Boots on the Ground
A Profile of the Vermont Employee Ownership Center

By Maxwell Johnson and Matt Helmer, November 2023
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Given the choice, nearly three in four Americans would opt to work at an employee-owned (EO) company. Many EO companies strive for a culture of ownership, giving workers not just a share of the profits, but a hand in decision making. Consequently, these companies often have greater resilience, employee productivity, and job quality than traditionally owned ones. Converting an existing business to employee ownership can also ensure its continued presence in a community – timely, given that many business owners are approaching retirement, and few have a succession plan in place.

Employee stock ownership plans (ESOPs) and worker-owned cooperatives are the most common forms of employee ownership. More than 10 million active US workers are members of ESOPs, but growth in employee ownership has plateaued in recent years. However, the Worker Ownership, Readiness, and Knowledge (WORK) Act, passed in 2022, legislated funding for states to establish centers to promote employee ownership. Expanding employee ownership nationwide is, at base, about the ground game. This means educating owners, workers, economic development officials, and other practitioners about the models of ownership and their benefits, the process of ownership transition, and the support resources available. State employee ownership centers are at the forefront of doing so.

For more than two decades, the Vermont Employee Ownership Center (VEOC) has worked to raise awareness and grow employee ownership in the state, including by providing technical and financial assistance to firms looking to transfer ownership to their workers. Vermont, which boasts one of the highest rates of employee ownership in the country, is home to several notable EO companies, like Gardener’s Supply Company and King Arthur Flour. The benefits of this shared prosperity are measurable. The state’s 55 EO companies tend to have higher employee retention rates and narrower pay gaps between leadership and workers when compared to conventionally owned companies. And Vermont’s EO companies report that employee ownership has improved their resiliency. The history of employee ownership in Vermont and the work of VEOC provide useful guidance and insight to those seeking to grow employee ownership and develop new state centers.

This profile derives from background research on state employee ownership centers, including that of Vermont, as well as interviews, completed in July and August of 2023, with current VEOC Executive Director Matt Cropp, Ryan Thornton, who serves as VEOC’s communications and outreach coordinator, Founder and former Program Director Don Jamison, and Board Member Cindy Turcot, who also formerly served as president and CEO of Gardener’s Supply Company.
History of the Vermont Employee Ownership Center

A proud independent streak runs through the Green Mountains. The ethos dates to Vermont’s founding years, during which, as legend goes, Ethan Allen declared the land that would become the nation’s 14th state off limits to speculators from neighboring New York. More recently, in a 2008 University of Vermont poll, the vast majority of Vermonters reported that they value their state’s independent spirit – as well as its neighborliness and Main Streets. Small businesses are the lifeblood of many communities, employing 60% of Vermont workers, the third highest rate in the nation. However, as noted by Cindy Turcot, the expansion of venture capital threatens independent businesses in the state. Employee ownership can counter this, preserving rural jobs and local ownership.

A desire to sustain local ownership was central to the Center’s founding. In 2001, Don Jamison, VEOC’s founding director, learned of the impending closure of a furniture plant in Island Pond – and of the workers’ interest in taking control of its operations. At the time, Jamison was engaged in a grant-funded project exploring the feasibility of developing worker cooperatives to create good jobs for low-income workers. But the efforts of the Island Pond workers inspired Jamison to switch focus to converting existing businesses to employee ownership. Jamison circulated a letter to gauge interest in employee ownership for business succession, which led to the assembly of a steering committee and the incorporation of VEOC as a nonprofit by the end of the year. The fact that two large companies in the state, Gardener’s Supply Company and King Arthur Flour, had already begun transitioning to employee ownership in the 1980s and 1990s provided a base of legitimacy for the Center, explained Turcot, who went on to chair VEOC’s inaugural board of directors.

