be fully out [of owning your business] by the time you're in your early to mid-60s, doing that planning and getting out in front of it is the way to go.”

- Ellis Guiles, Graboyes Commercial Window and Glass Solutions

“Entrepreneurship is celebrated in this country, but we talk a lot about starting things and not very much about gracefully ending things. When you build a new business you don't always realize that you'll get in very deep very quickly, and you have to be able to get out with integrity if the need arises.”

- “A. B.”, “ABC Creative”

“If you're an owner or a founder, it's important to be thinking about your exit plan early. It's going to cost you—it's not cheap. What happens if you get hit by a bus? Who's taking over? Do they know it? Are they committed to you?”

- Tracy Till, Butler Till

Consult with experts you trust—and learn as much as you can

“To me, the number one thing is finding the right advisors, the ones who will explain it all to you three times in four different languages. And not just during the transaction, but afterwards as well. You’re going to have so many questions during your first year and second year [of having an ESOP] and you need to be sure you’ve got people who are in it with you for the long haul.”

- Cat Dunham, PatchPlus Consulting

“It's a really good idea to read as much as you can about ESOPs. I thought I knew what it was. I didn't know what it was. If you can be more educated about what it really is before you get started, that's a good thing.”

Grace Dinsdale, Blooming Nursery

Educate your workers about employee ownership and communicate with them in ways that resonate

“I tell people that if you think starting an ESOP is just flipping a light switch and everyone gets it, you're crazy. It can be a years-long process. We really tried to bring in a lot of the good ideas that we've heard about developing an ownership culture and educating people about what it means to have employee ownership. We had an annual statement distribution day where we announced the share price and brought in speakers to talk with the employees about it. We really tried to integrate an ownership mindset into everything we did.”

- Dan Kenary, Harpoon Brewery

“You need to reach employees with the information about what an ESOP is in language they can really grab onto. You can’t just make an ESOP and think, ‘okay, we have it.’ It’s not done! To carry it through and make it successful, you have to get employees to understand that an ESOP is about more than just coming to work. They need to act like business owners and be thinking about things in a different way. If it’s working right, it shouldn’t be passive.”

- Grace Dinsdale, Blooming Nursery

“Find the people who are excited about the ESOP and really include them in a way that helps build on that excitement. That may be only 25-30% of the workforce; don't expect the majority of people to buy in right away. It takes a little while at first.

We’ve had our ESOP trustee in to visit, and that was great because she gave several training sessions for our employees so they would have a good background on the plan. We also have our big reveal day every year after the financial projections are finished where everyone learns the share value. We have a meeting with the whole company about that and we offer a prize for the best guess as to what the share price is. We try to make a big deal out of it!”

- William Stockwell, Stockwell Elastomerics

Prepare for future financial obligations

“Make sure that the company is preparing well for ESOP repurchase obligations [i.e. the requirement to buy back shares from retiring or exiting employees]. Make sure that your balance sheet is strong and that you’re in a healthy cash position.”

- William Stockwell, Stockwell Elastomerics

Less-Recognized Advantages

Sellers we interviewed stressed other beneficial aspects of using an ESOP as part of an exit plan, some of which might not be widely appreciated.

Staying on in a leadership role

Some selling owners are drawn to the idea of an ESOP because it offers them more latitude to stay on in an executive role than they would typically have in the case of a sale to an outside buyer. For those who are interested in accessing liquidity while retaining a say in the direction of their business, this can make the prospect of employee ownership more attractive. “My goal was not to go sit in a rocking chair in retirement,” says Roger Ryberg, former owner and CEO of Windings Incorporated. “I wanted to stay on and help continue to grow the company.”

Ellis Guiles of Graboyes Commercial Window and Glass Solutions takes a similar view:

An ESOP allows you to maintain a level of control over the direction of your company if that’s what you want. Even though we’re 100% -employee-owned now, I’m staying on for at least five years as the president and chairman of the board. I’ve still got a lot of oversight, and I can take the time to make sure we have the right leadership in place for when I and the other senior managers eventually decide to go do other things.

