NCEO
NATIONAL CENTER FOR
EMPLOYEE OWNERSHIP

# Becoming a Better B Corp:

## How Employee Ownership Models Can Help You Meet v2.1 Standards

Employee ownership and B Corps have a long and celebrated history of interaction. Many of the most celebrated employee-owned companies, from food and ingredient manufacturer King Arthur Baking to fashion house Eileen Fisher to home healthcare Cooperative Home Care Associates, are also proud B Corps, demonstrating that a commitment to more ethical and sustainable business practices can be reflected in the ownership structure itself.

Employee ownership has proven itself a vital component of an economy that works for all, providing a mechanism for businesses to share material gains with employees as beneficial ownership, either via profit sharing, stock allocations, or a combination thereof. What's more, many employee-owned companies have worker voice and governance built into their bylaws, while many that don't still go above and beyond to foster a thriving ownership culture that responds to the needs, concerns, and expectations of the employee-owners themselves.

The result? Companies that are often more resilient, more productive, and better for workers and the communities in which they reside. Most of the research on employee ownership has focused on employee stock ownership plans (ESOPs), the most common form of employee ownership in the US. Studies by the National Center for Employee Ownership (NCEO), scholars at Rutgers University, and many other academic researchers have found that ESOP companies are:

- More resilient during times of crisis, as they were less likely to cut pay or layoff employees during the height of the Covid-19 pandemic;
- More productive, with many firms seeing sizable growth in the first year of employee-ownership, and;
- Better for workers, with recent W.K. Kellogg funded study finding that employee-owners regularly and significantly outperformed their non-employee-owner counterparts on income from wages, household wealth, job tenure, and more.

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As a B Corp, you likely already know that the B Lab standards are changing. The updated standards no longer single out employee ownership as its own category upon which one can base their B Corp status. Instead, there are a variety of Impact Topic Requirements, several of which can be met by various forms of employee ownership under the right circumstances.

This booklet highlights the three most common forms of broad-based employee ownership, as well as the ways in which they might help you meet the updated V2.1 B Lab Standards.

# Employee Stock Ownership Plans

## About ESOPs

An Employee Stock Ownership Plan (ESOP) is a type of employee benefit plan that gives workers ownership interest in the company through a trust. ESOPs are unique among benefit plans because they invest primarily in the employer's stock. Companies use them to transfer ownership, reward employees, and anchor jobs in their communities.

ESOPs are often established to buy out a departing owner while keeping the business independent. Owners can sell shares gradually or all at once, using tax-deductible company contributions or loans repaid over time. Employees don't buy the shares themselves: the company provides them as a benefit.

Beyond succession planning, some companies adopt ESOPs to broaden wealth-building, align employees with company performance, and strengthen long-term stability.

## How They Work

### Structure

A company sets up a trust that holds company shares on behalf of employees. The company contributes stock, cash to buy stock, or both to the trust. Shares in the trust are allocated to employee accounts based on relative pay or a more level formula, and ownership grows over time through a process called vesting.

### Ownership and Governance

While employees are the beneficial owners, the ESOP trustee, either internal or external, acts as the legal shareholder. In privately held companies, employees must be able vote their shares on the sale of all or substantially all the assets of the company (but not necessarily on a stock sale). Public company ESOP participants vote on all shareholder matters. Companies may choose to extend more voting rights or board participation, but this is not required by law.

### Financing and Transactions

The most common ESOP transaction is a leveraged buyout, where the ESOP borrows money to purchase company shares. The company then makes annual tax-deductible contributions to repay the loan. Banks favor ESOP financing due to low default rates, but most deals combine bank loans and seller notes.

### Tax Treatment

ESOPs are highly tax-advantaged:

- **Contributions of stock or cash** to the ESOP are tax-deductible
- **Loan repayments** made through ESOP contributions are deductible, allowing financing in pre-tax dollars
- **C corporation sellers** can defer capital gains if the ESOP owns 30% or more of the company and the seller reinvests in qualified securities
- **S corporation ESOPs** enjoy tax exemption on the ownership percentage held by the ESOP (for example, a 100% ESOP S corporation pays no federal income tax)
- **Dividends** used for debt repayment or reinvestment can be tax-deductible

### Profit Sharing and Payouts

When employees leave, retire, or become fully vested, they receive the value of their ESOP shares, which the company must repurchase at fair market value. In private companies, an annual independent valuation determines share price. Distributions can be rolled into another retirement plan or taxed as capital gains at withdrawal. Companies are not required to pay dividends or profit sharing, but many ESOP companies do.

### Education and Participation

Strong ESOPs invest in financial literacy and open-book management so that employees understand how their actions affect company performance. The best ESOP companies create high-involvement management decisions designed to create structures in which more employees contribute meaningfully across all levels of the company. Studies show that companies that pair ESOP ownership with participatory management outperform those that don't.

### Conversions

An ESOP conversion typically begins with a valuation, feasibility study, and financing plan. The seller or sellers may be fully or partially bought out. The ESOP trust then holds the purchased shares, with company contributions used for loan repayment and share allocation.

### Is an ESOP Right for You?

**An ESOP may be a good fit if:**

- You want to sell your business gradually, or all at once, while keeping it locally owned
- You have consistent profits and at least 20 employees
- You value broad-based rewards and long-term employee retention
- You want to preserve your company's mission and values through ownership transition

**Things to consider:**

Transaction complexity: ESOPs are highly regulated and require detailed legal, financial, and valuation processes. Working with experienced advisors is essential to manage compliance and transaction costs.

