NCEO
NATIONAL CENTER FOR
EMPLOYEE OWNERSHIP

The NCEO Registry Certification and Employee-Owned Companies

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The National Center for Employee Ownership, a nonprofit organization founded in 1981, has created the NCEO Registry to certify those employee-owned companies in which a majority of shares are held by individuals that are often excluded from ownership.

In its initial phase (through August 2025), the NCEO Registry will offer three types of certifications: Majority Minority Employee-Owned (MMEO), Majority Women Employee-Owned (MWEO), and Socially and Economically Disadvantaged Employee-Owned (SEDEO). For convenience, they are collectively the "NCEO Registry Certifications."

The certification is based on the idea that employee ownership provides workers in every demographic category of the US workforce an opportunity to build economic well-being via an ownership stake in the companies where they work. Research demonstrates that employee ownership builds household wealth for working class people and that this impact applies across ethnic, gender, education level, and other demographic groups. (See the NCEO main research page and this video from the employee-owned company Lewis Services, the first company to receive an NCEO Registry Certification).

The NCEO Registry Certifications are currently offered under preliminary standards that accommodate employee ownership via an employee stock ownership plan (ESOP). Updated standards, expected in May 2025, will incorporate worker cooperatives. Future updates may expand certification to include veterans, opportunities zones, or rural areas.

This document briefly describes the NCEO Registry Certifications, outlines the scope and impact of employee ownership, and provides an overview of the project and its next steps.

What is employee ownership?

Employee ownership is a broad term for any arrangement in which a company's employees hold shares in their company or the right to the value of shares in their company. The NCEO Registry Certifications currently apply to companies where 100% of shares are owned by an employee stock ownership plan (ESOP). Later in 2025, the standards will expand to incorporate worker cooperatives.

A 100% ESOP-owned company is a business structure in which all shares are owned on behalf of employees by a federally-qualified employee benefit trust. Regardless of their position within the company, every employee who meets federally mandated minimal criteria holds stock in the trust, aligning their interests with the company's performance.

The primary legislation governing ESOPs is the Employee Retirement Income Security Act of 1974 (ERISA). This act sets the framework for the establishment, operation, and regulation of all employee benefit plans, including ESOPs. It ensures that ESOPs operate with fiduciary responsibility and that the interests of employee-owners are protected.

Unlike traditional stock ownership, where shares are bought and sold on the open market, ESOPs are company-sponsored employee benefit plans that are designed to allow employees to become shareholders gradually through their employment, in almost all cases without needing to purchase the shares themselves.

In addition to ERISA, ESOPs are also governed by the Internal Revenue Code (IRC), particularly sections 401(a) and 409. The IRC outlines the tax benefits associated with ESOPs, such as tax deductions for contributions made by the company to the ESOP trust, tax-deferred growth for employees, and favorable capital gains treatment for employees when they sell their shares.

An ESOP trustee plays a crucial role in overseeing the plan's administration, ensuring compliance with federal requirements and protecting the interests of the employee owners. Trustees are responsible for making decisions regarding the purchase and sale of shares, evaluating the company's stock value, and ensuring compliance with legal and regulatory requirements described above. Their duties are fiduciary in nature, requiring them to act in the best interest of the employees.

What impact does employee ownership have on workers?

Congress intended ESOPs to strengthen company performance and enhance economic security for working people, and decades of research show that ESOPs have achieved both aims. Below are examples of research findings on both financial security and quality of work life from federal government data sources[1]:

- ESOP participants have about double the retirement wealth of otherwise similar non-ESOP individuals. ESOP participants have greater wealth in every decile of the distribution, and that wealth is somewhat more equally distributed among ESOP versus non-ESOP participants.
- ESOP establishments have a statistically significant 9-13% decrease in workplace safety incidents
- 70% of ESOP workers had training vs 47% of non-ESOP workers.
- Young people from 28-34 years old who had an ESOP as a benefit at their company had 92% higher median household wealth, and that wealth advantage applied across all demographic groups.

[1] Federal Data/Datasets on Employee Share Ownership, Rutgers Institute for Employee Ownership and Profit Sharing, July 25, 2024. This article summarizes relevant research from nine federal agencies. The four bullet points here draw on data from, respectively, the Social Security Administration, the Occupational Health and Safety Administration, the National Science Foundation, and the Bureau of Labor Statistics. The fourth datapoint is based on NCEO analysis, reported in more detail at OwnershipEconomy.org.

Determining Ownership

The NCEO Registry Certifications differ from existing certifications by being about the intersection of employee ownership and individual ownership. The NCEO Registry Certification is for companies that are 100% employee-owned and in which 51% or more of the shares are held by employees in designated demographic categories.