Starting with a partial ESOP

The decision to sell to an ESOP is not a binary one: owners are free to establish a partial or minority ESOP that holds only a portion of the company's equity. Cat Dunham of PatchPlus Consulting believes that “not having to go to 100% right away is a big benefit of ESOPs relative to M&A or private equity, which are typically ‘all or nothing.’” Her firm, which is now 30% employee-owned, first created its ESOP in 2018. Dunham indicates that this approach allowed her to “‘stick my toe in’ and see how this whole thing works,” while still ensuring that “employees who were a bit older than I am would have enough time with the company after the plan was set up to accumulate account balances that are really meaningful to their retirement.”

Roger Ryberg of Windings is another owner who found that selling his equity in installments over time had distinct advantages. For one, because these transactions initially relied on seller financing, he could limit the principal amount of seller notes outstanding at any given time to a level that he was comfortable with. Moreover, a stepwise sale process enabled him to recoup a portion of his equity in a new form, since remaining with Windings as an employee for a period of time meant that he would accumulate shares as periodic allocations to his ESOP account.

Flexibility in plan design

While ESOPs are subject to an array of legal and regulatory requirements, companies that sponsor them also have flexibility to adapt plans to their own needs. Eric Strickland, the founder and chairman of the 100%-employee-owned holding company 3LS Incorporated, calls attention to how employers can modify some of the “default settings” of an ESOP to make it more attractive to new hires:

One of the challenges with an ESOP when you set it up based on the minimum requirements is that it can take an employee two years to get an account statement. And in our world of behavioral health and professional services, where we hire many people who are early in their careers and not really thinking about retirement, to take two years to see a first statement and to realize that you are only partially vested in a few thousand dollars at that point is not that exciting.

So we have begun talking about the ESOP not only as a retirement plan but also as a source of long-term financial stability. As part of that shift, we have started referring to it internally as the “Changemaker ESOP” to reflect the impact-driven nature of our work. And what we have done is changed our entry requirements for the plan from one year and 1000 hours to six months and 500 hours, so we are effectively now getting people in faster.

On the whole, our interviews revealed a high level of satisfaction with ESOP transitions. Only one seller – Dan Kenary of Harpoon Brewery – voiced significant regrets, though still expressed a favorable opinion of

employee ownership generally. Kenary explained, however, that the termination of his company’s ESOP as part of a merger with another brewery – a development that took place against a backdrop of declining sales and increased competition – was not, in his view, an indication that ESOPs themselves are unworkable, but rather that employee-owned companies must contend with the same pressures as any business and should be aware of the risks involved in any debt-financed transaction. Kenary also points to his experience as a reason why sellers may wish to explore different models of employee ownership, and in particular employee ownership trusts – a subject we turn to in the next section.

Other Forms of Employee Ownership

While ESOPs are by far the most popular form of broad-based employee ownership in the U.S, they are not suitable for every business contemplating an ownership transition. Factors such as a firm’s profitability, its capacity to absorb upfront administrative and transaction costs, and its ability to meet regulatory standards all play a role in determining whether an ESOP will be feasible. Firm size also matters: while there is no statutory minimum payroll size and ESOP feasibility depends on a number of factors, 25 full-time employees is considered by many an approximate lower bound.¹⁵

“ In situations where the ESOP model may not be viable, different structures can be utilized.”

Some businesses with insufficient cash flow may find that they would struggle to repay an exiting owner who established an ESOP with seller financing. Others may discover that the complexities around certain legal requirements, such as the need to engage an independent valuation expert to ensure that the company is sold at “fair market value” as mandated by the IRS and DOL, create barriers to considering an ESOP.¹⁶ Still others may learn that there are specific restrictions or limitations on firms in their industry becoming employee-owned, as is often the case with regard to law practices or medical offices.¹⁷

In situations where the ESOP model may not be viable, different structures can be utilized to share ownership with workers while still replicating some of the same benefits. The two most common are *worker cooperatives* and *employee ownership trusts*.

¹⁵ Elliott (24 October 2022). See also Appendix 2 for more on feasibility thresholds.

¹⁶ For background on the lack of regulatory clarity regarding independent ESOP valuations, as well as recent developments pertaining to DOL rulemaking in this area, see Rosen and Rodgers (10 March 2025).

¹⁷ National Center for Employee Ownership (n.d.-a).