Financing structure: Most ESOPs involve external financing and/or seller notes repaid over time through company profits. Owners should expect gradual liquidity rather than a single cash payout. You can fund an ESOP with annual cash contributions, however, to buy out shares more gradually with no debt.

Governance limits: While employees are beneficial owners through the trust, they do not automatically gain full voting or board representation. Companies seeking deeper participation can voluntarily extend governance opportunities.

Administrative cost: Annual valuations, trustee fees, and compliance filings add recurring expenses. These costs are manageable for mid- to large-sized companies but may be burdensome for smaller firms, typically under 20 or so employees.

Cultural alignment: An ESOP performs best in a company that already values transparency and participation. Education and open communication are critical to helping employees understand their ownership and its impact.

Tax advantages: ESOPs offer significant tax incentives for both sellers and companies. However, these benefits depend on entity type, ownership percentage, and compliance with IRS and Department of Labor rules.

Long-term planning: Companies should plan early for repurchase obligations; the future cost of buying back shares when employees retire or leave. Sound forecasting keeps the ESOP sustainable over time.

## ESOPs by the Numbers

**6,548** across the U.S.

As of 2022, there are more than 6,500 ESOPs operating nationwide, representing a combined $1.8 trillion in total assets

**2.6x** higher retirement contributions

ESOP participants receive 2.6 times more in retirement contributions than typical 401(k) participants; and nearly all (94%) of that comes from employer contributions, not employee deferrals

**$156 billion**

dollars distributed to workers in 2022

ESOPs paid out $156 billion in benefits and earnings to employee owners in 2022

**$80,500**

median ESOP account balance

The median ESOP account balance is more than double the national average retirement savings of $30k. Workers in ESOPs also report 92% higher median household wealth, 33% higher median income, and 53% longer job tenure than non-employee owners

### ESOPs and B Lab V2.1 Standards

ESOPs align closely with B Lab's focus on stakeholder accountability and fair work by giving employees a tangible ownership stake that builds wealth and job security. Their structure can support multiple impact areas – from equitable compensation to long-term purpose, depending on how participation and transparency are implemented.

Because governance rights remain with the ESOP trustee, deeper alignment with the B Lab Standards depends on companies voluntarily extending worker voice, financial education, and open-book management. When paired with these practices, ESOPs provide a proven path to sustainable ownership and mission continuity.

*Note, alignment doesn't mean automatic compliance with the specific sub-requirements of the B Lab Standards. Compliance depends on meeting the Compliance Criteria.*

| B Lab Impact Topic | Sub-requirement (Code & Summary) | ESOP Alignment |
|---|---|---|
| Purpose and Stakeholder Governance (PSG) | PSG 2.1 and 2.2: Stakeholder Consideration (smaller companies) and Governance Policy (larger companies) | ESOPs legally require fiduciaries to act in employees' best interest, embedding worker impact into decision-making. This meets the intent of considering one of the key stakeholders by design. Boards that integrate ESOP communications committees or employee liaisons deepen this alignment, bringing worker perspective into strategic and sustainability goals. These practices also strengthen alignment with PSG 2.2 by embedding stakeholder consideration into company policy. |
| | PSG5 and PSG6: Social & Environmental Oversight & Accountability | Sustainable ESOPs integrate long-term stewardship through internal oversight committees and fiduciary reviews. Boards balance financial and mission goals, supported by independent trustees who assess risk and sustainability performance. Many mature ESOPs publish annual sustainability or culture reports, aligning with B Lab's expectation for ongoing impact evaluation and disclosure. |
| Fair Work (FW) | FW2: Fair Wage Practices | ESOPs broaden wealth-building by distributing company equity to all eligible employees, linking financial return directly to collective performance. Annual valuations create transparency on share value and strengthen trust in compensation fairness. ESOP pay policies can be further aligned by adopting wage-ratio goals - like limiting the highest-to-lowest pay ratio to 5:1 or below – or by publishing compensation bands and bonus criteria to increase pay transparency across roles. |
| | FW 3.1: Employee Representation Mechanism | Many ESOPs pair ownership with participatory management – open-book finance, and engagement surveys – to gather input on business operations. While these mechanisms |

| B Lab Impact Topic | Sub-requirement (Code & Summary) | ESOP Alignment |
|---|---|---|
| Fair Work (FW) | FW 3.1: Employee Representation Mechanism | provide structures to channel worker voice, many ESOPs fall short of formal representation in governance. Some variations, like employee-elected board seats or employee committees, come closer to B Lab's intent for worker representation. |
| | FW 3.2: Acting on Worker Feedback | Feedback integration depends on corporate culture, not ESOP law. Leading ESOPs formalize review cycles where employee recommendations inform capital spending, safety, and HR policies . Embedding these mechanisms in governance documents demonstrates responsiveness consistent with B Lab's Fair Work criteria. |
| Justice, Equity, Diversity & Inclusion (JEDI) | JEDI 1 and 2: Demographic Data Collection and Taking Action | ESOPs expand access to ownership across the workforce, reducing wealth gaps through shared capital accumulation. This supports B Lab's JEDI goal of inclusive economic participation. However, representation in governance and management varies. To deepen alignment, particularly with JEDI 1, companies can track demographic data on ownership and leadership to evaluate equity impact. |
| Environmental Stewardship | ESC 5 and HR4: Working with Suppliers to Mitigate Negative Impacts | While not mandated by ESOP law, employee ownership encourages long-term thinking and local investment. Mature ESOPs often choose local or values-aligned suppliers to stabilize operations and reduce risk. Aligning procurement guidelines with environmental and community goals brings ESOPs closer to B Lab's supplier-related (ESC5) and Human Rights (HR4) requirements – demonstrating shared accountability across the value chain. |

