How the Centennial State Is Leading on Employee Ownership

A Profile of Colorado's Employee Ownership Office

By Merrit Stüven and Matt Helmer, May 2023
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Across the US, momentum to increase employee ownership is building. Employee ownership, including employee stock ownership plans (ESOPs) and worker-owned cooperatives, has drawn attention as a means to foster successful businesses, improve racial and gender equity, and address issues of poor job quality and persistent wealth inequality. Workers in employee-owned firms often have better pay, more voice in the workplace, and better working conditions. Worker-owned businesses also benefit from less turnover and greater resilience in difficult economic times. Yet, despite a long history in the US, employee-owned businesses remain a small part of the US economy.

Approximately 13.9 million workers at over 6,000 companies in the US are covered by ESOPs. The US has about 600 worker cooperatives according to a 2021 study. An opportunity to increase employee ownership is at hand though, as six out of 10 business owners nationally report that they plan to sell their business in the next decade — many in preparation for their retirement. With this impending national transition, employee ownership is getting more traction in Washington DC. The $1.7 trillion omnibus passed by Congress in December 2022 included the Worker Ownership, Readiness, and Knowledge (WORK) Act. The WORK Act creates new funding for states to establish state centers to promote employee ownership and educate business owners and workers about the options available.

As more state centers launch, they will look to states who have been using this model already, such as Colorado. Colorado's Employee Ownership Office (EOO) has captured national attention for its innovative work promoting employee ownership and establishing financial and technical support for businesses transitioning into employee ownership. This profile, based on an interview with EOO's Nikki Maloney, director of business support, and Matthew Licina, business support program manager, highlights the work and priorities of Colorado's state employee ownership center.

The Founding of Colorado's Employee Ownership Office

Upon entering the race for governor of Colorado in 2018, Rep. Jared Polis, who eventually won the election and became governor, committed to encouraging the growth of Colorado's employee-owned companies. Before entering politics, Polis was a successful entrepreneur and became interested in employee ownership as a business model. He then worked to support employee ownership while a member of Congress, including reintroducing the WORK Act in collaboration with Sanders. Now, as governor of Colorado, he has positioned the state at the forefront of innovation and policy development intended to expand employee ownership.

In 2019, Polis issued an executive order establishing the Colorado Employee Ownership Commission, housed within the Colorado Office of Economic Development and International Trade (OEDIT), to support the development and advancement of employee ownership. The commission works to establish a network of technical support providers with expertise in employee ownership, provide education to businesses and communities on the benefits of employee ownership, and recommend steps the state can take to remove barriers to employee ownership. A year after the commission began its work, OEDIT launched EOO to implement the commission's recommendations.

State Employee Ownership Centers

Twenty states, including Colorado, currently have employee ownership centers. Though a few of these centers have been around for decades, the number of centers has more than doubled since 2018, due in no small part to the work of the Employee Ownership Expansion Network, which is leading the charge to establish state centers across the US. State centers aim to provide education and resources to businesses interested in employee ownership and support businesses to make the transition. By providing centralized information and services, centers make it easier for business owners to plan for their own retirement and for the continuity of their business while also supporting the economic security and vitality of their employees and communities. Not all state centers for employee ownership are housed within government agencies, as EOO is. Other state centers are housed within nonprofit organizations or affiliated with universities, such as the center in Ohio.

Colorado's Employee Ownership Office Services and Strategies

EOO promotes employee ownership in Colorado by supporting employee-owned businesses and businesses interested in converting to employee ownership. This work encompasses raising awareness and marketing the concept of employee ownership to businesses. EOO offers financial incentives and support to businesses in the process of converting to a form of employee ownership and is developing a network of technical advisors and peer support organizations for employee-owned businesses.

Building Awareness

Employee-ownership advocates often cite a lack of awareness and understanding among business owners — and among business support services like lawyers and financial advisors — as a major obstacle to expanding employee ownership. Many existing state centers have developed robust outreach and marketing initiatives to help get the word out about employee ownership. Maloney, who has been with EOO since its founding, explains, "We're developing new ways to reach business owners, creating online resources and tools that are accessible 24/7 — not just during a specific webinar during the business day. That, paired with no-cost consulting through our office and the Colorado Small Business Development Center Network (CSBDC), is framing different ways that we can serve the business client to make sure that we get this message out to as many people as possible." This work comes at an opportune time as the Colorado State of Owner Readiness Report in 2022 showed that 70% of business owners in the state want to sell their business in the next decade.

