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School of Management and Labor Relations

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A Decision Guide

Choosing the Right Employee Ownership Structure for Your Business

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Introduction

As a business owner contemplating an ownership transition, selecting the right employee ownership structure is critical to achieving your goals and securing your legacy.

This guide will help you navigate three forms of broad-based employee ownership—Worker Cooperatives, Employee Stock Ownership Plans (ESOPs), and Employee Ownership Trusts (EOTs)—and begin to assess which may be the right one for you based on your specific needs, timeline, and company characteristics.

Key Considerations for Business Owners

Your desired exit timeline may influence which form of broad-based employee ownership is the best fit for your business.

Exit Timeline	Considerations
Quick Exit (Under 1 Year)	An EOT may offer the fastest implementation timeline.
Medium-Term Exit (1-3 Years)	All three approaches may be viable, with ESOPs requiring additional preparation.
Long-Term Exit (3+ Years)	All three options may work well. A longer timeline gives you more opportunities to prepare company culture and finances for the transition.

Desired post-sale involvement

Some selling owners wish to remain involved in the business after the sale.

All three forms of broad-based employee ownership can accommodate selling owners' ongoing participation in the company, post-sale.

ESOPs: It is common for selling owners to maintain board positions or executive roles during and after transition.

Worker Cooperatives: These often involve gradual leadership or executive role transition with consulting roles and board positions for selling owners.

EOTs: These can offer flexible arrangements for the selling owner, ranging from complete departure to ongoing leadership.

Na Young Ma sold Proof Bakery to the employees via a worker cooperative

Financial and Tax Priorities

For selling owners that may be concerned with the impact of tax benefits on the viability of a sale, some forms of employee ownership may be better suited.

ESOPs: Offer significant tax advantages through Section 1042 of the Internal Revenue Code, which allows the selling owner to defer capital gains taxes when selling to an ESOP (when meeting certain requirements). S-Corporation ESOPs pay no federal income tax on the percentage of company profits attributable to the ESOP's ownership.

Worker Cooperatives: Provide tax-advantaged patronage dividends for worker owners. They may also allow for deferral of capital gains taxes under section 1042, like an ESOP.

EOTs: Offer fewer tax benefits but typically lower implementation and maintenance costs than ESOPs.

Your Vision for Future Ownership

Consider which ownership structure fits your vision for the business going forward:

- Individual employee share accounts with monetary value → **ESOP**
- Direct ownership of member share, with no resale or appreciation value → **Worker Coop**
- Ownership held in a trust- on employees' collective behalf → **EOT**
- Traditional management structure → **ESOP or EOT** may more easily maintain existing hierarchies
- Resale protection → Companies with **EOTs and Worker Cooperatives** may be more difficult to sell in the future
- Mission preservation → **ESOPs, EOTs, and Worker Cooperatives** can all preserve company values and culture.

Employee Readiness and Governance

Consider the management structure and level of democratic governance required for each model:

- **Worker Cooperative**: Requires employees be ready for direct governance and ownership responsibilities
- **ESOP**: Can maintain existing management while gradually introducing ownership culture
- **EOT**: Good option when employees aren't ready or interested in direct ownership responsibilities

Company Fit Analysis

When considering a sale to employees, conduct a fit analysis based on several factors to assess the best suited form of broad-based employee ownership. Consider the best structure for the revenue, size, and profitability of the business

Revenue

- **Revenue $5M+**: ESOPs become more cost-effective at this scale
- **Revenue $1M-$5M**: Worker Cooperatives and EOTs are often more practical
- **Revenue under $1M**: Worker Cooperatives tend to be most suitable

Employee Count

- **25+ employees**: All structures may be viable, with ESOPs gaining efficiency at scale
- **10-25 employees**: EOTs and Worker Cooperatives generally more cost-effective
- **Under 10 employees**: Worker Cooperatives typically most practical

Profitability Requirements

- **ESOPs**: Require consistent profitability to service acquisition debt and meet compliance requirements
- **EOTs & Worker Cooperatives**: Can be implemented with more modest profit histories

Company Culture Assessment

Before proceeding with any employee ownership structure, assess:

- **Trust levels** among employees and management
- **Employee tenure mix** and institutional knowledge
- **Willingness of key employees** to assume governance roles
- **Financial literacy** throughout the organization

Employee Ownership Structure Comparison

A side-by-side comparison of the three forms of employee ownership most popular in the U.S.

Feature	Employee Stock Ownership Plans (ESOPs)	Worker Cooperative	Employee Ownership Trust (EOT)
Implementation Complexity	High	Medium	Low
Setup & Maintenance Costs	High	Low	Low
Tax Benefits for Sellers	Robust	Moderate	Limited
Employee Governance	Limited	Direct	Variable
Mission Protection (limitations around future sale)	Moderate	Strong	Strong
Type Share Ownership	Individual plan accounts hold monetary value; retirement focused	Direct ownership of member share but no resale value or appreciation	Held by a trust on behalf of employees collectively, no individual accounts with monetary value
Employee Buy in ($$)	No	Yes	No
Minimum Viable Company Size	25+ employees (varies)	Works at any size	Works at any size
Company Financial Performance	Profitable, strong balance sheet	Profitable, strong balance sheet	Profitable, strong balance sheet

Timing of Financial Benefits	Share allocations and appreciation over time; participants access upon separation from firm.	Annual patronage (profit sharing) dividends	Flexible; profit sharing

Next Steps

1. **Assess your personal priorities** using the considerations above.
2. **Evaluate your company's readiness** for employee ownership.
3. **Consult with specialized advisors** in employee ownership transitions.
4. **Engage key employees** in appropriate discussions about transition plans.
5. **Develop a timeline** for ownership transition that aligns with your goals.

Key Takeaway

Consider working with advisors who specialize in employee ownership transitions to conduct a feasibility study and develop a comprehensive transition plan tailored to your specific circumstances.

Author & Bio

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Oyindamola Ijewere is an employee ownership professional, academic, social entrepreneur and author. She serves as Senior Client Services Manager at Project Equity, where she supports leveraged buyouts of small to medium sized businesses by their workers. She has successfully facilitated transactions and transferred ownership to several hundred employees.

Over the last 6 years of her nearly three-decade career, Oyindamola has dedicated herself to employee ownership, driven by the belief that it creates dignified work, fair wages, and real opportunities for employees to build wealth and self-agency. In that time, she has worked closely with hundreds of small and medium-sized business owners and their employees to explore and implement employee ownership models, including worker cooperatives and Employee Ownership Trusts (EOTs).

Oyindamola is a two-time Fellow of the Institute for the Study of Employee Ownership at Rutgers University and a co-adjutant at the School of Management & Labor Relations at the same university, supporting grant-sponsored employee ownership research. She focuses on actionable research and has presented at conferences on inclusive economies and employee ownership. Oyindamola is a faculty member at Wilmington University where she teaches business management classes. She has several publications spanning employee ownership, inclusive economies, workplace leadership, and gender safety. Oyindamola is an Amazon best-selling co-author of The Refractive Thinker — The Dynamics of Power.

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Disclaimer: This brief is not meant as legal advice. Consult professionals and consider a variety of goals and needs.