



Effective State Employee Ownership Centers: Best Practices and Support from the NCEO

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If you are interested in supporting employee ownership in your state, the National Center for Employee Ownership wants to help.

This document outlines some of what we see as the most effective activities and structures for state centers and also describes the support and ready-to-use resources available from the NCEO. Since there are a number of organizations that support employee ownership, this note also covers some things state centers will likely want to avoid doing.

This project is designed to support a broad range of state-level employee ownership centers, so it will both help launch new centers and also strive to provide value and support to existing centers, especially the Ohio Employee Ownership Center, the Vermont Employee Ownership Center, and the Rocky Mountain Employee Ownership Center. Their expertise, staff, and infrastructure can be unmatched resources for newly established centers, but this document is intended for newly forming state centers.

This is the first draft of this document. Many organizations and individuals are actively involved in strategic planning, creating resources, and testing different approaches, so this is a living document that will change and expand rapidly. You can always get the most recent version by going to www.nceo.org/assets/pdf/misc/Effective_State_Centers.pdf.

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This is the July 20, 2015 version of this document. The most recent version of this document will always be available here:

www.nceo.org/assets/pdf/misc/Effective_State_Centers.pdf

The NCEO's public letter of commitment to the Pennsylvania Center for Employee Ownership is here:

www.nceo.org/assets/pdf/misc/PCEO_Letter_of_Commitment.pdf

1. Overview

Primary Goal. State centers promote employee ownership. Their core goal is education, primarily for business owners and secondarily for people who interact with them. Education means giving people the right combination of an emotional story and technical information through events, one-on-one meetings, online resources, and print materials. The desired outcomes are that business owners have improved awareness, understanding and appreciation of employee ownership, that they have minimal barriers to taking next steps, and that intermediary organizations better share information about employee ownership.

The primary measure of the goal's success is contact. Therefore we will measure the number of people contacted, the number of person-hours of content delivered, and the number of pre-feasibility assessments performed.

The NCEO's ambition is to create a network of state centers across the country by helping establish new state centers, by investing in resources useful to all state centers, and by supporting the continued strength of existing state centers.

Secondary Goals. Ideally, each state center should be

- Sustainable, meaning that it has dependable sources of income
- Aligned with the NCEO and the other state centers
- Collaborative with existing organizations in the field
- Designed to maximize the time volunteers spend making connections and minimize the time they spend on planning and strategy
- Networked with other state centers to share tools and ideas and to develop best practices

Theory of Change. Business owners are currently less likely to choose employee ownership as a form of business succession because they are making choices based on deficient information. The ingredients essential to overcoming this barrier are compelling stories, personal connections, effective content, and easy access.

This message will be in explicit contrast to the other possible purchasers of existing business, such as private equity and can only come from insiders at employee-owned companies: former owners, executives, and non-managers. Service providers are essential, but their contribution needs to come after the company insiders have delivered their stories and given the audience a reason to feel why employee ownership is a potential solution to the questions the audience is facing.

2. NCEO Support

The NCEO is currently investing heavily in a pilot test of the Pennsylvania Center for Employee Ownership (PCEO), which we hope to use to develop a fuller set of resources to support other state centers. NCEO staff wrote a public letter to describe our three-year commitment to supporting the PCEO, available here:

Our focus on Pennsylvania will benefit other states because we will develop all materials and resources there with the goal in mind of easy adaptability to other states. The investment in Pennsylvania also means, however, that our funds and staff time are less available in the near future for other states, although the NCEO will provide the support it can to other states on a case by case basis.

In the near term, the NCEO is most likely to be able to provide the following to new state centers other than Pennsylvania:

- **Content:**
NCEO staff will provide professional quality adult learning modules for presentations, ready-to-customize print / PDF documents, a ready-to-customize state center website, government relations kits, press kits, etc., although much of this material is currently under development.
- **Guidance on best practices:**
The NCEO will continue developing, based in part on the Pennsylvania experience, this document on effective state centers.
- **Research / marketing support:**
This might include case studies of other state centers, market research that helps support the overall message, and involving local marketing professionals.
- **Government relations:**
The NCEO will share the materials it is developing on working with state governments as well as other resources, such as specific formats/agendas for townhall meetings.
- **Training / networking for volunteers:**
The NCEO will provide training and structured networking for volunteers at its annual conferences and via webinar.