**Suggested resources**

Selling to an ESOP and Financing the Deal
Beyond Engagement: How to Make Your Business an Idea Factory

## Worker Cooperatives

### About Worker Co-ops

Worker cooperatives are businesses owned and democratically governed by the people who work in them. Each worker-owner has one share and one vote – no outside investors, no disproportionate control. Unlike ESOPs, which mainly provide employees with a financial stake, worker co-ops combine ownership and governance: workers share in profits, elect leadership, and shape major decisions.

This model has deep roots. In the 1800s, artisans formed worker co-ops to resist industrial displacement. During the Great Depression, unemployed workers built self-help worker co-ops. In the 1970s, a new wave emerged from social justice movements. Today, worker co-ops thrive in sectors like home care, cleaning, food, retail, construction, tech, and design – places where traditional business models often undervalue labor.

Globally, worker co-ops have stepped in to save or buy businesses when jobs or ownership were at risk, preserving livelihoods, anchoring wealth in communities, and creating dignified, democratic jobs in undervalued sectors.

### How They Work

#### Membership buy-in

Employees typically pay a one-time membership fee or purchase a membership share. This capital contribution gives them an equity stake and the right to participate in governance. Membership shares are usually modest to keep ownership accessible.

#### Voting rights

Each worker-member receives one vote. Members elect the board of directors, approve major policy decisions, and in some cases vote directly on strategic issues. Unlike corporations where voting is tied to the number of shares, voting in a worker cooperative is equal across all members.

#### Management

Boards of directors, elected by members, are responsible for oversight and high-level governance. Boards may use traditional business structures that appoint managers, delegate authority to committees, or adopt collective management systems where all managers share operational authority. Regardless of the model, managers are accountable to the board, and the board is accountable to the worker-owners.

#### Profit distribution

At the close of each fiscal year, net earnings are allocated to three primary areas: retained earnings for business growth, reserves for stability, and patronage dividends for members. Patronage is distributed on the basis of labor contribution, most commonly hours worked or wages earned, rather than capital invested.

#### Training and participation

Because democratic governance requires informed participation, many worker cooperatives establish ongoing education programs. Training often includes financial literacy, worker cooperative governance, conflict resolution, and leadership development. Some worker co-ops dedicate a portion of profits to education funds to ensure continuity.

#### Conversions

When an existing business transitions to worker ownership, the process generally involves an independent valuation, negotiation of purchase terms, and the creation of worker cooperative bylaws. Financing is secured through a combination of member equity, seller financing, and external lenders like community development financial institutions (CDFIs). After the transaction, employees undergo governance and management training to assume their new responsibilities as both workers and owners.

## Worker Co-ops by the Numbers

# 750+

**known worker co-ops and democratic workplaces in the U.S.**

That's triple the number from a decade ago, now employing more than 15,000 people nationwide

# Median size:

**6 workers**

Most U.S. worker co-ops are small and locally rooted, but some larger business, like Cooperative Home Care Associates in New York, employ hundreds

# 2:1 **pay ratio**

Unlike corporate America's 300:1 gaps, most worker co-ops hold pay equity at two-to-one between the highest- and lowest-paid workers

# $33,697

**median patronage payout (2017)**

Worker co-ops share profits with members through annual patronage. In 2017, worker co-op patronage distributions ranged from $700 to nearly $2M collectively, with a median of $33,697 per year. By 2021, nearly 70% of worker co-ops were distributing patronage annually, keeping wealth in workers' hands

### Is a Worker Co-op Right for You?

**A Worker Co-op may be a good fit if:**

- You're a small, midsize or large company
- You value collaboration, shared accountability, and giving employees a voice
- You want your business, and the wealth it generates, to stay locally rooted
- You're ready to invest in building the skills and systems needed for democratic governance

### Things to consider:

Capital: Access to financing can be harder. Many worker co-ops rely on member equity, community lenders, or CDFIs instead of traditional banks

Governance Complexity: Democratic systems take time and practice, and can become increasingly complex as they scale. New worker co-ops often need extra support to build strong decision-making culture

Exit value: If an owner's main goal is to maximize the sale price, a worker co-op may not be the best fit. Worker buyouts usually prioritize continuity and community impact over the highest payout

### Worker Co-ops and B Lab V2.1 Standards

Worker cooperatives are uniquely positioned to meet B Lab standards across multiple Impact Topics. Their shared ownership and democratic governance naturally embed social and environmental accountability into everyday operations. This makes them one of the more structurally aligned models, provided they maintain strong systems for education, transparency, and inclusive participation.

Because worker co-ops are guided by the Seven Cooperative Principles – voluntary and open membership, democratic member control, member economic participation, autonomy and independence, education and training, cooperation among worker cooperatives, and concern for community – adopted by the International Cooperative Alliance (ICA), this comparison references those principles as a framework for understanding structural alignment.