Worker cooperatives (“co-ops”)

Worker cooperatives are democratic for-profit enterprises organized to meet the needs of their members. They are based on the principle that each worker-owner, or member, has both an equal ownership stake and an equal vote in major decisions.¹⁸ Unlike with ESOPs, which do not give direct control to employees, members of worker cooperatives actively participate in governance—for example, by electing the board of directors or voting on key business matters.

While the structure of day-to-day management varies across cooperatives, every member generally has a voice in shaping the direction of the enterprise, reflecting the principle of workplace democracy. Cooperatives also tend to distribute economic benefits more directly and frequently through enhanced wages and, when possible, sharing of profits in the form of “patronage dividends.”

Most worker cooperatives are small, with a median size of about six employees, but there exist notable larger examples like Cooperative Home Care Associates (CHCA) and Equal Exchange. In their 2025 *State of the Sector* report, the Democracy at Work Institute and U.S. Federation of Worker Cooperatives estimate that there are roughly 1,300 co-ops in the U.S. that together employ approximately 16,000 workers.¹⁹ In contrast to ESOPs, co-ops are not regulated as qualified retirement plans under ERISA and are not subject to the same IRS and DOL reporting requirements. Yet despite their comparative rarity, co-ops can be an appealing alternative to ESOPs for some sellers.

Advisors for Change (AFC), a remote consulting firm with a workforce of approximately 20 that helps nonprofits to build their financial management capacity, converted into a worker co-op in January 2025. Its founder, Amy McPherson, decided to pursue employee ownership as part of her succession strategy, but opted against an ESOP in part because she believed that “we were just not big enough for that to feel like a reasonable option. It seemed like the transaction costs were too high for our small size.” For her, the co-op model was the right way to ensure that AFC’s close-knit and collaborative culture would be maintained into the future, and that “the company would have a life after me.”

Na Young Ma, the founder of Proof Bakery in Los Angeles, California, recalls how her journey to a co-op sale started with an experience of burnout at work and a feeling that she needed to find a way to change careers. Having heard about cooperatively-owned bakeries during her time as a student in northern California, and intrigued by the notion of taking a truly collaborative approach to running a business, she began to consider whether establishing a co-op could be a feasible exit option. Ma was keenly interested in

¹⁸ In a typical co-op, new hires are invited to become full-fledged members at the end of an initial probationary period. This ordinarily involves an offer to purchase a share in the co-op, which can then be redeemed whenever the member retires or leaves. A portion of the firm’s profits are paid out to those who own shares in the form of “patronage dividends,” which differ from the dividends that are distributed to traditional stockholders in that their value is based not on the size of one’s ownership stake but rather on their contribution to the business (namely, the number of hours worked and/or other factors such as founding status and tenure). For more on the structure and operations of the typical worker cooperative, see Northcountry Cooperative Foundation (2006).

¹⁹ Democracy at Work Institute and U.S. Federation of Worker Cooperatives (2025).

making sure that Proof would be able “to keep going for the community, for the customers, and for the employees,” so she made a phone call to a professional advisory firm with expertise in employee ownership transitions. She describes how that conversation “opened up a pathway to making this a viable idea,” and in 2021 was able to complete a sale and reorganization that converted the bakery into a worker-owned cooperative.

Employee ownership trusts (EOTs)

An employee ownership trust (EOT) is a legal entity that owns a business on behalf of its employees and is designed to steward the company in their long-term interests. In the U.S., EOTs are generally structured as “perpetual purpose trusts” (PPTs), or non-charitable trusts established to advance a particular mission in perpetuity.²⁰

Although EOTs can share company profits with workers, a key difference from ESOPs is that they do not provide employees with individual equity accounts that they can cash out when they retire or leave the firm. Another is that EOTs are also not regulated under ERISA; in fact, there is no formal legal definition of an EOT under U.S. law. As a result, business owners have more discretion in how they structure an EOT to fit their needs, but employees do not receive the same statutory protections that apply in the case of ESOPs. While the use of these structures to enable broad-based employee ownership is a recent development in the United States, and more research on their impacts is needed, anecdotal reports suggest that the EOT model can successfully deliver sustainable improvements in workers’ wages and benefits.²¹

Brad Herrmann and Hai Nguyen cofounded the SMS marketing platform Text-Em-All in 2005 and transitioned it to employee ownership through an EOT in 2023. “We’re in love with the trust because it’s so beautifully simple to understand,” Herrmann explains. “We administer everything on two spreadsheets! If you’re an owner who has goals beyond just financial benefit, it’s definitely something to explore.”