- The Majority Minority Employee-Owned (MMEO) designation is for employee-owned companies in which at least 51% of shares[2] are held by employee-owners who are in a demographic category recognized by the National Minority Supplier Diversity Council (NMSDC).
- The Majority Women Employee-Owned (MWEO) designation is for employee-owned companies in which at least 51% of shares[3] are held by women.
- The Socially and Economically Disadvantaged Employee-Owned (SEDEO) designation is for employee-owned companies in which at least 51% of shares are held by people belonging to one or more historically disadvantaged demographic groups[4] as defined by federal regulation. In other words, the SEDEOBE designation also accommodates within-company diversity rather than a company that is owned by a representative of a single historically disadvantaged demographic group.

A company may be certified in one or more of the certification types. For example, a cooperative or ESOP company may qualify as a SEDEOBE with the following illustrative ownership holdings:

- 44% Black / African American (both men and women); plus
- 4% Hispanic / Latino (both men and women); plus
- 2% Native American (both men and women); plus
- 6% Caucasian (women only); equals

56% Socially and Economically Disadvantaged Employee-Owned (SEDEO)

The definition of the groups to be considered is consistent with the federal definition of social and economic disadvantage[5]. Additionally, it is designed to align with the qualifications required by the Billion Dollar Roundtable's (BDR) supplier diversity efforts and to conform with applicable requirements outlined in the accreditation frameworks by the National Minority Supplier Development Council (NMSDC) and the Women's Business Enterprise National Council (WBENC).

[2] Though the Small Business Administration accepts 50% for its certification, other federal entities such as the Department of Transportation require the more stringent threshold of 51% to qualify for certification. Additionally, the BDR-recognized certification agencies have each defaulted to the higher standard. The NCEO has followed suit.
[3] Though the Small Business Administration accepts 50% for its certification, other federal entities such as the Department of Transportation require the more stringent threshold of 51% to qualify for certification. Additionally, the BDR-recognized certification agencies have each defaulted to the higher standard. The NCEO has followed suit.
[4] The US Federal Government defines "socially and economically disadvantaged individuals" under Title 49 / Subtitle A / Part 26 of the Code of Federal Regulations. Inherent to this concept is the combination of various disadvantaged categories, including ethnicity and women, among others.
[5] See footnote 1 above

Determining Control

All ESOPs are governed by a trustee, who is a fiduciary responsible for managing the ESOP trust on behalf of its employee-owners. The Employee Retirement Income Security Act of 1974 (“ERISA”) regulates ESOP transactions primarily by regulating the conduct of the trustee. ERISA’s Section 404(a)(1) imposes various fiduciary obligations on those who serve as fiduciaries, especially the duty to act prudently and loyally for the exclusive benefit of participants. (See Theodore M. Becker, Richard J. Pearl, Alison Wilkerson, *The DOL Fiduciary Process Agreements for ESOP Transactions*, The National Center for Employee Ownership, 2021, page 4.)

The Trustee, like most shareholders, is not involved in the daily operations of the company, but s/he (or they in the case of an institutional trustee) oversees the administration of the ESOP and ensures that the plan operates in the best interests of the employees. The trustee’s role is vital in matters like complying with all legal requirements, approving the annual valuation of the company’s stock and ensuring that transactions involving the company are fair to the employee-owners.

The Trustee’s overriding obligation is to protect the interest of the plan participant, and this obligation can be enforced via investigations by the Department of Labor, Internal Revenue Service audits, or litigation by any interested party.

In addition to the trustee, the Board of Directors has a fiduciary duty to the shareholders, and in the case of an 100% ESOP-owned company, that means the ESOP. In practice, “courts have been clear that the board has a duty to monitor the fiduciary to make sure the fiduciary is qualified to do the job and is complying with ERISA and plan documents” (Merri Ash, Theodore M. Becker, Brian Ippensen, Nathan Nicholson, Corey Rosen, James Steiker, Nancy Wiefek, *ESOPs and Corporate Governance, Fifth Edition*, The National Center for Employee Ownership, 2022, p. 3).

Compliance with ERISA and the Internal Revenue Code, the two laws that define the standards for ESOPs and other retirement plans, is tested and verified annually via federally-mandated filings.

Additionally, the ESOP foundational documents, such as the Employee Stock Ownership Plan, the Trust Agreement, the Bylaws, and the Articles/Certificate of Incorporation include provisions for protecting shareholders by outlining the voting process and their rights on significant decisions, and ensuring that employee-owners who hold shares have a voice in key company matters. This structure helps maintain transparency and accountability.

A 100% ESOP creates a unique and empowering work environment where employees are not just workers but also owners who have a direct stake in the company’s success. Every individual participates on a rule-based, non-discriminatory basis. As employees become plan participants and receive contributions, they benefit from the company’s performance.

How many employee-owned companies are there?