As a condition of its financial and staff support in Pennsylvania, and in other states in the future, the NCEO asks the state centers to honor the following principles. These principles are intended to prevent conflicts with other actors in the field, such as service providers and other nonprofit organizations, to keep the state centers within federal requirements for nonprofit organizations, and to maintain a focus on outreach to companies that are not yet employee owned.

Focus on reaching new companies that are candidates for employee ownership; services for companies that are currently employee owned will be left to other organizations.

Feasibility analysis or other types of consulting will be left to other organizations and consultants.

Engage in education of government officials and legislators, but leave direct election and campaign involvement to other organizations (see section 6).

Remain focused on the mission of the overall state centers project, as stated under “Primary Goal” in section 1.

Be inclusive towards other forms of employee ownership besides ESOPs, including worker cooperatives and equity compensation plans. The various forms may have completely different marketing channels / materials / approaches.

3. Activities

The centers will achieve their objectives through various initiatives, including but not limited to the following:

1. **Website and Materials:** The NCEO will host a state specific website and develop state-specific materials in a variety of formats (html, PDF, printed, video, recorded Webinar, etc.) for use by the state center advisors and counsel to accomplish their goals.
2. **Seminars:** The centers will give presentations at conferences, organizations, and seminars around the state. The NCEO will develop modules for presentations in the length of 1 hour, 3 hour, half day, and full day modules, with a focus on the emotional component of business succession and employee ownership alternatives. The materials will be primarily tailored for business owners. These modules will include PowerPoint templates with slides completed on a variety of topics, all to be customized with state-specific examples.
3. **Government Relations:** The centers will attempt to educate governors, state legislators, economic development officials, and local and municipal leaders on the possibilities of employee ownership through townhalls, company facility tours, and opportunities to meet with employee-owners.
4. **Stakeholder Outreach:** The centers will make connections with nonprofits, universities, thought leaders, and others with an interest in the concept and outcome of employee ownership, and then work to leverage those connections.
5. **Media:** The centers use media, including, newspapers, radio, TV, and social media, to increase awareness of the public and other audiences interested in employee ownership.

4. Expectations for State Centers

The NCEO commits to supporting the state centers, but the success of each state center will primarily depend on the effectiveness of the volunteers. The NCEO requests that all volunteers consider what they are willing to commit to the state center and then have a conversation with the NCEO or the lead volunteer in the state.

Not all volunteers will participate in all activities, but among the commitments volunteers might make are...

- Investing time to support the center's activities
- Supporting the goal of the center to increase the number of employee-owned companies, rather than to promote the business of any specific company or individual
- Using presentation modules, rather than their own presentations, when in the role of a state center volunteer
- Connecting the center to appropriate individuals and organizations
- Considering financial contributions to help support the state center and the work done under the umbrella project of the NCEO
- Sharing their company or client stories, including their personal experiences, the stories of others at their company, pictures, videos, and other materials
- Sharing ideas to improve the generic materials
- Participating actively in networking with volunteers in other state centers
- Working within the approved strategic plan and respecting the requirements of the NCEO's bylaws and 501(c)(3) status

All service providers who would like to be involved in a state center need to understand the constraints on their role before they make a commitment. The NCEO or state center leaders can have a conversation with them and ask that they verbally agree that the point is to increase the number of ESOPs, and that we expect all presentations to avoid anything that an audience member might see as promoting a specific firm.

Service providers may be involved in a presentation or event to provide their perspective, and when they do they will be expected to use the modules developed for the state center. They will often be available to answer questions in a Q&A or panel format, and when possible, the event may allow for participants to set up 15-minute one-on-one consultations with service providers.

5. Organization Structure

New state centers will generally begin as an affiliate of the NCEO, a 501(c)(3) public benefit corporation. Some state centers will establish themselves as separately incorporated 501(c)(3), while others will choose to remain a project of the NCEO. Separate nonprofit organizations that receive funding support from the NCEO will have the NCEO as their sole legal member, but direction and management decisions will be determined by a volunteer strategic activities committee (SAC). The NCEO will exercise governance power only when necessary to preserve the character and purpose of the organization.

