

Employee Ownership in Vermont: 2018 Snapshot and Highlights

Introduction: In the summer of 2018, the VEOC undertook our annual survey of Vermont's employee-owned companies. The 2018 survey explored some questions we have asked in previous years, and also added some additional questions specifically relating to the use of various methods for employee participation.



As the two primary forms of broad-based employee-ownership that the VEOC works with are ESOPs and worker cooperatives, key results from each model are summarized.

Employee Stock Ownership Plans (ESOPs):

Response Rate: We identified 37 ESOP companies in Vermont, including both those headquartered here and those operating here but headquartered outside the state. Surveys were sent to each. Of those companies contacted, 18 responded to the survey, giving a response rate of just a touch under 50%.

Participation Practices in ESOP Companies: Of the methods of employee-owner engagement asked about, the two most utilized practices were *Profit Sharing* (88% of companies) and *Open Book Management/Financial Information sharing* (83%). Two-thirds of companies reported having *ESOP communication committees* and *conducting employee attitude surveys*. Less common employee-owner engagement methods included *gain-sharing schemes* (38%), *appointing non-managerial employees to the board of directors* (28%), and using *Holocracy/Sociocracy* or similar flat management systems (11%).

Qualitative Questions: We asked two qualitative questions: “what is the role of EO in your company’s culture?” and “what are the greatest challenges you currently face with EO?” In terms of culture, the three main themes that emerged were that employee ownership (1) is a way of enacting the company’s values, (2) is a key element of the company’s identity, and (3) drives a culture of high performance and pride in work. In terms of challenges, employee-owner education and communication was far-and-away the dominant theme, with a secondary theme being managing the technical complexity of the ESOP model.

Economic Impact: As a result of the response rate, the ESOP economic data set is incomplete. More complete quantitative data can be obtained from the DOL 5500 form, though that information takes a few years to be released, and so is not currently applicable to 2018. Of the eleven companies that did provide financial data, their total Vermont payroll was \$173.5 million. The average company (n=18) contributes 12% of its payroll to the ESOP plan, and the responding companies count 1,825 employees at Vermont locations, with 1,418 being ESOP participants.

Worker Cooperatives:

Response Rate: We identified 17 worker co-ops in Vermont, and, thanks to the persistence of our intern Sami Jarjour, we received survey responses from 100% of them!

Cooperative Practices: Worker co-ops can vary in how they implement the structure, and the survey provided a great window into the current practices chosen by Vermont's co-ops:

- **Patronage Formula:** Nine co-ops distribute surplus on the basis of hours worked, five on a combination of hours worked and seniority, two on the basis of W-2 Income, and one uses all three labor metrics.
- **Share Financing:** All but one co-op assists new employee-owners in the financing of their member share. The most common practice (12/17) is financing the share via payroll deduction, while three co-ops co-sign a loan from an external lender.
- **Corporate Form:** Eight co-ops reported being incorporated as LLCs, five as Worker Cooperative Corporations, and the balance as C-corporations.
- **Interest on Internal Capital Accounts:** Only one co-op reported paying interest on funds in members' internal capital accounts, and one does not currently but intends to do so.
- **Outside Board Members:** Two co-ops reported appointing outside board members in addition to electing board members from their membership.

Participation Practices: As with ESOPs, Open Book Management/financial information sharing was the most common practice (76%), followed by group Q&A sessions with management (71%). More than two thirds use a flat management system like Sociocracy or Collab (69%), and employee committees (59%) and employee attitude surveys (47%) are also common practice.

Qualitative Questions: The themes of the answers to our "impact of employee ownership on company culture" question mirrored those of the ESOP respondents of (1) enacting company values, (2) fostering shared identity, and (3) facilitating high performance. Additionally, co-ops reported that the democratic governance embedded in the co-op model is deeply culturally impactful.

Governance also came up as a challenge for Vermont co-ops in the context of employee-owner education and communication. In particular, clearly communicating boundaries between governance and operational roles, and the rights and responsibilities of membership, are something many of the co-ops wrestle with. Maintaining a business-minded focus, member financial commitment, and adapting to growth also emerged as "key challenges" themes for this set of companies.

Economic Impact: Vermont worker co-ops reported that they employ 242 Vermonters, of whom 127 (52%) are owners. 16 of the 17 co-ops provided payroll data, which totalled \$9.4 million, with a range between \$1.9 million and \$5,000.