As of the most recent data, there are almost 6,000 privately held ESOP companies employing a total of just over 1.9 million people.[6] Although the federal government does not record the number of companies that are 100% owned by their ESOPs, the NCEO estimates that it is roughly two-thirds, translating to approximately 4,000 companies. ESOP companies are a cross section of most of the US economy with heavy representation in professional / scientific / technical services, manufacturing, and construction.[7]

There are 751 known worker cooperatives, and their number has tripled over the last decade.[8]

What is the National Center for Employee Ownership?

Formed in 1981, the NCEO is a charitable 501(c)(3) organization dedicated to making employee ownership thrive through research, education, community-building, and advocacy. It serves over 3,000 members interested in creating or expanding employee ownership. It also makes information available to the general public in order to reach workers, business owners, policy makers, economic developers, and others.

The NCEO provides resources, offers workshops, hosts conferences, and publishes literature to help companies adopt and manage various employee ownership structures. Its goal is to promote the benefits of employee ownership, such as increased productivity, employee engagement, and wealth creation for workers.

What is the status of these employee ownership certifications?

The NCEO Registry Certification issued its first certificate at the end of 2024 as part of a testing process, and in April 2025 it publicly launched the certification. It is actively seeking companies interested in certification. The NCEO is in pilot testing mode as it builds the infrastructure to support widespread adoption, and expects to begin full operation in August 2025.

As it works on the certification process, the NCEO is also consulting with various companies and business groups about these certifications. The NCEO aspires to have each of these entities accept the certification as part of their diverse spend initiatives. Six purchasers so far have agreed to accept the NCEO Registry Certification.

The NCEO welcomes input as we continue to refine this certification pathway. Please contact the NCEO's Executive Director Loren Rodgers (LRodgers@nceo.org) and Communications Director Timothy Garbinsky (TGarbinsky@nceo.org) with feedback.

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[6] Both numbers exclude publicly traded companies with ESOPs, because by definition public companies cannot be 100% ESOP-owned.

[7] Employee Ownership by the Numbers, The National Center for Employee Ownership, constantly updated.

[8] 2023 Worker Cooperative State of the Sector Report, The Democracy at Work Institute and the United States Federation of Worker Cooperatives, September 2024.

How do companies apply?

To become certified, a company that is 100% owned by an ESOP must provide 13 documents.

Core plan and corporate documents

1. Employee Stock Ownership Plan document, with amendments.
2. Employee Stock Ownership Trust Agreement, as amended.
3. IRS Determination Letter or IRS Opinion Letter regarding the qualification of the ESOP.
4. S Corporation Election
5. Copies of all current Stock Certificates.
6. The Applicant's bylaws and certificate/articles of incorporation.

Updated financial statements and annual federal filings

7. Most recent compiled, reviewed, or audited annual financial statements.
8. Latest Form 5500, Annual Return/Report of Employee Benefit Plan if applicable.
9. Most recent tax return(s). S corporations should include IRS Form 1065, Schedule K-1 "Partner's Share of Income, Deductions, Credits, etc." (S corporations only). (for S corporations only).
10. Annual report on compliance from the TPA (any personally identifying information may be redacted)

Attestations

11. Officer's affidavit, certifying that the Applicant is 100 percent (100%) ESOP owned and that the employees of any subsidiaries to be covered by this certification are ESOP participants, with a copy of the Applicant's capitalization table attached.
12. A letter from the trustee(s) of the ESOP Trust confirming its status as trustee and that the trustee has set the stock price for the shares of Applicant stock in the ESOP Trust in accordance with the ESOP plan document and Employee Retirement Income Security Act of 1974, as amended. The letter should include the most recent annual valuation letter as an attachment.

Demographic information

13. Agreed Upon Procedures (AUP) Report from a CPA Firm confirming the demographics of the Applicant's employees based on the Applicant's EEO-1 submissions. The NCEO can assist with finding CPA firms able to complete the AUP Report. The AUP Report should answer three questions:

    a. Are 100% of the company's shares owned by the ESOP?

    b. Are at least 51% of the shares held by active plan participants who are members of the groups covered by the certification standards, where groups are defined so that no participant is in more than one group? The certification determines ownership using the same standards as required for compliance testing by federal statute, so in your calculation please determine the ownership by each participant on the same converted basis as in annual 409(p) testing. Please include a table of shares held by each group, on an as-converted basis, as determined by the annual 409(p) test and the number of employees in each group.Iii. Describe the data sources and analysis methods used in a manner sufficient for a third party to duplicate your analysis.

c. Describe the data sources and analysis methods used in a manner sufficient for a third party to duplicate your analysis.

Companies can begin the process by completing the intake form at www.nceo.org/certifications, and all are welcome to contact the NCEO with questions or for assistance: Loren Rodgers (LRodgers@nceo.org) or Timothy Garbinsky (TGarbinsky@nceo.org). Before submitting applications, companies agree to mutual expectations with the NCEO and complete a nondisclosure form.

Acknowledgements

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