EOTs may provide a pathway to employee ownership for businesses that are unable to pursue an ESOP. Michael Kramer of Natural Investments PBLLC—a socially responsible investment firm that describes itself as the first U.S. financial services company owned by a PPT—says that he and his colleagues “had a dream of making everybody here an equal owner.” However, since all of Natural Investments’ financial advisors work as independent contractors for the PBLLC rather than as employees of a corporation, an ESOP turned out not to be a viable option.²² After researching different possibilities, his team determined that a trust

²⁰ Despite the similar terminology, this kind of structure is distinct from the “plan trust” that holds stock on behalf of employee participants in an ESOP.

²¹ According to the Purpose Trust Ownership Network (PTON), a nonprofit organization dedicated to supporting the growth of purpose trust ownership and EOTs, there were only about 40 EOT-owned businesses in the U.S. as of 2026, though more examples of this model exist in the United Kingdom (Purpose Trust Ownership Network n.d.). For background on the legal underpinnings of the EOT, see Michael (2015, 2017).

²² McDonald Hopkins (18 January 2016).

would be “the only alternative ownership structure that would allow us to maintain our culture, independence, and everything we’ve built.”

For some sellers, one of the most appealing features of the EOT model is its permanent character. As a PPT, this structure can prevent the company from being sold to outside buyers and thereby preserve its mission for the long term.²³

David Vernier, a former high school physics teacher from Portland, Oregon who co-founded EOT-owned Vernier Science Education with his wife, Christine, in 1981, spoke about how this was one of the key reasons the couple decided to arrange a sale of their company to a PPT in 2024:

I had looked into ESOPs over the years but was really turned off for two reasons. One was the complexity. The other was that I noticed around Portland there were quite a few microbreweries that became ESOPs, which is great. But then two years later Budweiser offered to buy them, and now they’re owned by Budweiser. And that didn’t seem too cool.

The Verniers were strongly motivated to ensure that their 100+ employees, some of whom had worked for the company for 25 years, would not lose their jobs on account of an ownership transition. He admits that “we couldn’t stomach the thought of selling to someone who might announce the next day that, ‘by the way, we’re moving to Dallas.’” Nurturing relationships with longtime customers is also part of the EOT’s mandate, and Vernier explains that “we have schools that have been buying from us for years and years and years, and there’s real loyalty there. It’s a big deal for us to keep that going.”

EOTs can be adopted by businesses irrespective of their size, and firms like Vernier Science Education may find that there are compelling reasons to do so even when an ESOP would be a viable option. Yet there are always tradeoffs: just as in the case of co-ops, EOTs are not subject to ERISA and so compliance can be less onerous. But because PPTs are not eligible for the same tax benefits as ESOPs, there may be important “opportunity costs” when opting for this model.

²³ In this sense, EOTs offer a more straightforward solution to the kind of problem that sellers like William Stockwell of Stockwell Elastomerics have sought to address by incorporating customized “poison pills” into an ESOP.

Social Impact

Employee ownership transitions often originate in practical business considerations rather than an explicit intent to advance social equity. Yet when a successful company with a diverse or lower-income workforce becomes employee-owned, there can be important ancillary benefits for employees who otherwise lack retirement security or access to economic opportunity.

Several sellers emphasized that ESOPs can generate disproportionate gains for lower-wage employees—workers who have few chances to build financial wealth and limited ability to accumulate a nest egg for retirement through other means. NHS Northstar’s Thomas Ruper shares a story about attending a retirement party for a woman from the company who had consistently held multiple jobs throughout her career. At the time of her departure from NHS Northstar, she was working three in total, including one in early childhood education. Yet, Ruper goes on, “she told me that we were the only place from which she was getting anything toward her retirement – and she was very, very happy about that.”