Note, alignment doesn't mean automatic compliance with the specific sub-requirements of the B Lab Standards. Compliance depends on meeting the Compliance Criteria.

| B Lab Impact Topic | Sub-requirement (Code & Summary) | Worker Co-op Alignment |
|---|---|---|
| Fair Work (FW) | FW2 and 2.8: Fair Compensation and Living Wage | Worker cooperatives operationalize fairness through **Principle 3: Member Economic Participation**. Members collectively decide pay scales and benefits, balancing financial sustainability with equitable compensation. Profit is shared through patronage dividends, often proportional to hours worked or wages earned, ensuring wealth is distributed based on labor contribution rather than capital ownership.<br><br>To strengthen alignment with B Lab's Fair Wage standards, worker co-ops can adopt documented pay-ratio targets (e.g., 3:1 between highest- and lowest-paid members) and formal living-wage policies supported by transparent financial reporting. |
| | FW 3: Worker Voice and Participation | Worker co-ops practice one-member-one-vote governance, giving every worker equal say in leadership and strategy. This embodies **Principle 2: Democratic Member Control**, grounding decisions in worker experience rather than hierarchy. |
| | FW 3.2: Fair Work, Acting on Worker Feedback | In worker cooperatives, participation goes beyond consultation, members hold the power to act on what they raise. Feedback from workers translates directly into policy or operational changes through formal votes, elected committees, or open assemblies. This structure turns input into accountability, ensuring that collective decisions drive continuous improvement. This reflects **Principle 2: Democratic Member Control**, where governance is not only participatory but responsive. |
| Justice, Equity, Diversity, & Inclusion (JEDI) | JEDI 1 and 1.2: Collecting and Using Demographic Data | Worker co-ops already practice open-book management and participatory dialogue, aligning with JEDI 1's call for transparency. |

| B Lab Impact Topic | Sub-requirement (Code & Summary) | Worker Co-op Alignment |
|---|---|---|
| Justice, Equity, Diversity, & Inclusion (JEDI) | JEDI 1 and 1.2: Collecting and Using Demographic Data | Data on pay, demographics, and satisfaction can be shared and discussed in member meetings. To fully meet the standard, worker co-ops can formalize data-collection procedures and reporting cycles. These practices advance Principle **2: Democratic Member Control**, giving workers equal voice in interpreting and acting on equity data. |
| | JEDI 1.2: Collecting Additional Social Identity Data | Because worker-owners control governance, they can collectively decide what identity data is appropriate to collect and how it will be used. This participatory consent process reflects **Principle 5: Education, Training & Information**, ensuring members understand the purpose of demographic tracking. Formal privacy and data-handling policies may still be needed to meet B Lab's full documentation requirements. |
| | JEDI 2: Taking Action | Shared ownership embeds accountability for justice and inclusion. Equity outcomes can be incorporated into bylaws, annual reporting, and performance reviews of the board and management. This structure embodies **Principle 7: Concern for Community**, aligning enterprise success with equitable impact. Worker co-ops seeking full alignment should document equity goals and track progress through governance records. |
| | JEDI 2.a–2.e: Foundation Actions | Many worker co-ops define community benefit and fair work in their founding documents, aligning JEDI 2's expectation that equity be part of purpose. Embedding explicit justice language in mission statements and member handbooks strengthens alignment. |

| B Lab Impact Topic | Sub-requirement (Code & Summary) | Worker Co-op Alignment |
|---|---|---|
| Justice, Equity, Diversity, & Inclusion (JEDI) | JEDI 2.a–2.e: Foundation Actions | These practices draw from **Principle 7: Concern for Community**, which links business purpose to shared well-being. |
| | JEDI 2.f–2.l: Fair Hiring, Mentorship and Advancement | Worker co-ops structurally promote inclusion through open membership (**Principle 1: Voluntary and Open Membership**) and shared training (**Principle 5: Education, Training & Information**). Worker co-ops can formalize written policies on equitable recruit- ment, mentor-ship, and advancement, to align closer to B Lab's transparency and measurable equity outcomes. |
| | JEDI 2.m–2.s: Beyond the Workplace | Worker co-ops extend equity into local economies through **Principle 6: Cooperation Among Cooperatives** and **Principle 3: Member Economic Participation** – sourcing from peer worker co-ops, reinvesting surplus locally, and prioritizing minority-owned suppliers. To meet JEDI 2's full criteria, worker co-ops can track supplier diversity and community reinvestment outcomes as part of annual impact reviews. |
| Environmental Stewardship and and Circularity (ESC) | ESC 1–3: Understanding, Developing, and Implementing Environmental Strategy | Worker cooperatives embed environmental accountability through collective governance. Members experience firsthand the impacts of operations and make shared decisions on resource use, waste reduction, and other sustainable practices. This direct ownership supports life-cycle thinking – tracking material inflows, waste streams, and local ecosystem effects.<br><br>Environmental goals are often codified in bylaws, strategic plans, or member-approved sustainability charters that commit to regenerative or circular practices – such as soil |