Maloney mentioned that engaging business owners about their retirement plans and how employee ownership can be an option can be difficult. "When you bring up succession planning, people kind of glaze over. So how do you make this relevant to what that business owner is going through?" Maloney says. "Most business owners are passionate about not only the business that they've built, but the people that have worked to help them get to this point." She notes that owners respond positively to the idea of leaving the business in the hands of employees who helped build the company and who will keep the original owners' legacy alive by preserving the business as part of the local community.

The pandemic has also left many business owners thinking differently about their exit plans. "We've seen the pandemic accelerate owners' exit plans," Maloney says. During the pandemic, EOO also saw an increased interest among contract and independent workers who want to come together to form a worker-owned cooperative or employee-owned company. EOO's Licina says they are currently supporting over 40 independent contractors involved in the performing arts who are looking to start a cooperative. Workers such as these, who are looking to structure their existing independent work differently, are creating another opportunity for EOO to expand and promote employee ownership. Cooperatives can offer a more participatory model of employee ownership and provide an alternative to ESOPs — and growth in Colorado cooperatives is showing local workers and business owners the range of possibilities when considering which form of employee ownership may be right for them.

Though some employee ownership initiatives around the country focus solely on promoting ESOPs or cooperatives, state centers such as EOO often promote multiple models. In addition to providing information on ESOPs, cooperatives, and employee-owned trusts, EOO also encourages companies to try out new business practices that give them a sense of what employee ownership could look like for them — and how it would meaningfully benefit employees — even if they are not yet ready for a bigger transition. "We really feel it is important to meet the business owner where they are," Maloney explains. "If they're wanting to try profit-sharing or phantom stock or profit interests, we are open to that because we know this isn't a one size fits all kind of situation. Sometimes a business owner needs to test these things before they go on to a broader structure," she says. Promoting intermediate steps, like profit-sharing, helps EOO reach more businesses while leaving the door open for another transition, such as to an ESOP or cooperative, once companies have become more comfortable with the concept.

Using Financial Incentives and Supports To Advance Employee Ownership

Another primary obstacle to expanding employee ownership is the cost of converting to a worker-owned firm. Companies often conduct feasibility assessments and hire lawyers, accountants, and other technical experts to help with their transition. Colorado has been intentional in helping companies address these expenses and became the first state to pass legislation to help firms cover the costs of converting to employee ownership, providing a model for other states.

Colorado's financial support programs are administered by EOO, through state grants and tax credits. The grant program reimburses businesses for costs associated with transitioning to employee ownership. First launched in 2019, it offers grants up to $3,000 to Colorado-headquartered businesses. The state's second financial incentive, an employee ownership tax credit, provides up to $25,000 in credits for companies converting to worker cooperatives or trusts and up to $100,000 for ESOP conversions.

EOO is continuing to explore how these incentives may have more impact. EOO's goal is to expand the tax credit's eligibility criteria to help more companies take advantage of the program. For example, the state is looking at expanding eligibility criteria to help companies that are already partially owned by workers receive financial assistance when they transition more of the company's ownership to its employees — a bill implementing this change is currently being considered by the state legislature.

Building an Ecosystem of Technical and Peer Support

One of EOO's tasks is to identify a service provider network for employee-owned and converting businesses. Helping businesses fund their transition to employee ownership is only impactful if businesses can access the other technical assistance they need to complete the process. Many lawyers, accountants, and other technical experts are much less familiar with employee ownership structures and their legal requirements, making it more difficult for companies interested in converting to employee ownership to obtain professional help. EOO is prioritizing building an ecosystem of employee ownership support services to make this process smoother for businesses.

Maloney explains, "Our office, in partnership with the Employee Ownership Commission, did a great deal of outreach to lawyers, accountants, and other service providers to develop the ecosystem that's already here and to identify gaps. In many cases, a service provider, such as a law firm, was working with employee-owned companies, but they weren't promoting that work publicly. We are trying to raise awareness amongst service providers that there is an opportunity to get new clients in this space if they market their services differently. The work of the EOO is a potential pipeline of new work for these service providers."

As more companies take advantage of EOO's services, the office is also building out a network of employee-owned companies to provide peer support. One benefit of growing this community is being able to connect local employee-owned businesses to each other and to firms considering a conversion, helping them exchange ideas, experiences, and lessons learned. One of EOO's current peer communities is for communications professionals within ESOPs. "People have been very excited to participate and actually very grateful to have others that they can communicate with and bounce ideas off. It's been really effective in helping them learn from each other … We make sure that no service providers are allowed in the space. It's always just people from the companies, and it's really been a very successful approach." Maloney says bringing employee-owners and those curious about conversion together in these peer communities also allows EOO to better understand the challenges businesses are facing and identify service needs.

