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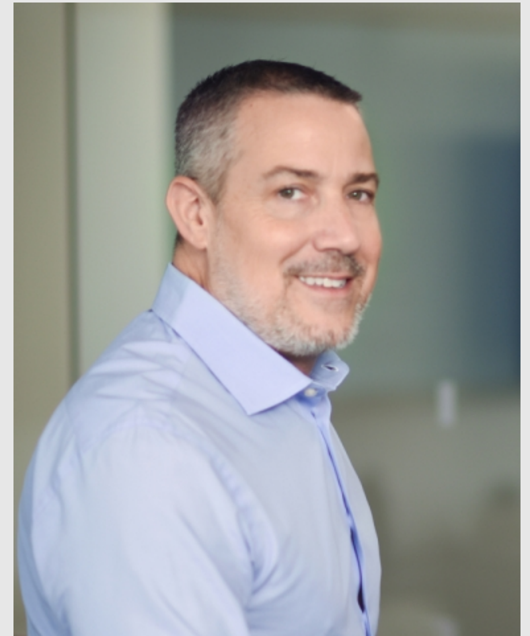
Employee Ownership: It Is Not For Every Employee



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Sonny Monterosso was dedicated to his business and to each of its 26 employees. As he began thinking of the day when he would leave his wholesale bakery business his thoughts turned naturally to selling the company to the three key employees who had done so much to build the business and who ran it on a daily basis.

There was no question that they were capable of running the business. Sonny returned to his native Italy for nine weeks each summer and the business didn't miss a beat. So, in a gesture typical of his generosity, Sonny approached these employees to see if they would be interested in buying the business—on favorable terms of course. They responded enthusiastically and Sonny was off to his lawyer's office to draw up a transfer agreement.

That's when the cake began to fall.

Sonny's lawyer suggested a number of different transfer strategies, each of which required that the key employees assume personal responsibility for a portion of the purchase price. The bakery would be the source of the payments for the purchase of Sonny's ownership. But, as is almost always the case, the individual buyers would be responsible for any shortfall.

When the key employees became aware that they would be obligated for the unpaid purchase price, their desire to own the business crumbled like one of Sonny's day-old cookies. Although the historic and projected cash flow from the business (after Sonny's departure) demonstrated clearly that the business would be able to support the buyout payments and the key employees were confident that the business would prosper under their ownership, they declined Sonny's offer. Ultimately, these employees were comfortable with being key employees; they were uncomfortable assuming the mantle—and the associated risks—of business ownership.

The moral of this story applies far beyond the doors of Monterroso's Bakery. Your business may be similarly blessed with capable, energetic management. Your key employees may be able to run the business as well

as (or even better than) you can. But, like Sonny's employees, they may not possess the entrepreneurial temperament that accepts (and even thrives on) that part of the game known as "risk."

Good, even great, management and key employees may not equate to good, even passable, successor ownership. To succeed you, key employees must possess the same spark that motivated you each day to make something of your business—no matter the risk or personal cost.

It is difficult, if not impossible to know what fires burn within your key employee group until you present it with a concrete proposal. This proposal must describe not only the opportunities of ownership, but also the risks. Make this detailed proposal before you travel far down the path of drawing up transfer documents.

Work with your professional advisors to fashion a realistic exit plan and present that road map to your intended new owners early in the process. And remember, if they decline your generous offer, don't interpret their refusal as a criticism or lack of confidence in you or your business. Your employees may not be cut from the same cloth as you.

Instead, realize (that to achieve your exit goals) that you must keep these key employees motivated to stay with the company, not only now, but after you've left it. You want them to continue their efforts to increase the value of your company. One way to accomplish both may be to install a *cash-based incentive plan*—complete with "golden handcuffs." Make employees financially interested in the future of the company—even if they choose not to own it.

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