| B Lab Impact Topic | Sub-requirement (Code & Summary) | Worker Co-op Alignment |
|---|---|---|
| Environmental Stewardship and Circularity (ESC) | ESC 1–3: Understanding, Developing, and Implementing Environmental Strategy | restoration, water reuse, or low-impact sourcing. Worker co-ops frequently organize production around repair, reuse, and resource cycling (reduce → reuse → recycle → recover → restore), keeping materials, jobs, and profits rooted in local economies.<br><br>By integrating these regenerative priorities into worker cooperative decision- making, worker co-ops fulfill the intent of ESC 1–3: aligning business operations with ecological thresholds, circular resource use, and long-term community stewardship. This reflects Principles 2 and 7, linking democratic control to concern for community and shared responsibility for the planet. |
| | ESC4: Preventing and Mitigating Negative Impacts | Democratic ownership embeds the mitigation hierarchy (avoid → minimize → restore → transform) into decision-making. Members can halt harmful practices early, choose regenerative production (e.g., organic inputs or energy efficiency), and reinvest surplus into mitigation projects like habitat restoration. **Principle 3 (Member Economic Participation)** allows surplus funds to support these improvements. |
| | ESC5: Mitigating Environmental Impacts in the Supply Chain | Through **Principle 6 (Cooperation Among Cooperatives)**, worker co-ops frequently collaborate with peer worker co-ops, local farms, and minority-owned suppliers to promote low-impact, deforestation- free, or regenerative sourcing. Where supplier accountability is lacking, worker co-ops can extend member-driven procurement policies and collective purchasing networks to verify compliance and share stewardship tools across partners. |

| B Lab Impact Topic | Sub-requirement (Code & Summary) | Worker Co-op Alignment |
|---|---|---|
| Purpose and Stakeholder Governance (PSG) | PSG1: Public Purpose | A worker cooperative's founding documents typically define a dual purpose: providing dignified livelihoods and serving community well-being. Because worker co-ops are owned and governed by workers, their purpose statements naturally link business success with social and environmental impact. Embedding this in bylaws and strategy fulfills **Principle 7: Concern for Community,** while publicly stating that purpose contributes to **PSG 1: Purpose Governance**, positioning the enterprise as mission-driven rather than profit-maximizing. |
| | PSG2: Stakeholder Consideration | Worker cooperatives operationalize stakeholder governance through **Principle 2: Democratic Member Control.** Workers, major stakeholders, hold direct voting power in major decisions, ensuring their interests are formally represented. To meet B Lab's broader stakeholder standards, worker co-ops can extend this structure, for instance, by creating member committees or advisory seats for suppliers, customers, or community leaders. |
| | PSG3: Grievance Procedures | Many worker co-ops already include internal accountability processes where members raise and resolve concerns collectively. Formalizing these as grievance mechanisms, with impartial review and transparent outcomes, aligns with **Principle 5: Education, Training, and Information**, by building shared understanding and procedural fairness. |
| | PSG4: Responsible Marketing & Public Relations | Worker co-ops communicate directly to their member-owners, not distant investors, resulting in greater transparency and accountability in public messaging. When guided by **Principle 7:** |

| B Lab Impact Topic | Sub-requirement (Code & Summary) | Worker Co-op Alignment |
|---|---|---|
| Purpose and Stakeholder Governance (PSG) | PSG4: Responsible Marketing & Public Relations | **Concern for Community**, outreach emphasizes community benefit and ethical representation, supporting B Lab's standards for responsible and transparent marketing. |
| Purpose and Stakeholder PSG5 and PSG6: Social and Environmental Accountability and Transparency | PSG5 and PSG6: Social and Environmental Accountability and Transparency | Worker co-ops integrate mission oversight into governance through elected boards accountable to worker-owners. Financial and impact performance are reviewed together, guided by **Principle 3: Member Economic Participation**, which links profit use to community and environmental goals. This structure aligns closely with B Lab's call for integrated accountability at the highest governing level. |

**Sources**

Worker Cooperative sections were developed with data from Democracy at Work Institute (DAWI) and U.S. Federation of Worker Cooperatives (USFWC), Project Equity and The International Labour Organization. Additional context and research was drawn from:

*Commoning Labour and Democracy at Work: When Workers Take Over* by Dario Azzellini and Marcelo Vieta

*Governing the Commons* by Elinor Ostrom

*Worker Cooperatives in America* by Robert Jackall and Henry M.Levin

*Worker Cooperatives and Revolution: History and Possibilities in the United States* by Christopher Wright

# Employee Ownership Trusts

## About EOTs

Employee Ownership Trusts (EOTs) are a flexible and affordable form of employee ownership designed to protect company values, preserve independence, and share profits with employees.

EOTs are a subset of Perpetual Purpose Trusts (PPTs) – ownership structures where shares are held by a trust that exists to uphold specific, legally binding purposes. Other names for an EOT include Employee Centered Purpose Trust, Employee Benefit Trust, Stewardship Trust; in this guide we will use the simple "EOT" term. While there is no hard and fast definition, in an EOT, the founding purpose is employee well-being. Other objectives, such as community or environmental impact, can also be included, but none can take precedence over employee welfare.

Unlike ESOPs, EOTs do not distribute individual shares or create retirement accounts. Instead, employees share in company success through profit-sharing and long-term job stability. EOTs also lack federal tax incentives but make up for it with flexibility, lower transaction costs, and fewer regulatory burdens. Although relatively new in the United States, they are the primary form of employee ownership in the United Kingdom.

EOTs are well-suited for small, mid and large companies that want to protect their mission, transition ownership affordably, and maintain a values-first approach without the complexity of an ESOP or the governance requirements of a worker cooperative.

## How They Work

### Structure

In an EOT, a trust holds some or all of a company's shares on behalf of employees. The trust legally owns the business and uses its voting power to uphold the company's defined purpose. The company's founder sells shares to the trust, often through a seller-financed note repaid over time.

### Governance

The trust's board of trustees governs the company according to its founding documents. Trustees are bound by a fiduciary duty to the trust's purpose, which in an EOT means prioritizing employee well-being. Unlike ESOPs, which are regulated as retirement plans, and worker cooperatives, which must be governed on a one-person, one-vote basis, EOT governance is purpose-based and more flexible.

