Published on *HomeCare Magazine* (https://www.homecaremag.com)

Moving to an Employee Ownership Model

Redefining the family transfer
by Katrina Kazda
April 2, 2018

“One of the main things we lamented over in the very beginning was, if we sell the business, will the person who takes it on still carry on the same quality of business and mission that we have”?

After 34 years, Linda and Gregory Coles struggled with the idea of selling their child care business to a third-party buyer. What would happen to their 67 employees and the hundreds of families they served? Would the buyer maintain the business, or sell the property for profit? There were so many unknowns.

The Coles’ broker floated the idea of selling the company to their employees, an option they weren’t initially familiar with, but were immediately drawn to. “The idea that we could actually sell the business, turn the business over to our employees, was one of the best things we thought we could ever do."

Many of the Coles' employees had been with them from the very beginning. They were part of the very fabric of the business, and were integral to its success. For the Coleses, selling to their employees was like selling to their family.

In many small businesses, employees are like family. With few layers between owners and employees, understanding, respect and trust are more easily established, creating motivations on both sides that go far beyond the company bottom line.

As in the case of the Coleses, many small business employees stay with their employers for decades, and are at the core of the business' culture and success.

In homecare, building a family-like culture is undoubtedly more challenging. Due to the nature of the work, caregivers are more isolated and have fewer opportunities to connect with owners and co-workers. This is one of the many reasons that turnover is so high in the homecare industry. A small but growing sector of cooperatively-owned homecare agencies has hit on a model that overcomes these challenges and presents a promising path for workers and retiring owners.

"As a [worker] cooperative, we do not feel the isolation that normally exists in the caregiving profession. The sense of family among our membership is tangible, practical and appreciated," shared Kippi Waters, co-owner and administrator at Peninsula Home Care Cooperative, in Port Townsend, Washington.

Nationally, there are more than 400 worker-owned cooperative companies in operation, including 10 caregiver-owned homecare cooperatives.

The largest employee-owned company in the U.S., with more than 2,000 employees, is Cooperative Home Care Associates, a licensed homecare agency based in New York City that provides care to the elderly, disabled and chronically ill. While the average agency tenure of homecare workers is less than 12 months, at cooperative homecare agencies such as Cooperative Care in Wautoma, Wisconsin, the average tenure is 3.5 years, and several caregivers have been with the agency for over a decade.

Succession Planning

For many retiring business owners, succession planning is an agonizing process. Historically, independent companies were passed on to children, but inter-family transfers have been in steady decline for decades—down from 30 percent in 1980, to 15 percent by 2010, a trend that continues. In cases where a third-party buyer is an option, owners such as the Coleses, often worry about the ongoing integrity of the company they have built and its legacy; they worry what will happen to their dedicated employees and loyal clients. Where neither family nor a third-party buyer are viable options to carry on the business, business owners face closure.

With more than 10,000 baby boomers turning 65 each day—expected to continue through 2030—an estimated 2.34 million businesses will transfer or face closure over the coming decades. Yet studies have found that only 17 percent of small business owners have a formal exit plan.

A 2017 business succession survey of HomeCare Magazine readers conducted in partnership with The ICA Group echoed national figures. Nearly 50 percent of responding readers expressed a desire to sell their company within the next five years. However, more than 50 percent of those same respondents either had no exit plan or had only “thought about their exit.” Only 8.3 percent of owners reported having a written plan.

The ratio of business closures to business sales among independent firms operating for more than 25 years with 20 to 100 employees is 9 to 1. For small homecare businesses, this reality is particularly stark. Research by The ICA Group found that while 74 percent of all homecare companies with 20 to 100 employees are independently owned and operated, these firms account for only 16 percent of all companies sold since 2000. Simply put, investors ignore independent and family-owned homecare companies in favor of corporately owned companies, where buyouts and consolidations are rampant.

When a homecare company closes due to retirement, what is lost is planned retirement income (and family wealth), local jobs and local economic stability, and critical community supports for the aged and disabled. This new reality demands an alternative strategy.

Anchor in the Community

While succession strategies such as selling to family members, key managers, or a competitor are well known, broad-based transfer to employee ownership through a process known as “conversion” is often overlooked. Small business owners have built community assets they want to see survive to the next generation, and they need the equity they have built to fund their retirement, many also want the legacy they have built to mean something, and to reward the “family” that helped build it. As evidence, in the 2017 Business Succession Survey by HomeCare Magazine and

The ICA Group, readers ranked “Take care of or recognize/reward employees” and “Preserve business’s legacy” as the second and third highest objectives for business sales behind “maximizing after-tax seller proceeds.” Converting companies to employee ownership allows business owners the opportunity to accomplish all three.

Selling companies to employees anchors them in communities, builds assets for employees, retains jobs, and has been used to positively transform historically low-wage service sector occupations. For selling owners, owners can realize a higher gain, set the pace of the sale, and ensure the long-term success of their business.

“For Tim and I, it was very much a business decision,” said Tom Ewing, co-founder of Ewing Controls in Greenfield, Mass., which recently converted to employee ownership.

“We [My business partner and I] were concerned about what would happen when we eventually retire. Employees are our only asset, really. This is the perfect way to keep them engaged,” Ewing said.

“This is a structure that allows the company to continue forward into the future,” added co-founder Tim James. “Everyone has the same commitment and dedication.”

Research has shown that employee-owned companies have higher profits, productivity, job satisfaction and growth and are more resilient in times of distress. This is particularly true in companies that combine communication and partnership with employee ownership.

Strength in Numbers

Like any sale, this approach is not without challenges, but unlike selling to an outside buyer, the goals of selling owners and buying employees are deeply aligned.

As Kippi Waters of Peninsula Home Care Cooperative stated eloquently, “The adage ‘strength in numbers’ holds great import in the world of caregiving. We all want the very best care for our community elders and know we cannot do it alone. It’s an honor to be part of a cooperative family that is collectively working together to raise the bar of excellence in homecare. We are proud of our co-op.”

With tens of millions of jobs potentially at stake, support, including financing, for business conversions is growing.

In some cases, city and state governments are chipping-in to secure the economic security of their communities and workers through business conversions.

Several groups, including The ICA Group, are leading an effort to support conversions of homecare companies to employee ownership as a strategy to reduce homecare business closure, improve caregiving jobs and the quality of care provided, and begin to address the looming caregiving crisis in the United States.

Moves at the Top

According to internal research from the Democracy at Work Institute, the number of firms initiating a conversion process with a technical assistance provider has increased dramatically from 13 in 2014 to 63 in 2016, and through the first two quarters of 2017, 60 firms had been engaged, a trend that is expected to increase. While employee-owned homecare cooperatives have been in operation for more than 30 years, conversion of homecare agencies to employee ownership is a newer concept.

Of note, in summer of 2016, Bayada Home Health Care, one of the largest privately-held home health care companies, announced that it would gift the company to a newly created non-profit foundation that would become the organization's majority owner.

The remaining ownership stake of Bayada would be shared among family members and eligible employees. The Bayada move is unusual, signaling a potential shift in thinking, even among the sector's largest firms.

About the Author

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