Other interviewees spoke more explicitly about the potential for ESOPs to be used as vehicles for leveling economic inequalities. Terry Leahy, the CEO of Wisconsin-based MyPath, manages a workforce that is roughly 75% female and over 40% non-white. While he had not yet arrived when MyPath first established a 30% ESOP in the early 2000s, he was closely involved in overseeing its transition to 100% employee ownership in 2016.

Leahy explains that the company does not require a college degree when hiring for direct care positions, and so it is able to attract applicants who may just be entering or reentering the labor force. He also makes clear that ensuring equal opportunity for all workers, regardless of their race, gender, or socioeconomic background, is a priority for the company, and that the ESOP is an important part of making that a reality:

We look at the demographics of vested owners—in our case, people who have stayed at least six years—and ask, do they look the same as new arrivals or do they start to look different? And it’s pretty much the same, which to me is good news. We’re not seeing higher turnover or lower retention for people of color.

But then when we look at the account statements [that show the value of the individual ESOP accounts], we see big disparities. And that’s because people of color are just not as represented in the positions that have the highest salaries, which dictate the ESOP allocations. So we’ve started to look at other ways of allocating: can we allocate based on experience versus just salary? We try to use the ESOP as a tool to help address some of the inequality that we see everywhere.

According to data from 2023 that MyPath shared with us, 59% of their ESOP participants in that year were white and 28% were Black or African American. For comparison, the 2020 U.S. Census reported that

Wisconsin—where the company is headquartered—was 80.4% white and 6.4% Black or African American, while Indiana—where it has a number of program locations—was 77.2% white and 9.6% Black or African American.²⁴ With its racially diverse workforce and designation as one of the 100 largest employee-owned companies in America,²⁵ MyPath provides a compelling case study about how ESOPs can support wealth-building for workers who have historically been excluded from asset ownership.

Grace Dinsdale, founder and former owner of Blooming Nursery in Cornelius, Oregon—which became 100% ESOP-owned in 2023—explains that roughly 90% of her company’s workforce is made up of individuals originally from Mexico who came to the U.S. seeking stable employment. While Dinsdale notes that it is still too early to know precisely how the ESOP will affect employees’ financial outcomes over time, Blooming Nursery’s transition to employee ownership raises the possibility that the ESOP will extend benefits to employees whose upward mobility had been constrained by barriers related to language, discrimination, or limited access to formal schooling.

Conclusion

A clear takeaway from our interviews is that Employee Stock Ownership Plans (ESOPs) offer a practical and flexible solution for business owners seeking to address pressing challenges, meet their financial goals, and honor broader priorities. ESOPs allow owners to convert their equity into cash at fair market value—often with significant tax advantages—while preserving what makes their business distinctive.

For many of those we interviewed, an ESOP provided the means to retire gradually or exit on their own terms—sometimes in stages—without handing the company over to an external buyer, while others used it to buy out partners or ensure continuity of leadership. The structure’s versatility enabled some founders to remain active in management or on their company’s board if they wished, guiding the business through a smooth transition while ensuring that the next generation of leaders was prepared to carry it forward.

In reflecting on their decisions years later, most sellers characterized them as both economically sound and personally meaningful. They spoke of the satisfaction of having met their financial goals while simultaneously protecting what mattered to them the most—the future of the company they had built. In fact, many described their employee ownership transition as having been about much more than accessing liquidity; rather, they felt most strongly about realizing a positive vision. As Roger Ryberg of Windings Incorporated puts it, “my employees, my customers, my town, and my vendors – they’re all winners.”

Thomas Ruper of NHS Northstar echoes this sentiment—and sums up a message we heard clearly from almost all of our interviewees—when he insists that “selling to an ESOP has preserved our legacy. We’re

²⁴ America Counts Staff (25 August 2021).

²⁵ National Center for Employee Ownership (n.d.-b).

well respected in our community and will continue to be because of what we've accomplished here. This is probably the single best thing that we could have done for the company.”

Kris Amplo of J.C. Steel Erectors, which completed its ESOP transition in 2025, first heard about employee ownership from peers in his field. Recognizing the value of peer-to-peer learning among business owners, he now shares his experience as a way to educate others. “When I explain what I've learned, people are surprised—by the tax advantages, by the structure, and by how feasible it really is. Once they understand it, many want to explore their own options.”