EOTs can be structured with varying levels of employee participation:

- **Representative structures**, where employees elect one or more company Board of Directors members or Trustees
- **Advisory committees**, where employees provide input on policies or performance
- **Hybrid boards**, combining employee and independent members on the Company Board of Directors or as Trustees to balance voice, expertise, and accountability

### Profit Sharing

Instead of allocating shares to individual accounts, EOTs distribute a portion of company profits to employees, often based on pay, tenure, or hours worked. This creates broad-based financial participation without the administrative complexity of individual ownership accounts.

### Purpose and Permanence

Because the trust's charter defines its mission, EOTs can be designed to protect a company's purpose indefinitely. Some trusts are perpetual, while others allow sale or dissolution only under specific, mission-driven conditions. This makes EOTs particularly attractive for founders who want to lock in their company's values and prevent mission drift after succession.

### Comparison with ESOPs and Worker Co-ops

- **Versus ESOPs:** EOTs are simpler, more flexible, and less expensive to establish, but they do not confer the same tax benefits or retirement account structure
- **Versus Worker Co-ops:** EOTs preserve a single trust-based governance model rather than one-person-one-vote member governance, though hybrid EOTs can introduce some democratic features

### Is an EOT Right for you?

**An EOT may be a good fit if:**

- You want to preserve company independence and protect long-term mission
- You prioritize employee well-being and shared prosperity over investor returns
- You're looking for an ownership transition that is simpler and more affordable than an ESOP
- You value flexibility in defining governance and purpose

**Things to consider:**

Governance design: EOTs do not automatically include employee voting rights or representation in decision-making. Companies looking to strengthen worker voice should build structures that include employee input such as advisory councils, representative seats for employees on the company board of directors or as trustees

Purpose clarity: The founding trust document defines the EOT's mission and priorities. Clear language ensures that employee well-being remains the primary purpose and that future trustees are accountable to that mission

Profit-sharing model: EOTs distribute profits rather than shares. Setting transparent formulas for how profit is shared- by wages, hours, or tenure – reinforces fairness and builds employee trust

## EOTs by the Numbers

EOTs are a relatively new form of employee ownership in the US, and comprehensive data is limited

60

**known EOTs in the U.S.**

The EOT model is new but growing rapidly. The first U.S. EOT was established in 2014, and nearly 60 are now documented, most with under 100 employees

50,000

**employees represented in a single U.S. EOT**

Consumer Direct Care Network, which created a 30% employee-owned trust in 2025, is now the largest in the country

Financing structure: EOTs typically rely on seller financing or company-generated repayment over time. Sellers should expect gradual payouts rather than immediate liquidity

Trustee accountability: Because trustees hold significant authority, the selection process matters. Balancing independent and employee trustees helps align oversight with both financial health and purpose

Tax environment: Unlike ESOPs, EOTs do not carry federal tax advantages. However, several states now recognize and support EOTs, with policies continuing to evolve

Cultural readiness: Successful EOTs start with companies where employees are already engaged and informed. Education and transparency before and after the transition help sustain shared ownership culture

### EOTs and B Lab V2.1 Standards

EOTs can be designed to contribute to many of the Impact Topics of the B Lab Standards, depending on how the trust is structured. When an EOT holds a controlling share and its charter prioritizes employee well-being, it embeds a key stakeholder group, employees, directly into ownership and decision-making. While B Lab Standards span multiple stakeholder groups, EOTs focus primarily on employees, with some models adding on community or environmental goals.

Because the trust's mission can also encompass community or environmental goals, EOTs offer flexible alignment across multiple impact areas. Strong implementation like clear trust language, representative governance, and transparent profit-sharing will determine how effectively an EOT delivers on B Lab's requirements related to fairness, accountability, and long-term stewardship.

Note, alignment doesn't mean automatic compliance with the specific sub-requirements of the B Lab Standards. Compliance depends on meeting the Compliance Criteria.

*Guidance on the EOT section was provided by the Purpose Trust Ownership Network (PTON). The NCEO is grateful to PTON for their feedback and continued partnership.*

| B Lab Impact Topic | Sub-requirement (Code & Summary) | EOT Alignment |
|---|---|---|
| Purpose and Stakeholder Governance (PSG) | PSG 1: Public Purpose | Every EOT has a defined legal purpose, typically the long-term well-being of employees, which the trustee must uphold. That fiduciary duty functions like a built-in public-benefit mandate. Companies can expand the trust mandate to include environmental or social objectives. While EOTs are not required to make their purpose public, doing so is an emerging best practice among EOT and PPT-owned companies. |
| | PSG 2.1 and 2.2: Stakeholder Consideration Consideration and Worker Governance Mechanisms | EOTs embed stakeholder accountability by design: the trust's fiduciary purpose is to prioritize employee well-being above all other interests. Trusts can include other purposes (e.g., community or environmental benefit) as long as these are not senior to workers. Governance authority rests at two levels – the trust, represented by the trustees or a stewardship committee, and the company, with its own board of directors and officers. Employees can hold roles at either or both levels, and many larger companies also create employee advisory committees. |
| | PSG 5: Social & Environmental Accountability | Trustees must review company performance results to the defined purpose, creating direct oversight of how business decisions affect people and the planet. In some EOTs and PPTs, the trust's purpose may differ from the company's broader mission. When trusts include sustainability or community provisions, trustees are legally required to enforce them. Regular reporting to Trustees on mission and purpose alignment contributes to the requirements of the PSG Impact Topics to monitor impact at the highest level of governance. |
| Fair Work (FW) | FW 2: Fair Compensation Practices | Profit-sharing in EOTs distributes company success broadly and predictably. The trust or company policies can lock in formulas or |