Peer networks also help build EOO's bench of supporters, companies that showcase what a transition to employee ownership can look like and who act as advocates for improved policies. Applewood Seed Company has done exactly that. Formerly owned by husband and wife team Gene and Dee Milstein, the wildflower seed producer transitioned to an ESOP in 2020. In announcing the transition, the company described the ESOP as a succession plan that would strengthen the business by valuing and empowering its employees. EOO was able to work with Applewood during its transition to help them navigate the process, connecting them to other employee-owned companies and appropriate service providers. And even though they would not be able to take advantage of it themselves, having already transitioned, Applewood offered their support to help create the state tax credit that other companies are now using to help fund their employee ownership transitions.

Key Partnerships

Promoting employee ownership in Colorado is a collaborative effort. Other government agencies, existing employee-owned firms, technical assistance providers that make up the Colorado employee ownership ecosystem, and many others have important roles to play. These networks are instrumental in providing services and identifying opportunities to improve policies and services available to businesses. The EOO team emphasizes that partnerships are vital to their work. By working with organizations that have been active in the Colorado employee ownership ecosystem, EOO can reach a wider range of businesses and workers interested in employee ownership. These collaborations also help ensure that EOO and other organizations are not replicating each others' work, but working together toward shared goals.

One important organization that preceded EOO in its work is the Rocky Mountain Employee Ownership Center (RMEOC), a nonprofit founded in 2012 that works with businesses to ease their transition to employee ownership. Maloney credits RMEOC with popularizing employee ownership in Colorado and helping advocate for EOO's programs to be established. To raise awareness about the potential and benefits of employee ownership, RMEOC and the Denver Foundation have led delegations from Colorado to visit employee-owned companies around the US and in other countries. Today, RMEOC collaborates with EOO on providing education, outreach, and consulting services to employee-owned firms and those companies looking to convert. Through its collaboration with RMEOC, but also with the Center for Community Wealth Building, the Rocky Mountain Farmers Union, and the CSBDC, EOO is able to expand its reach and support ongoing efforts that have already built rapport in the local business community.

In addition to partnering with organizations outside of government, EOO works with allies within Colorado's state agencies. Maloney and Licina believe their position within OEDIT, where the CSBDC also resides, provides an important partner and advantage. "The Small Business Administration has also made employee ownership a mission. So our initial seed funding is really trying to make sure that any programming that we build can be activated and maintained in the Small Business Development Center Network over time."

The experts on the Employee Ownership Commission are critical partners in EOO's work. The commission is key in helping set the state's strategy, pushing for policy changes, and convening partners across the employee ownership ecosystem.

EOO is also in close contact with the state's workforce development system through the Colorado Office of Labor and Employment, which has been helping provide information to their networks about employee ownership. Maloney has high hopes for how that relationship might be able to further employee ownership. "We would love to see people start seeking employment with employee-owned companies, rather than just going for any job," Maloney says. Part of the messaging EOO wants to promote is that employee ownership creates better jobs for Colorado's workers.

Measuring Progress and Success

State centers' varied work can make measuring progress and impact challenging. Measurement of EOO's accomplishments and goals is based on the executive order that established the Colorado Employee Ownership Commission, whose tasks include identifying and removing barriers to employee ownership through policy change. One way in which EOO tracks its own progress is by how often they bring new initiatives to the Colorado legislature — when barriers to expanding employee ownership are identified, these are often addressed through legislative requests. EOO also tracks its outreach to business owners and other stakeholders, and documents the development and growth of its service provider and peer networks. And, of course, EOO has goals around the number of employee-owned conversions it hopes to support annually.

What's Next for Colorado's Employee Ownership Office

Together with its partners, EOO is planning for a future in which Colorado's employee-owned businesses are growing and thriving. New services and policies, such as a new online learning resource on employee ownership, are continuing to roll out as the office expands its reach. The office is also continuing to identify ways federal funding, business loan programs, and grants can support employee ownership. Meanwhile EOO will continue to focus on supporting the growing number of Colorado businesses interested in transitioning to employee ownership. Maloney says, "We're seeing a lot more business owners reaching out to our office, to be connected with resources on employee ownership. They're hearing about successful transitions, and they want to know more."

Conclusion

With the passage of the WORK Act and momentum in the employee ownership movement, more states will hopefully establish employee ownership centers in the years ahead. Colorado's EOO offers promising practices for other state centers to consider as they launch or further develop their work. The Aspen Institute Economic Opportunities Program is excited to continue following the growth of state centers, and the innovations they develop in promoting employee ownership and ultimately, an economy based on shared prosperity.

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