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BUSINESSES?

Baby boomers across the U.S. own 2.34 million businesses—and as the retire they can close them down, or help their employees take control.



[Photo: Franzi Charen]

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BY ADELE PETERS

6 MINUTE READ

If you work at a textile or furniture factory in Western North Carolina, you probably don't belong to a union; the region usually ranks as the least unionized part of the United States. But a growing number of companies in the area, which includes the city of Asheville and smaller Appalachian towns, are considering a different worker-friendly change: a shift to worker ownership.

In part, the interest in a new model is driven by a practical reality: Nearly half of the privately held businesses in the area are owned by baby boomers who are getting ready to retire. In many cases, an owner's children may not want to take over, and with a glut of businesses on the market, a buyer might not be found. Moving to worker ownership is a way to keep a business from shutting down.

"If we don't find these mechanisms to transition the businesses, the businesses will go out," says Eric Henry, owner of [TS Designs](#), a 20-person screen printing business, who is currently planning to shift the company to worker ownership as he approaches retirement. The company's cofounder also recently retired. "We're not a publicly traded company, we're a small business. Those businesses that are tough to sell, you shut the power button off."

Henry also believes in the model as a better way to run a business. "I think it's just a better way to engage people," he says. "I think ultimately when they're more engaged, they're more informed, they'll make better decisions, which in turn makes the company more successful. I think it's just a good foundation to move a business forward."

The company is working with [Project Equity](#), a Bay Area-based nonprofit that aims to increase worker ownership throughout the country. While the organization has considered various ways to achieve this goal—including helping new worker-owned businesses launch—the founders realized that the so-called "silver tsunami," the surge of baby boomer business owners set to retire across the United States, was a key way to engage. Part of their strategy is simply to let owners know that the model is an option.

"I went to business school and never learned about this business model," says Project Equity cofounder Alison Lingane. "It's just not in people's consciousness."

The concept isn't new; George Washington and Alexander Hamilton both championed worker ownership, and the model was more common in the past. But it's little understood now. "There are a lot of misconceptions," says cofounder Hilary Abell. "People assume if this is going to become employee-owned or a cooperative that probably means that it's what we would call a collective, where the management is done through a very flat structure or maybe by committee." In reality, most employee-owned companies have a traditional org chart, though management is more participatory.

The exact structure varies. "We're not zealots in that there's one exactly right way to do it," says Molly Hemstreet, who founded a worker-owned cut-and-sew factory called [Opportunity Threads](#) in North Carolina in 2008, and more recently helped start an organization called the [Industrial Commons](#) to help other factories make the switch. Workers at Opportunity Threads have the opportunity to become a worker-owner, through membership in an LLC, after a vetting process of 12-18 months by other members.

Thriving Here





“We’re not a collective [where] everybody’s making every decision,” Hemstreet says. “There’s still a clear hierarchy. It’s just to say that the profits of the business and the risks are shared among a group of people.”

At Opportunity Threads, workers make up the board and management teams; the management teams run the business, rather than a traditional CEO. The company is saving some profits to invest in a new manufacturing facility, and has also invested in full benefits for all workers, whether or not they are worker-owners. The rest of the profits, about 30% of the total, go to the workers and worker-owners.

It’s a model that she says appeals to millennial workers that factories in North Carolina are now struggling to attract. Demand for locally produced or American-made clothing is growing—also driven partly by millennial consumers—but younger workers often haven’t wanted to go into manufacturing. Hemstreet believes the industry needs to work differently to succeed.

“I grew up at this interesting time—it was the heyday of manufacturing and then it all left,” says Hemstreet, who grew up in Morganton, North Carolina, and saw textile industry jobs disappear after NAFTA passed in the 1990s. “It was an ah-ha moment for me: If it’s going to come back, it needs to come back differently, and that needs to include a different labor model.”

As TS Designs prepares to make the switch, Project Equity is helping with a feasibility assessment to look at the financial and management implications of the conversion, including assessing the fair market value of the company. At most businesses, employees can’t afford to buy a company outright, so it’s a debt-financed transaction. “Given future projections, we look at how much could this future employee-owned entity afford to buy itself for from the current owners,” says Abell.

The amount of “buy-in” for a worker to become a worker-owner varies between businesses, but often ranges from \$250 to \$10,000. Workers often pay gradually with paycheck deductions. For a co-op, the structure that TS Designs will likely take, the cooperative buys the business, and the loan for the sale is paid for with future revenue from the business.

Henry is working with employees to help them prepare. “When you’ve got 20 people here, you got some people that can understand a balance sheet, income statement, all that kind of stuff, you’ve got other people that don’t have that understanding,” he says. “So we’re going to be spending a lot of time the first quarter, first half of this year just making sure that everybody understands the finances of the business.”

If all goes as planned, he and the employees will reach an agreement by the end of the year on terms, and begin the conversion process in 2019. Within three years, the buyout should be complete. He plans to then become a member of the new coop and stay on with the company for a few more years before fully retiring. He hopes to make the whole process transparent, so other businesses can learn from it.

There's likely to be a lot of interest; Project Equity has calculated that baby boomers across the U.S. own 2.34 million businesses, employing nearly 25 million people. The group focuses on the Bay Area, and through partnerships supports this work in other regions across the U.S. In North Carolina, Hemstreet says that worker ownership makes sense to a wide range of business owners, regardless of their political persuasion.

"I think when you can get back into a narrative of good work is good for everyone, it doesn't matter what side of the aisle you're on," she says. "This is about livelihoods, about people's dignity at what we do all day, which is work . . . I think everybody thinks that if you work hard you should be the beneficiary of that. That's ultimately what worker ownership is. You should have a say in the decisions that affect you."

Correction: This article has been updated to note that Project Equity does not work in Detroit specifically, but partners with other organizations there and around the country.

ABOUT THE AUTHOR

Adele Peters is a staff writer at Fast Company who focuses on solutions to some of the world's largest problems, from climate change to homelessness. Previously, she worked with GOOD, BioLite, and the Sustainable Products and Solutions program at UC Berkeley. [More](#)

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