| B Lab Impact Topic | Sub-requirement (Code & Summary) | EOT Alignment |
|---|---|---|
| Fair Work (FW) | FW 2: Fair Compensation Practices | minimum distribution levels, providing transparent compensation that narrows wage gaps. This structure can align with B Lab's intent for equitable pay tied to enterprise performance rather than individual bargaining power. However, the EOT model alone does not guarantee equity in base pay. Companies must intentionally design wage and bonus structures to reflect their employee-centered purpose. |
| | FW 3: Worker Voice & Participation | While employees are not direct shareholders, well-designed EOTs often create employee councils or advisory committees that provide structured input to management, the company board or the trustees. It's important to note that EOTs have two distinct layers of governance: the trust, which acts as the shareholder fiduciary, and the company board, which serves as the fiduciary for the business and is accountable to the trust. Employees may have representation at one or both levels. When these bodies advise on policy or strategy, they contribute to B Lab's criteria for worker participation. |
| Environmental Stewardship & Circularity (ESC) | ESC 1: Understanding Environmental Impacts | Trustees have a fiduciary duty to protect long-term employee well-being, which can include oversight of environmental risks. EOT trust agreements can require periodic sustainability reporting or environmental audits, contributing to the requirements of the ESC Impact Topic for identifying and managing ecological impacts that affect workers and communities. |
| Justice, Equity, Diversity & Inclusion (JEDI | JEDI 2.m–2.s: Beyond the Workplace | EOTs can embed community-benefit and equity goals within the trust agreement. Surpluses may be directed toward inclusive practices; local sourcing, profit-sharing, or workforce development, advancing B Lab's aim to extend justice and equity beyond the workplace. |

## Case Study / Torani

**Industry:** Food and Beverage

**Headquarters:** San Francisco, CA

**Employee Ownership:** 10% ESOP-owned

**Employees:** 400+

**B Corp:** Certified January 2019

Torani, a 100-year-old, family-owned company best known for its flavored syrups and sauces, faced a crossroads in 2017 after the sudden passing of a third-generation family member. Rather than sell to outside investors, CEO Melanie Dulbecco and CFO Scott Triou chose broad-based employee ownership.

> "Everyone should share in what we're creating and growing together,"

In 2021, Torani completed its first Employee Stock Ownership Plan (ESOP) transaction, selling 10% of the company through an externally financed loan to establish an employee trust. While there's no fixed timeline, leadership expects ownership to expand as the business and workforce grow.

Today, Torani employs 400+ team members - roughly half in office/exempt roles and half in hourly production, warehouse, and supply-chain positions. Median employee tenure is 2.7 years (5.4 years average), reflecting both long-term retention and steady new hiring.

### Why Torani Became an ESOP

For Dulbecco and Triou, employee ownership was a natural extension of Torani's belief that business can be a force for good. As a Certified B Corporation since 2019, Torani already embedded transparency and accountability into its operations. The ESOP turned those values into shared ownership.

> "We became a B Corp because it fits exactly who we are. And we created the ESOP because it fits exactly who we are."

The goal: preserve independence, reward employees, and sustain a values-driven culture for generations.