VEOC would become only the second state employee ownership center in the country, so Jamison looked to the first, the Ohio Employee Ownership Center, as a model. Staff at the Ohio center recommended an approach focused on outreach and education for retiring owners, and this has guided VEOC’s work since. The Ohio center leaned towards ESOPs. However, VEOC’s current executive director, Matt Cropp, observed that most companies that contact the Center count fewer than 20 employees. Given that the minimum size for ESOP viability is typically around 15 employees, the Center has, since its inception, emphasized cooperatives on the menu of employee ownership transition options, as these better serve small enterprises.

VEOC’s funding structure, comprising public and private financing, has evolved over the years. At first, Jamison repurposed a private grant for his co-op project to fund the “start-up” phase of the Center. In the subsequent years, VEOC pieced together funding from foundations and religiously affiliated sources. Federal appropriations secured by US Senator Patrick Leahy and then-US Representative (now Senator) Bernie Sanders allowed VEOC to establish a revolving loan fund and hire additional staff. In 2006, the Center received a line of funding from the state legislature. The legislature also issued a five-point statement of support for employee ownership in Vermont. This funding has been renewed each year and has since more than doubled. VEOC continues to supplement a stable core of state funding with public and private grants, which are often linked to projects, like supporting worker co-ops for child care.
What Does the VEOC Do?

VEOC, which employs a staff of three permanent employees and one summer intern, advances employee ownership in Vermont through outreach and education, technical assistance and facilitation, and transition financing, as detailed in the sections below.

Outreach and Education

Employee ownership transitions don’t happen overnight, and sustained outreach, the primary activity of the Center, is vital. Thanks to more than two decades of “boots-on-the-ground” outreach, as Turcot described it, VEOC reported that, as of 2022, staff have provided resources and information to 565 companies, including 60 new contacts over the previous year. And today, said Turcot, there are about 80 companies “in the transition process or thinking about employee ownership.” It takes time to educate business owners and, subsequently, work with them on transitioning to employee ownership, VEOC staff emphasized. Montpelier-based consultancy Stone Environmental, for instance, began contact with VEOC in 2003 and didn’t complete its employee ownership transition until 2016. Given this, VEOC uses customer relationship management software to track engagement with a company following an initial contact. The Center, said Cropp, “sends regular check-ins, invites them to our conference each year, and gives them other opportunities.” This ongoing contact deepens companies’ understanding of employee ownership as they approach the moment when they begin the transition process.

From the beginning, VEOC staff understood the importance of educating the broader business ecosystem, not just owners. During VEOC’s early days, employee ownership — especially cooperative ownership — was not well understood among economic developers in Vermont. “Once we started getting invited to the quarterly meetings of economic development partners that were convened by our state Agency of Commerce,” recalled Jamison, “we started getting taken a little more seriously” and were able to make the case for employee ownership. The Center speaks with a wide variety of organizations, including certified public accountants, lawyers’ associations, university classes,
chambers of commerce, and Vermont Regional Development Corporations. During some seminars, VEOC partners with professionals, such as business brokers. For these, Cropp explained, the broker gives “a general introduction to ownership succession. And we present the section on selling to the employees.”

VEOC has a strong relationship with the Vermont Small Business Development Center (VtSBDC). VEOC staff regularly give presentations to VtSBDC. The attention VtBDC devotes to employee ownership is largely attributed to its director, Linda Rossi, who also serves on VEOC’s board. Although VEOC has not yet used small business loan guarantees, VtSBDC’s statewide network of advisors is key for making business owners aware of employee ownership during succession planning and for maintaining contact with owners interested in conversion.

Inspired by Ohio’s example, VEOC has hosted an annual employee ownership conference since its founding. The conference, as described by Cropp, serves as a “regular touchpoint” that gathers interested stakeholders and existing EO companies. During the day-long conference, which welcomed 270 attendees in 2003, participants with varying levels of experience in employee ownership can gain insights. Those already engaged in employee ownership can participate in workshops and panel discussions covering trending topics, challenges, and opportunities. These annual conferences also help VEOC keep in touch with companies in the employee ownership transition pipeline and provide participants with the opportunity to network.

