What are worker cooperatives, ESOPs and B Corporations?

Today, many workers in our economy struggle to provide for themselves and their families despite working full-time and in some cases, multiple jobs. Low pay, few benefits, part-time hours, and limited training and advancement opportunities are common for many of today’s fastest growing occupations. Worker-owned cooperatives, B Corporations, and businesses with employee stock ownership programs (ESOPs) may offer ideas about ways to improve the returns to work. Wages above industry standards, investments in employees’ skill development, profit sharing, democratic workplaces, and the use of job quality metrics are just a few of the practices utilized by some of these businesses.

What exactly are worker cooperatives, ESOPs, and B Corporations? Below, we provide a brief summary of the business models that are in focus for today’s discussion.

Worker Cooperatives

According to the U.S. Federation of Worker Cooperatives (USFWC), a worker cooperative is a business entity that is controlled and owned by the business’ employees. A worker cooperative has two defining characteristics. First, the workers invest in and own the business as well as share in the business’ profits. Second, governance of the enterprise is democratic, with each worker owner receiving one vote to elect a board of directors. Larger worker cooperatives typically hire managers to oversee the management and operations of the business. Most worker cooperatives in the U.S. are small businesses concentrated in the retail and service sectors. Manufacturing, skilled trades, grocery stores, bakeries, technology businesses, and home health care are also prominent sectors in which worker cooperatives operate. Cooperative Home Care Associates, a worker-owned home care agency, is the nation’s largest worker-owned cooperative employing over 2,300 individuals. Currently, little data exists about the precise number of worker-owned cooperatives.

Employee Stock Ownership Plans (ESOPs)

ESOPs are employee benefit plans that offer a company’s workers an ownership stake in their company. ESOPs are the most common form of employee ownership in the U.S. Companies with an ESOP create a trust, which owns stock on behalf of the employees. The company makes contributions to the trust—primarily in the form of employer stock—that are allocated to participants based on payroll or a more level formula. Distributions are made when a worker

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1 U.S. Federation of Worker Cooperatives, [http://www.usworker.coop/aboutworkercoops](http://www.usworker.coop/aboutworkercoops), (accessed 20 September 2013)
3 (U.S. Federation of Worker Cooperatives, 2013)
leaves the company or retires. According to the National Center for Employee Ownership, over 10,000 companies now have ESOPs, which cover over 13 million employees.\(^5\)

**B Corporations**

Certified B Corporations are businesses that meet standards of social and environmental performance, accountability, and transparency under terms set forth by an independent, nonprofit known as B Lab. B Lab certifies businesses as B Corporations after undergoing their third party assessment and evaluation. The nonprofit evaluates businesses in the following four areas: governance, which evaluates the company’s accountability, mission, stakeholder engagement and the transparency of their policies and practices; workers, which assesses worker compensation, benefits, training and ownership opportunities, as well as the overall work environment; community, which examines the company’s impact on its community, including its charitable giving and whether the product or service provided by the company addresses a social issue; environment, which evaluates a company’s environmental performance. Today, there are over 800 Certified B Corporations operating in 60 different industries and 27 countries.\(^5\)

B Lab is also involved in promoting and passing state legislation in the U.S. known as benefit corporation legislation, which is a separate concept from their B Corps certification. Benefit corporation legislation varies slightly by state and the specific public benefits may vary by corporation, but fundamentally, the legislation allows a corporation to designate its legal purpose as one that includes the creation of material positive impact on society and/or the environment, as opposed to merely maximization of profit and shareholder returns. Under these laws, now passed in 19 states, companies are freed to make decisions that are in the best interests of their workers, customers, communities, environment and investors. These Benefit Corporations, different from Certified B Corporations as described above, are incorporated in their states with a dual mission to earn profits and pursue the social good, which frees the leaders of these businesses to make decisions based on considerations other than just short-term profits without the threat of lawsuits or takeovers by shareholders dissatisfied with their choices.\(^7\)

\(^5\) Ibid
\(^6\) B Lab, [http://www.bcorporation.net](http://www.bcorporation.net), (accessed 20 September 2013)
\(^7\) Ibid.