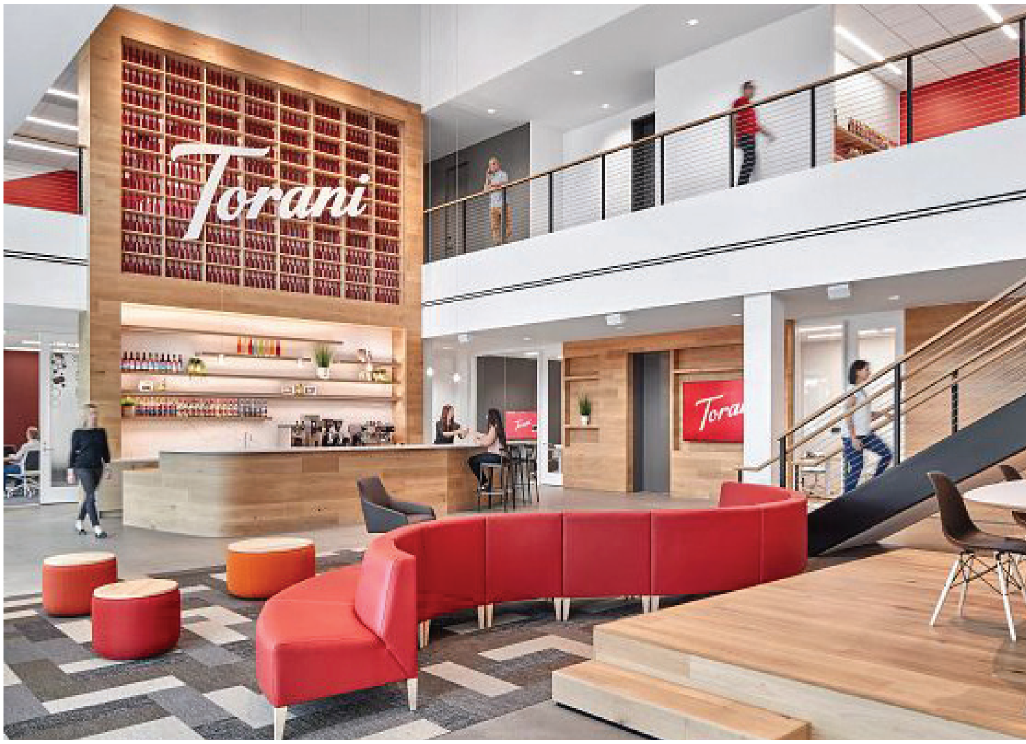
### The Transition Process

The journey began with extensive "learning journeys." Dulbecco and Triou met with companies that had thrived under ESOPs and others that had restructured, studying what worked and what didn't. They designed a model aligned with Torani's culture, learning the mechanics of loans, share allocation, payouts, trusteeship, and compliance.

Shares were distributed using a tenure-weighted formula that recognized long-serving frontline employees. To make ownership meaningful, leadership launched a company-wide education campaign with small-group conversations and multilingual materials.

### The Benefits

Since 2021, Torani has more than doubled in size, with share values climbing from $1,700 to $4,400 per share, a gain of over 150%. They maintain 297 active ESOP accounts (including 274 current



employees) with an average balance of $35,677 ($29,517 vested) and a median balance of $29,628 ($20,832 vested).

Nearly 74% of employees received the full 20% total-compensation package last year, combining ESOP allocations, profit sharing, and annual bonuses. These programs tie company growth directly to employee prosperity.

Torani's stability is unmatched: it has never had a layoff in 100 years – not during the Great Depression, the 2008 recession, or COVID-19. During the pandemic, leadership upheld its commitment to "full employment even in severe downturns," sustaining single-digit turnover while the industry contracted.

### Lessons Learned

"An ESOP isn't just a financial tool," Dulbecco says. "It's a long-term commitment to shared success."

The steepest challenges were technical – managing loans, valuations, and trustee oversight – and cultural, ensuring employees understood what ownership meant. Communication proved essential. Clear, consistent messaging helped employees see how their work connects to value creation.

By linking ownership, education, and profit sharing, Torani has deepened its B Corp commitments to purpose-driven governance, fair compensation, and inclusive growth, proving that long-term performance and broad-based ownership grow stronger together.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## Case Study /PixelSpoke

Pixel Spoke

**Industry:** Website Design and Marketing

**Headquarters:** Portland, OR

**Employee Ownership:** 100%

**Worker-owned cooperative**

**Employees:** 18

**B Corp:** Certified since 2014

PixelSpoke is a digital marketing agency that partners with credit unions to create high-performing, accessible, award-winning websites. As both a Certified B Corporation and a worker-owned cooperative, PixelSpoke operates from a simple belief: business should be a force for good.

### Why PixelSpoke Became a Worker Cooperative

Founded in 2003 as an LLC, PixelSpoke became a B Corp in 2014, formalizing a long-held commitment to social responsibility. As the team learned more about credit unions and worker cooperative models, they began asking how their own ownership could better reflect those same values.

When founder and former CEO Cameron Madill began exploring succession options, selling to an outside buyer didn't feel right. After meeting Blake Jones, co-founder of Namaste Solar, at a B Corp Champions Retreat, Madill saw a new path - selling the company to the employees who helped build it.

"Democracy is an increasingly fragile institution, it only works when citizens are educated on how to meaningfully participate and are personally engaged in the democratic process. Worker cooperatives are one tool for teaching democracy through doing."

Cameron Madill, PixelSpoke
Founder and Former CEO

The team considered an ESOP but chose a worker cooperative for its direct ownership and democratic management. The structure gave every co-owner a vote and a share of company profits, making participation in decision-making central to the business.

### The Transition Process

> "A worker cooperative conversion is first a sale, then a way of life."

The 18-month process began as a sale from Madill to a group of five employees (including himself). After the conversion, the team had to learn how to operate cooperatively, building systems of shared leadership and governance.

PixelSpoke received extensive peer support from other worker co-ops, including Namaste Solar, Equal Exchange, and Isthmus Engineering, as well as guidance from Adam Schwartz (The Cooperative Way), Jim Johnson, and attorney JR Weiner.

Embracing their "go slow to go fast" mantra, the company developed five guiding principles: exceptional client value, fairly priced voluntary member shares, social impact orientation, founder consideration, and separation of management from ownership.

### The Benefits

Since converting, median employee tenure has grown to 7.1 years. This is particularly notable in an industry where turnover typically reaches 20–30%. Only two employees have left in nearly six years, and annual revenue has grown 39%.

PixelSpoke credits its worker cooperative structure for resilience and stability during economic upheavals. Dividends have become a meaningful source of income for many employees, while open financial reporting fosters trust and shared accountability. No layoffs or firings have occurred since the transition.

Employee engagement has surged as ownership deepened. PixelSpoke's Gallup Q12 Engagement Score recently reached 4.6 out of 5, one of its highest to date.

Ownership has also created a culture of "ownership thinking" where every co-owner understands how the business operates and feels personally invested in its future.

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Considering employee ownership for your business? Scan the QR code above to learn more or visit nceo.org/bcorp.

For more information about **Perpetual Purpose Trusts (PPTs) and EOTs**, Purpose Trust Ownership Network. trustownership.org

For more information about **worker cooperatives**, visit the Democracy at Work Institute at institute.coop or the US Federation of Worker Cooperatives at usworker.coop