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Appendix 1: Models of Employee Ownership

| Model | Scale | Features |
|--|--|--|
| Employee Stock Ownership Plans (ESOPs) | 6,000+ businesses ~14 million employees and retirees (US DOL) | Ownership through a retirement plan Broad-based by law Employees typically pay nothing out of wages Most prevalent form of employee ownership in the U.S. |
| Worker Cooperatives | Up to 1,300 businesses ~15,000 workers (USFWC & DAWI) | Worker-member owned and governed Each member gets one vote Balance profit with worker-member needs and other values |
| Employee Ownership Trusts (EOTs) | ~40 in the U.S. (small but growing) | Typically, a perpetual purpose trust Trust owns company for employees' benefit |

Appendix 2: Feasibility Thresholds for ESOPs

When practitioners talk about thresholds for ESOP feasibility, they are referring to the rough minimums that make it practical for a company to support the transaction and ongoing costs. While each ESOP deal is unique, companies that are good candidates for ESOPs typically have the following characteristics:

- ✓ **Employees:** stable base of ~25 full-time minimum, but case-specific and depends on other factors
- ✓ **Earnings (EBITDA):** ~\$1M+ annually on a consistent basis
- ✓ **Valuation:** Typically \$5M+
- ✓ **Debt Capacity:** Ability to service ESOP debt (or seller willing to finance)
- ✓ **Corporate Form:** Must be a C or S corporation

Appendix 3: How Does One Sell to Employees? Steps in an ESOP Transition

1. Explore Options

Owner consults with an ESOP advisor and learns about potential structures, perhaps connects with national ESOP field organizations.

2. Conduct a Feasibility Study

A detailed analysis assesses financial capacity, cash flow, debt potential, and workforce demographics to ensure the company can sustain an ESOP.

3. Assemble ESOP Transition Team

A successful transition typically involves an ESOP attorney, valuation expert, trustee, and lenders working with the company's leadership.

4. Determine Company Value

An independent valuation sets the fair market value of the company.

5. Structure the Transaction

Seller decides how much ownership will be sold and over what timeframe, and defines governance provisions and ESOP design—what rights pass to employees and what remain with trustees or management.

6. Secure Financing

Bank or seller financing (or both) is obtained to fund the purchase of shares.

7. Form the ESOP Trust

A legal trust is created to hold company shares on behalf of employees and transition trustee is selected.

8. Execute the Sale

The ESOP purchases the agreed-upon shares from the owner.

9. Appoint a Trustee

The board designates a trustee—either independent or internal—to oversee the plan and ensure ongoing compliance.

10. Communicate and Administer

Employees are informed of their participation. The company maintains annual valuations, reporting requirements, and compliance under ERISA and Department of Labor rules. The best practice is to inform employees well in advance and plan communications in tandem with the technical details of the transition.

Note: Transitions to worker cooperatives or employee ownership trusts (EOTs) generally require smaller teams and are less complex.

Appendix 4: Prior Research Findings on ESOPs

- ✓ Dozens of studies have found that employee ownership is associated with **improved measures of firm performance**, including higher productivity and reduced turnover.²⁶
- ✓ Data indicate that employee-owned firms are **more resilient to economic downturns**, being more likely to survive and less likely to lay off workers during hard times.²⁷
- ✓ ESOP participants have been shown to have **significantly higher retirement savings** than similarly situated workers, with some estimates putting the difference at more than two-to-one.²⁸
- ✓ Research suggests that the ESOPs may have **particularly pronounced benefits for low- and moderate-wage workers and workers of color**: according to analyses by the NCEO and Rutgers Institute, ESOP participation is linked to asset accumulation for these individuals.²⁹

²⁶ See in particular Oxera (2007), Blasi, Freeman, and Kruse (2016); O’Boyle *et al.* (2016); and Kruse (2022).

²⁷ Park, Kruse, and Sesil (2004); Kurtulus and Kruse (2017a, 2017b); Blasi, Kruse, and Weltmann (2021).

²⁸ Kardas, Scharf, and Keough (1998), Wiefek (2018).

²⁹ Wiefek (2017, 2018); Institute for the Study of Employee Ownership and Profit Sharing (March 2019).