New state centers will generally be managed by volunteers in a structure along the lines of the following:

1. **Strategic Activities Committee (SAC).** The SAC will set direction and priorities within the guidelines of the center's governing documents. It will ideally be composed primarily of current or retired executives of employee owned companies and may also include members of universities, economic development agencies, business associations, other stakeholders, and service providers. The target ratio is no greater than 3 executives: 1 service provider.
 - a. **Length of term.** We recommend that members of the SAC serve a minimum two years from the date of selection. At the end of each term, the SAC member will be permitted to serve on a year to year basis, subject to the agreement of both the existing board and the NCEO.
 - b. **Committee Selection.** Each SAC will form work groups and committees to help it achieve its goals.
 - c. **Duties.** The SAC will provide strategic direction for the state center's activities and initiatives, as well as make contacts with potential partners, allied organizations, and outreach audiences.
2. **Technical Activities Committee (TAC).** The TAC's role will be to provide content expertise, to facilitate the perspective of service providers, and to provide advice to the SAC. The majority of the TAC's members will most likely be service providers.
3. **NCEO Staff.** One or more staff members will provide an appropriate level of support for each center, especially for state centers that do not have their own staff person.

6. Government Relations

Under the rules governing 501(c)(3) organizations, the NCEO and any state center that incorporate in their home states are prohibited from several forms of political activity. The [IRS describes these restrictions](#) as follows:

Under the Internal Revenue Code, all section 501(c)(3) organizations are absolutely prohibited from directly or indirectly participating in, or intervening in, any political campaign on behalf of (or in opposition to) any candidate for elective public office. Contributions to political campaign funds or public statements of position (verbal or written) made on behalf of the organization in favor of or in opposition to any candidate for public office clearly violate the prohibition against political campaign activity. Violating this prohibition may result in denial or revocation of tax-exempt status and the imposition of certain excise taxes.

State centers that are incorporated as 501(c)(3) organizations will most likely file the “501(h) election,” which will allow them to spend up to 20% of their expenses on lobbying. That amount is a marker we should steer well clear of.

These restrictions leave substantial room for state centers to be active in government relations. State centers will often find it in their interests to engage in activities such as:

- Meeting with members of government agencies, such as economic development departments, in order to request that those departments support employee ownership with their materials, staff, and budgets.
- Meetings with elected officials to encourage them to pass legislation and to publicly support employee ownership.
- Inviting elected officials, their staff, agency staff, and anyone else to visit their companies

7. Content

As stated in section 4, in order to remove the perception that individual presenters may be focusing on their own business rather than the overall purpose of increasing the number of employee owned companies, presenters should use presentation modules are being developed for presentations. The modules will be designed using best practices in adult education and will be simple to customize to reflect the particular interests of any given audience (e.g., choosing example companies from a part of the state or an industry). They will also come in a variety of lengths.

Potential presentation agendas might look like the following:

3 Hour Introduction to ESOP Seminar

1. Succession Planning and the ESOP Alternative
2. Valuation and Financing: Do's and Don'ts
3. True or False: Myths about ESOPs
4. The _____ Story

Conversely, presentation modules may focus more on the business owner side, with only marginal inclusion of service providers as a means of clearing up technical issues. A potential 3 hour presentation from a company perspective may look like the following.

1. Business Succession: Transitioning Out of the Company
2. What are my options?: Competitor, Private Equity, Strategic Buyer, and the ins and outs of each
3. Partnering with Employees: The ESOP Alternative
4. The _____ Story

Number four in the last example would be the company story which would likely not be completely standardized but would instead follow set narrative points.

In addition to the modules, the state centers can expect the NCEO to provide

- Professional quality print and digital materials
- A state center website
- Template letters / emails for outreach, fundraising, collaboration
- Administrative support, including bookkeeping

8. Next Steps

The next steps for the state centers project focus on Pennsylvania. Our hope is to hire a full-time staff person in Pennsylvania by October 1, 2015. Before the staff person is hired, we also plan to have a work plan in place detailing the target activities for the staff person's first year.

Independently, the NCEO will be working on the content modules.

The next sections of this document to be developed will likely be:

- Planning state center activities
- Working with other organizations