Case Studies of Successful Ownership Conversions

The case studies that follow show a variety of strategies that can be used to convert a company to employee ownership, depending on the desires of the sellers and the laws of the state. They show why early advice from trusted professionals is essential to a successful conversion. They also include two examples of employee-owned businesses being able to withstand the pandemic because the employees were invested in the long-term success of the business as well as their personal success.





Ward Lumber

John, a fourth-generation business owner of Ward Lumber knew that his family was not interested in continuing in the business and that in his rural region of the country many companies were closing when the owner retired. He realized it was important to preserve his company culture and empower the employee team more. They could then make decisions on behalf of the employees and for their benefit as a worker cooperative. This way the company could continue to be a pillar in the community, provide local jobs, support several industries, and have both direct and indirect economic impacts on area businesses and communities.

Employees saw it as a way to bring the company into the next generation and as the best opportunity for the business, its staff and the community. Once they had a more vested interest it made them like their jobs more. The community saw it as an example for other rural businesses.

In the 50-employee company, the CEO decided to stay on in that position by signing a contract with his employees. Their 3-year journey included using the Main St. Employee Ownership Act, designed to improve access to capital and to supply technical assistance to businesses interested in pursuing employee ownership transitions.

The CEO and his staff worked closely with a local business advisor to provide intensive support and training on the business transition process as well as through the worker-ownership transition – from initial inquiry, to financial and business analysis, to legal structuring and financing of the buyout. Workers were able to develop new management skills with the ongoing training to chart their own future and build wealth through ownership.

Other local business support providers helped the new owners through training on business plan development and grant writing assistance. Their financing came from cooperative and impact funds and a $250,000 grant through a regional economic development council initiative. This endeavor required huge collaboration between many partners with legislation friendly to carrying it out.[32]



Island Employee Cooperative[33]

Vern and Sandra Seiles owned three businesses on a small island in Maine when they decided to retire. Their three businesses – Burnt Cove Market, The Galley, and V&S Variety and Pharmacy were already members of the Independent Retailers Shared Services Cooperative (IRSSC), a marketing cooperative in New England, when they began to consider selling the businesses and retiring.

The Seiles' primary concerns were keeping hard-to-find jobs for their employees and keeping businesses located within the community due to its remote location. The worker cooperative model provided a solution for both of these, giving the employees "a good incentive to work hard and to make the businesses more successful," according to Vern. Selling the businesses to their employees provided a triple win situation for the Seiles, the employees, and the community. The Seiles gained a succession plan that would allow them to enjoy a comfortable retirement, employees would have the opportunity to build wealth through ownership, and ownership would stay local, keeping operations and profits on the island.



California Solar Electric Company[34]

Lars Ortegren always imagined that the California Solar Electric Company (Cal Solar) would become an employee-owned business one day so he took the time and energy to investigate options about employee ownership transitions from when he first bought the business. "If everyone is working on building a business and putting energy into the company, it should be partially theirs," he said. He launched internal discussions about the employee ownership concept to normalize the idea, which helped to ramp up employee enthusiasm. After transitioning to a worker-owned cooperative in mid-2019, Cal Solar began the final stage of engagement with Project Equity through its Thrive program. It provides ongoing support to business leadership and the new employee-owners by implementing a training and support program that builds ownership culture and helps the business and its owners thrive.

Besides setting up their own governance and Board of Directors, Cal Solar also established other employee-run committees to engage the entire organization, including Work/Life Balance, Gratitude, Justice/Equity/Diversity/Inclusivity (JEDI), and Open Book Management committees.

Then, 2020 changed what should have been a thriving year for Cal Solar. Employee-owner and Chair of the Open Book Management Committee, Chuck Holding described the pandemic as 'a curve ball,' "but our company really rose to the occasion. We got together and really went after it and we delivered unprecedented growth. In a world where businesses are literally closing, we worked hard to stay afloat."

Chuck credits being employee-owned for their ability to thrive during the pandemic. While on furlough, the sales team developed a new partnership that generated a year's worth of sales in about three weeks—all during the COVID lockdown. Despite being off payroll, Cal Solar's employee-owners continued to innovate because the company's future was their own future. "The beauty of the cooperative model is it involves everybody. It allows everyone to feel vested in the success of the business," according to Ortegren.

Today, Cal Solar is thriving with Lars Ortegren happily working alongside his fellow owners.



Arbor Assays[35]

Arbor Assays (A2) became an employee-owned company through the use of a "perpetual trust" with the help of the Center for Community-Based Enterprise (C2BE). The owners sold their interests to the employee trust and provided seller financing. Arbor Assays now has 11 employee owners.

Previously, founders Russ Hart and Barb Scheuer each owned 45% of Arbor Assays while Nancy Schmidt owned the other 10%. Bobbi O'Hara, R&D Project Manager at Arbor Assays, led the employee group through the transaction, having been elected as the Employee Representative. Russ, Barb and Bobbi are Directors of the Perpetual Trust that now owns all the stock of Arbor Assays, Inc.

A number of law firms were involved in the transaction. Ms. Deborah Olson, the Executive Director of the Center for Community-Based Enterprise (c2be), was hired to represent the employees during this period and to work with Arbor Assays to ensure that the company is run for the benefit of the employees. This method of employee ownership maintains the company perpetually for the benefit of its employees, while eliminating the need for

the company to repurchase shares from terminating employees. Financially, the employee-owners will benefit because, in addition to their basic compensation, the trust will annually allocate revenue not needed for company operations or future investment to participating employees.

Russell Hart, founder and managing partner, said: "We want Arbor Assays to remain an independent and successful business and were impressed by how the perpetual trust model can achieve this. Shares are held in trust permanently for all employees, rather than allocated among staff as happens with ESOPs. This means there are no repurchase obligations that can destabilize a company's ownership. Profits that might otherwise be distributed to investors are available to pay out to staff as bonuses. We hope our adoption of this business model will encourage others in the US to do likewise and for the US tax authorities to consider tax breaks to encourage its take-up."