

# Employee-Ownership

## What does it mean for child care businesses?

The ICA Group is a non-profit business consulting and development firm specializing in employee ownership. ICA provides free succession planning and business support to child care business owners considering selling their business to their employees. In Chicago this program is generously funded by Citi Community Development. To learn more, please contact Anne McSweeney at [amcsweeney@ica-group.org](mailto:amcsweeney@ica-group.org) or 617-232-8765 ext. 109.

### What is employee-ownership?

Employee ownership refers to a business that is owned and controlled by employees of the business, which means:

- employees build assets through business ownership on top of wages
- the profits of the company are locally owned, creating a stable local economy for the community
- the company is more likely to be resilient and continue to serve its community through leadership transitions

### Is the employee ownership a good fit for child care businesses?

Yes! The success of child care businesses depends on the trust and relationships built between staff and families. A business that is owned by its employees has a unique advantage in recruiting, retaining, and motivating exceptional staff. Converting to a cooperative can set your center apart and strengthen your brand as a positive, innovative, and engaging environment for children.

### What are the benefits and drawbacks for owners?

Child care center owners can sell their shares of the business to their employees and receive fair market price for the value they created. Many owners find it rewarding to know they are leaving the business in the hands of trusted employees who will maintain the company's vision and continue to serve the community. Converting to employee-ownership can give owners more control if they are interested in transitioning away from the business over time. The owner may also be eligible for some tax breaks on capital gains tax for selling their business to their employees.

Owners of more profitable child care businesses may not receive as much money as they could in an open market sale or **to a "strategic buyer" who is interested in buying the business to enfold it into a larger business.**

### What are the benefits and drawbacks for the employees?

In an employee buy-out of a business, the benefit for employees is that they can maintain their current jobs, have more of a voice in the governance of the business, and share in the profits of the company going forward. Worker cooperatives often choose to offer more training to their employees and prioritize internal advancement for worker-owners. Employees who own their own business also report higher rates of job satisfaction.

In terms of risk, as with any business ownership transition the new owners (in this case the employees) can mismanage the business, and see it decline or go out of business, causing them to lose any investment and their jobs.

## How does a conversion to employee-ownership work?

ICA has a comprehensive consulting practice to support conversion to employee ownership. The process typically has 5 steps:

1. **Set Goals:** Work with owners to define transaction goals
2. **Determine Feasibility:** Perform financial feasibility assessments to ensure the transaction can meet the needs of owners and employees. Conduct business valuation and identify financing
3. **Structure the Deal:** Determine the purchase price, secure financing, adapt by-laws, and make sure everyone understands the process
4. **Execute the Deal:** Provide support to the new company as it holds first annual meeting, approves by-laws and signs the sales document to buy the company
5. **Operate as an Employee Owned Company!** Training employees on business governance and financial management

Employees are not expected to raise the funds needed to purchase the business. Instead ICA works with lenders familiar with cooperative ownership models to secure a loan, which the business pays back through its profits over time. As owners of the business, each employee-owner is expected to buy-in to the company. The price of this buy-in is determined in the conversion process. The buy-in typically ranges between \$200-\$1,000 for child care businesses.

## Does everyone become an owner of the business?

Who is eligible to become an employee-owner is a decision you make as part of the employee buy-out process. It is common to limit eligibility to full-time staff who have worked for the business for a certain number of years.

## Employee Ownership in Action: Profile of Childspace



Childspace is a cooperative child care business in Philadelphia. It has provided high-quality care since 1988 and now operates in three locations throughout the city. It is a Head Start delegate and maintains the highest rating in the Pennsylvania quality rating system.

The Childspace model involves two organizations: a cooperative whose member/owners are the Childspace staff and a non-profit organization with a board made up of parents, child development specialists, community supporters, and center staff. The nonprofit organization conducts fundraising and provides programming for parents and the community. The worker cooperative runs the centers, providing opportunities and incentives for staff to invest in the quality and success of the business. As a result, Childspace benefits from a staff turnover rate that is less than half of the industry average.