BUSINESS

Schafer: Employee ownership could be answer to exit of baby boomer owners

MAY 24, 2017 — 8:04PM

LEE SCHAFER
@LEEASCHAFER

The deal-making crowd is understandably excited about the fees to be earned in helping baby boomers sell their businesses on their way into retirement.

None of the business brokers and bankers appear to have yet pointed out what the nonprofit group Nexus Community Partners has been saying, that this big generational shift in business ownership could provide an opportunity for even low-wage workers to get ahead.

Nexus, teamed up with a group called Project Equity out of Northern California, has embarked on a new effort to get the word out about the economic benefits to workers who manage to take over ownership of these businesses from their retiring bosses. What makes this at least worth hearing about, for business owners, is that a better buyer than their own workers may not come along.

Nexus is a small nonprofit in St. Paul, and one thing it does is to help make other individuals and groups working on issues like alleviating poverty get better at what they do. One reason Nexus joined with Project Equity is that the big baby boomer exit could be seen as a potential threat, too, as businesses shut down or move out of the neighborhood and take good jobs with them.

And they are talking about a lot of businesses. There are at least 26,000 businesses owned by baby boomers in the Twin Cities area, and they employ 320,000 people, Project Equity estimated.

A lot of the owners now eyeing an exit strategy probably know something about employee stock ownership plans, which are a form of trust that buy some or all of a company's ownership on behalf of employee owners. While Project Equity co-founder Alison Lingane said she's a champion first of employee ownership including ESOPs, an ESOP needs trustees and advisers and can be expensive to implement.

That's one reason she likes the worker cooperative model.

Turning over a business to a worker cooperative still means a purchase transaction, usually with the seller getting paid over months or years. Employees become an owner, with a one vote, one share ownership structure. Unlike in an ESOP, in which a formal estimate of value has to be done regularly, in a worker cooperative the value doesn't fluctuate.

Profits are usually dumped into three buckets, including keeping capital in the company to help ensure its survival. Another slice of the profits gets allocated to each individual employee but still retained by the company. The final bucket is money that gets distributed to the workers.

Project Equity got its start in the Oakland area of Northern California, where enough of these cooperatives have popped up that Lingane has case studies to share. Lingane described the experience of one nonprofit that helped launch at least five successful cooperatives in commercial cleaning services, an industry that typically employs a lot of unskilled and low-wage workers.

In one cleaning company, the pay started at basically twice the industry norm of around minimum wage, plus workers received other benefits including an assurance that the job would be there so long as they kept the company afloat. The details about long-term financial gains for the workers are still being collected, Lingane said, yet she has compelling stories. One she shared was how workers in one of the cleaning businesses had been able to borrow money backed by their own shares of retained earnings, enough to get through a setback like paying for an expensive car repair.

Program manager Elena Gaarder of Nexus, who is spearheading the worker-ownership transition effort in the Twin Cities, said she began thinking about this chronic problem of low-wage workers unable to accumulate any wealth long before she first encountered Project Equity.

She shared an unpublished report she had completed a couple of years ago showing that more than $150 million of public and philanthropic money in recent years was invested in economic development projects on the East Side of St. Paul, not counting money put into a big infrastructure project. And median household incomes in East Side neighborhoods still declined.

As Nexus looked at the potential for worker cooperatives in the Twin Cities, it looked for sole location businesses that pay a median wage of $15 an hour or less, like janitorial services or home healthcare. It came up with more than 3,300 candidates in the two core counties of the Twin Cities. On average, these companies have been in business more than 30 years and employ nearly 28 people.

It's likely Minnesota business owners understand what a cooperative is, Gaarder explained, given the state's long history with co-ops. Three Twin Cities-based cooperatives make the top 10 on the list of the largest in the country, including CHS Inc. of Inver Grove Heights, a Fortune 500 company that's perennially ranked as the largest co-op.

Yet, Lingane said, a common reaction among business owners when pitched the idea of a worker cooperative is that they can't imagine their employees crowding into the boss' old office and keeping the business running by majority vote.

Actually, she said, that's not the idea, and selecting the right general manager is just one step among many to close a deal. The worker-owners do vote, but largely on governance questions, not management. It's a little like shareholders in a public company or the customers of the big cooperatives, when voting for a slate of directors.

The business owners warm up to the idea once it occurs to them that they may have found a good answer to a question that's probably long gone at best half answered — how to keep the business going and still be allowed to leave, with money, when it comes time to retire.

lee.schafer@startribune.com 612-673-4302

Lee Schafer came to the Star Tribune after 15 years as a corporate officer, consultant and investment banker in the Twin Cities. He has been a columnist for Twin Cities Business magazine and was senior editor for Corporate Report Minnesota.

lee.schafer@startribune.com 612-673-4302 @LeeASchafer