VEOC knows that elevating stories from the employee ownership community is important. Jamison has seen how success stories, told firsthand by representatives of EO companies, turned state economic development officials — “invaluable partners” — into believers. To this point, Jamison emphasized the importance of having a board representing diverse constituencies, including representatives from EO companies and practitioners. Such a board is key for relating concrete, real-world examples that add heart and “gravitas” to employee ownership conversations and cut through the “wonky” technicalities that sometimes cloud communication. But storytelling shouldn't be limited to the successes, believes VEOC. As Ryan Thornton, who serves as VEOC’s communications and outreach coordinator, explained, “We’ve also been focusing on telling stories of other challenges and other obstacles that EO companies have overcome, or, in some cases, even things that we think people could learn from that would not be considered success stories.”

VEOC strives to earn media coverage when a successful employee ownership conversion happens and maintains its own in-house communications channels, including a social media presence, a newsletter, and a blog. Recently, Thornton retooled the newsletter so that it provides information on educational resources, events, and opportunities across the state and broader employee ownership community. VEOC has also increased its use of social media and video production. The Center’s broad communications strategy is intended to both reach those considering conversion and strengthen relationships with existing employee-owners.
Technical Assistance and Facilitation

VEOC offers technical assistance in response to the need for support with business valuation and access to capital among firms considering employee ownership. The Center also refers businesses to the lawyers, accountants, and other business services professionals necessary for transitioning ownership.

VEOC provides initial business assessments for companies in the pre-transition stage. Contact is generally initiated by a business owner, though, sometimes, an employee or employee group may reach out to VEOC. Cropp described the typical process. “We gather a little bit of information and ask them to fill out an intake form.” Doing so lets VEOC staff understand the basic structure and direction of the company, as well as the owners’ goals from “a timing perspective, financial perspective, and an owner involvement perspective.” VEOC may then provide an outline of employee ownership conversion options, additional resources, and a report summarizing findings and detailing next steps.

When an owner decides to begin the conversion process, VEOC’s role in providing technical assistance differs depending on whether they pursue an ESOP or a worker cooperative. For ESOPs, VEOC tends to take an intermediary role, making referrals to evaluators, lawyers, and other professionals key to successful conversion. “Our role is more on the front and back end of getting owners interested in the ESOP,” clarified Cropp. Once the conversion is completed, VEOC typically “offers to do a presentation to employees and get them engaged in the local employee ownership network.”

For worker cooperatives, however, VEOC is more “hands-on.” Worker cooperatives often face difficulty securing financing from traditional lenders. On top of that, cooperative conversions often demand significant employee education, as employees typically play a substantive role in business decisions. After an owner does initial work to determine the financial viability of a cooperative, a presentation on the model is given to employees. If interest is sufficient to form a steering committee to guide the transition, the Center may provide fee-for-service consulting to the committee. Staff will review and answer questions that guide the creation of bylaws, work with the owner to update the business plan, help prepare the company to obtain financing, and coordinate transactions. “Deep involvement is necessary” in co-op conversions, explained Jamison, “so we’ve played that role.”

VEOC’s primary support for existing EO businesses is its annual conference and peer relationship facilitation. At the 2023 conference, for example, a co-op roundtable brought together worker-owners to share resources, discuss common challenges, and learn from one another. During another session, human resources specialists held an interactive panel discussion on workforce development, engagement, recruiting, and retention. In addition, VEOC provides limited technical assistance, like conducting a review of a co-op’s governance structure, to existing EO businesses on a case-by-case basis. Finally, the Center works to ensure that EO businesses are connected with national trade associations, such as the US Federation of Worker Cooperatives and the ESOP Association.
Financing

From its revolving loan fund of $150,000, the Center provides loans of up to $58,000 to EO start-ups, existing EO companies, and conversions. The money may be used for financing ESOPs, workers’ shares in cooperatives, operational expenses, and property, plant, and equipment purchases. For deals between $200,000 and $500,000, Cropp has found that VEOC financing “can move the needle in a meaningful way.” The financing can be especially beneficial for cooperative conversions, due to the challenges cooperatives face in accessing capital.

