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The Legacy of the Boomer Boss

By GAR ALPEROVITZ

COLLEGE PARK, Md. — OVER the next decade millions of business owners born during the baby boom will retire. Many, with no obvious succession strategy, will simply sell their companies, the backbone of Main Street economies across the country, to large corporations. All too often the result will be consolidations, plant closures and lost jobs for the people who helped build and sustain their companies for decades.

The boomers should think again: selling to their employees is often a far better way to go — for both moral and economic reasons.

Take New Belgium Brewing, based in Fort Collins, Colo., which its chief executive and co-founder, Kim Jordan, sold late last year to its 400-plus employees through what's called an employee stock ownership plan. "There are few times in life where you get to make choices that will have multigenerational impact," she said. "This is one of those times."

An ESOP works like this: a company sets up a trust on behalf of the employees, into which it directs a portion of its profits. The trust uses that money to buy the owners' shares, either all at once or over time. To ease the burden of such a large purchase, the employees, through the trust, can buy the company by borrowing against future earnings, with zero upfront costs.

For many owners, the decision isn't just about securing a legacy. It is a relatively easy one to make on financial grounds, too. If the owner sells more than 30 percent of the company to the employees, all ca taxes are deferred, provided that the proceeds are invested in companies.

This is hardly a new idea: more than 10,000 firms with ESOP' operate successfully, in virtually every sector. Indeed, three m individuals are now worker-owners of their own businesses tl members of unions in the private sector. They include well-known companies like W. L. Gore & Associates, the maker of Gore-Tex, and the school-picture company Life-Touch, as well as countless smaller companies, some even organized as traditional co-ops.

Most employee-ownership plans are not the result of boomer-age retirements, at least not yet. But that could change soon. Martin Staubus, a consultant for the Rady School of Management, at the University of California, San Diego, estimates that every year 150,000 to 300,000 businesses owned at least in part by boomers become candidates for employee takeovers as their owners hit retirement age. That means that over the next 15 years retiring boomers could help create two to four million new worker-owned businesses nationwide.

Worker ownership is not without difficulties, whether it is the result of an owner’s retiring or some other event. The selling price and continuing value of the firm, for instance, depend on an independent fair-market valuation of the company. This can fluctuate depending on the state of the economy, potentially playing havoc with employee wealth.

Tax benefits provided to help transfer ownership have also sometimes been misused. And ESOP’s involving large companies can be mind-bogglingly complex. But for smaller, privately owned companies, the challenges are typically well known and easily overcome.

And while there is in theory some tension about the idea of worker-owners and worker representation through unions, many labor organizations are by now well versed in negotiating potential conflicts — indeed, the United Steelworkers recently decided to actively promote unionized co-op worker-ownership efforts.

Meanwhile, companies in which employees have a direct ownership stake commonly report higher productivity, profits and pension and other benefits than comparable private firms in the same sector — especially when attention is paid to training workers in self-management.

The truly interesting challenge, however, is to retiring boomers. Selling to employees is harder than selling to an established corporation or private equity company. Not everyone will feel the excitement of a Kim Jordan, whose decision to sell to New Belgium's workers was greeted with cheers from employees. "We bought it," they boasted in a news release. "The whole shebang."

Still, choosing to create a more lasting legacy than letting some large corporation take over one's life work has a certain quiet appeal — especially when it is rewarded with tax benefits.

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