Appendix 5: Table of Interview Participants and Their Companies

| Interviewee | Company Name | Website | Location | Industry | Workforce Size | Form of Employee Ownership |
|-------------------------------|------------------------------|--|----------------|--|----------------|----------------------------|
| Eric Strickland (current CEO) | 3LS Incorporated | 3ls.com | Nashville, TN | Holding company - Finance; Real estate; Professional services; Social services | 500 - 999 | ESOP |
| "A. B." | "ABC Creative" | N/A | Northeast | Marketing | 20 - 99 | ESOP |
| Amy McPherson | Advisors for Change | www.advisorsforchange.com | Denver, CO | Professional services | 1 - 19 | Worker cooperative |
| Jane Hileman | American Reading Company | americanreading.com | Blue Bell, PA | Education | 100 - 249 | ESOP |
| Dave Campbell | Benjamin Obdyke Incorporated | benjaminobdyke.com | Jenkintown, PA | Wholesale trade | 20 - 99 | ESOP |
| Grace Dinsdale | Blooming Nursery | bloomingnursery.com | Cornelius, OR | Agriculture | 20 - 99 | ESOP |
| Tracy Till | Butler/Till | butlertill.com | Rochester, NY | Marketing | 250 - 499 | ESOP |
| Michael Hart | EEA Consulting Engineers | eeace.com | Austin, TX | Engineering | 100 - 249 | ESOP |

| Interviewee | Company Name | Website | Location | Industry | Workforce Size | Form of Employee Ownership |
|---|---|--|-------------------|------------------------------|----------------|----------------------------------|
| Ellis Guiles | Graboyes Commercial Window and Glass Solutions | graboyes.com | Bristol, PA | Construction | 20 - 99 | ESOP |
| Michael Knapp | Green River | greenriver.com | Brattleboro, VT | Software | 20 - 99 | ESOP with cooperative governance |
| Dan Kenary | Harpoon Brewery (now part of Barrel One Collective) | harpoonbrewery.com | Boston, MA | Food and beverage production | 250 - 499 | ESOP (now terminated) |
| Kristopher Amplo | J.C. Steel Erectors | jcsteelerectors.com | Islip, NY | Construction | 250 - 499 | ESOP |
| Jim Balestrieri and Terry Leahy (current CEO) | MyPath | www.mypathcompanies.com | Oconomowoc, WI | Social services | 1,000 - 2,499 | ESOP |
| Michael Kramer | Natural Investments PBLLC | naturalinvestments.com | San Francisco, CA | Finance | 20 - 99 | Perpetual purpose trust |
| Thomas Ruper | NHS Northstar | nhs-nss.com | Chisholm, MN | Social services | 250 - 499 | ESOP |

| Interviewee | Company Name | Website | Location | Industry | Workforce Size | Form of Employee Ownership |
|------------------------------|-------------------------------------|--|--------------------|--------------------------------|----------------|----------------------------|
| Cat Dunham | PatchPlus Consulting | patchplusconsulting.com | Medford, NJ | Defense; Professional services | 100 - 249 | ESOP |
| Na Young Ma | Proof Bakery | www.proofbakery.com | Los Angeles, CA | Food and beverage production | 20 - 99 | Worker cooperative |
| Paulo Rodriguez Heyman | Renova Environmental Company | renovaenviro.com | Ocean Township, NJ | Construction; Remediation | 20 - 99 | ESOP |
| William Stockwell | Stockwell Elastomerics Incorporated | www.stockwell.com | Philadelphia, PA | Manufacturing | 100 - 249 | ESOP |
| Paul Sullivan | Sullivan Tire and Auto Service | www.sullivantire.com | Norwell, MA | Repair services | 1,000 - 2,499 | ESOP |
| Brad Herrmann and Hai Nguyen | Text-Em-All | www.text-em-all.com | Frisco, TX | Tele-communications | 20 - 99 | Perpetual purpose trust |
| Dave Vernier | Vernier Science Education | www.vernier.com | Beaverton, OR | Education | 100 - 249 | Perpetual purpose trust |
| Roger Ryberg | Windings Incorporated | www.windings.com | New Ulm, MN | Manufacturing | 100 - 249 | ESOP |