VEOC also partners with the Cooperative Fund of the Northeast (CFNE) to secure funding for employee ownership conversions. CFNE supports VEOC by administering loans and providing underwriting and servicing capacity for a small fee, which is of great help to the Center given its limited staffing. Cropp noted that CFNE has supported all of their loans. Additionally, a subordinate loan from VEOC’s revolving fund can sometimes help businesses access a larger loan from CFNE. Cropp described CFNE as “very flexible,” and, in some cases, CFNE covers the entirety of conversion financing. “CFNE is an absolutely vital piece of the infrastructure,” said Cropp. Bringing the fund in on deals reduces the percentage of seller financing that is needed, increasing the appeal for owners who wish to complete succession and conversion to employee ownership within a relatively short period of time.

Through a grant program, VEOC helps businesses defray the costs of technical assistance, including valuation and feasibility studies, legal expenses, and consulting costs from cooperative developers. The program, funded through a $50,000 federal appropriation that Sen. Sanders helped obtain, is capped and has been of particular use in supporting potential co-op conversions, whose costs are typically lower. The first grant from the fund, for instance, covered half the cost of a second valuation requested by a co-op conversion steering committee. The grant funding will eventually be spent down, but by demonstrating its effectiveness, VEOC aims to make the case for a reinfusion.
Measuring Progress

Measuring progress and outcomes in employee ownership can be challenging, as it might take years for a company to complete a conversion to employee ownership. The number of conversions is important, but, to Cropp, “It’s a bit of a lagging indicator.” Initial contacts with businesses that might transition to employee ownership down the line are the primary metric by which VEOC measures progress. In 2022, 60 new contacts were made. This number, reported to the state as a condition of receiving state funding, best captures what Cropp sees as VEOC’s main purpose: to get employee ownership on business owners’ “menu” of succession options. Through this work, VEOC is building a pool of owners “who might suddenly pop out of the woodwork because... for one reason or another in their life, now is the time to move” and sell their business. VEOC also measures progress by the number of employee ownership seminars it holds, as well as the number of attendees. And when VEOC creates fertile ground for employee ownership through education and outreach, conversions follow. In 2022, for example, two Vermont companies transitioned to cooperative ownership and another, a consulting group that counts 94 employees, became entirely ESOP-owned.
What’s Next

Cropp and VEOC’s staff are optimistic that renewed interest in employee ownership will lead to more support at the federal level. The recently introduced Employee Equity Investment Act (EEIA), for instance, could improve conversion financing and bring to the table business owners looking for faster exits, according to Cropp. As it stands, corporate buyers and private equity firms often have cash ready to purchase a business, making the process quick for owners looking to move on. When converting to an ESOP, however, it can take five to 10 years – sometimes longer – for the retiring owner to be paid in full, since seller financing is often required. In addition, VEOC is looking to cultivate deeper relationships with Vermont legislators to help advance additional measures that could encourage employee ownership.

Conclusion

New laws, such as the Main Street Employee Ownership Act and the WORK Act, as well as the introduction of EEIA and other legislation, have given momentum to the employee ownership movement. As the boots on the ground, state centers of employee ownership will be critical to sustaining this momentum and ensuring that new policies are effective in growing employee ownership in the years ahead. By providing technical assistance and financing, connecting businesses with resources, and educating business owners, economic developers, Small Business Development Centers, and the broader public, VEOC is a linchpin for the employee ownership network in Vermont. It stands as an instructive example of how a state center can creatively and successfully meet the unique needs of the communities it seeks to serve.

Many employee-owned companies give workers not just a share of the profits, but a hand in decision making, yielding greater resilience, higher productivity, and better job quality than traditionally owned ones.
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