Types of Employee Ownership: How They Work
(Reading)

Employee Stock Ownership Plans (ESOPs)

In the United States context, an Employee Stock Ownership Plan (ESOP) takes the form of a retirement plan. Note that in other countries, the term ESOP may refer to other forms of stock-sharing. In the U.S. the "ESOP" means something specific: a qualified retirement plan that invests primarily in employer stock, in which eligible employees are provided stock ownership as a benefit of working for the company. U.S. ESOPs are regulated by the Employee Retirement Income Security Act of 1974 (ERISA).

In an ESOP, company stock is held in a trust on behalf of employees. Shares are allocated to employee accounts, based on a formula, each year, so that employees accumulate company shares over time. In contrast to some other forms of employee ownership, in an ESOP employees do not pay for the shares themselves. The ESOP is a benefit that is paid for by the employer.

With some exceptions, generally all employees in an ESOP company who have completed 1,000 hours and who are over age 21, participate in the ESOP.

Employees, called "participants," access their ESOP wealth when they leave the company or retire. (Some companies do make it possible for employees to access a portion of their stock wealth before departure under certain circumstances, however, for example by allowing hardship withdrawals for "immediate and heavy financial need.") How much an employee will receive depends on how many shares have been allocated to their account, the share value, and whether the employee is fully vested, meaning whether they have gained full rights to their shares.

ESOPs are overseen by a trustee who has a fiduciary duty to protect the plan assets. The trustee, who is appointed by the company's board of directors, may be someone internal to the company or independent.

Optional Supplementary Information about ESOPs

In this video "Structuring an ESOP " from The Employee Ownership Foundation and The ESOP Association, a group of professional advisors discuss how employee owned companies with an ESOP are structured.

This " ESOP Brief #1 - What is an ESOP? " from The ESOP Association provides more detail about ESOPs.

This Employee Ownership Foundation webpage describes the important role of an ESOP trustee.

This free Online Education Program from Rutgers provides a detailed " Introduction to Selling Your Company to Employees with an ESOP " with instructional videos on: Business Succession Planning for Business Owners of Color, What is an Employee Stock Ownership Plan (ESOP)?, How to Finance an ESOP Transaction, Increasing Your ESOP Value, and How to Tap into the Benefits of Employee Ownership.

Find hundreds of materials about ESOPs in CLEO , the online library about employee ownership.

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Worker Cooperatives

A worker cooperative is a business that is owned and democratically managed by its worker members.

A defining feature of a worker cooperative is that its major decisions are made democratically by the worker members, either directly or through some system of representation--such as a board elected by worker members on the basis of one person-one vote.

In conventional businesses, owners earn profits based on the percentage of company stock they own. In worker cooperatives, by contrast, when profits are shared among members, they are shared based on "patronage." Often patronage is measured by time worked. That means that the number of hours a member works, not the percentage of equity owned, forms the basis for determining what share of the cooperative's net margins, or surplus, worker members receive.

Optional Supplementary Information about Worker Cooperatives

The U.S. Federation of Worker Cooperatives provides resources, including downloadable guides, for starting a worker cooperative here and here.

The Democracy at Work Institute has an extensive resource library that includes helpful guides.

Find more materials on worker cooperatives in CLEO.

Equity Compensation

Optional Supplementary Information about Equity Compensation

Carta provides this set of easy-to-understand videos about equity, produced to help employees who receive equity compensation to understand what it means.

This Harvard Business Review article provides a simple overview of stock options and restricted stock.

The Leavey School of Business Silicon Valley Executive Center provides this more technical volume with procedures and systems guidance on equity compensation, designed for issuers, service providers and auditors.

Employee Ownership Trusts

Optional Supplementary Information about Employee Ownership Trusts

NCEO provides this introduction to Employee Ownership Trusts.

Fifty by Fifty's Karen Kahn shows New Employee Ownership Trusts Demonstrate Viability in U.S.