



RUTGERS-NEW BRUNSWICK

Institute for the Study of Employee
Ownership and Profit Sharing

School of Management and Labor Relations

Executive Summary

Business Insights Owner Perspectives on
Selling to Employees from In-Depth Interviews

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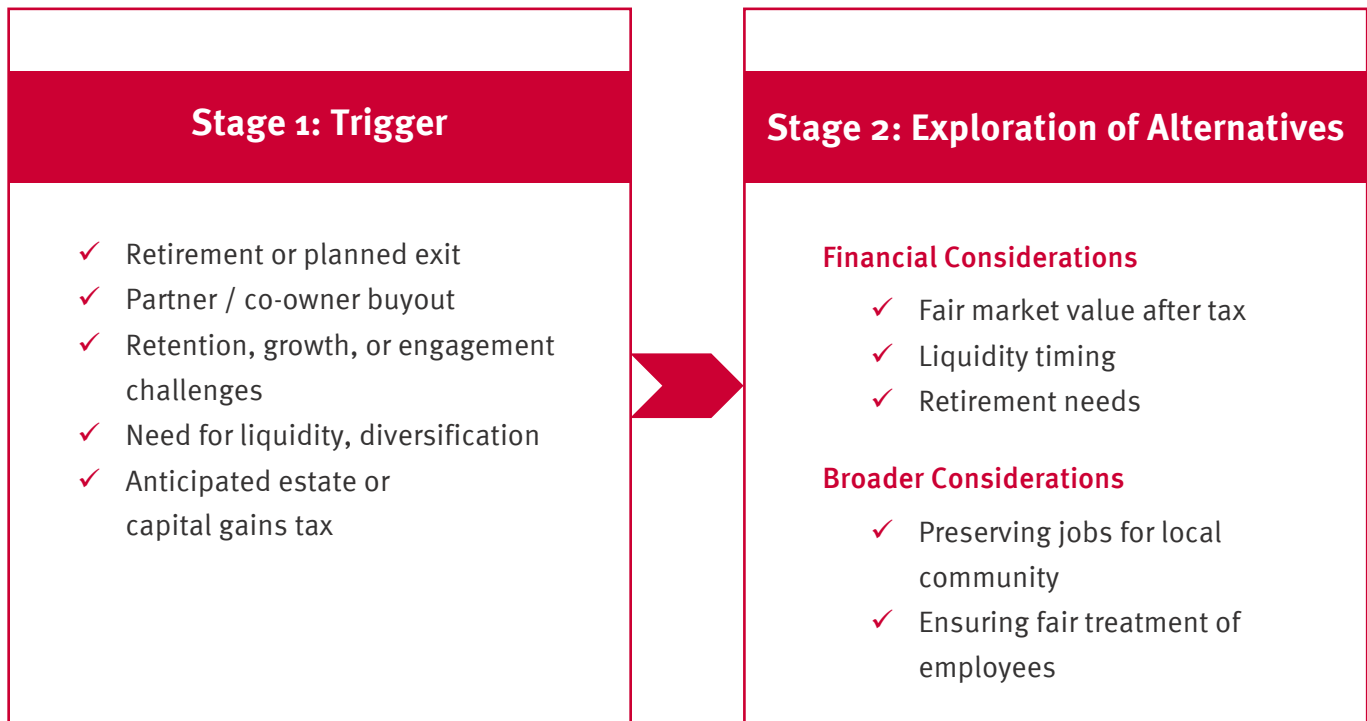
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As thousands of closely held businesses approach succession, employee ownership has emerged as an option that can allow owners to achieve liquidity at a fair price – while protecting their workforce and preserving their company’s identity. Yet we know relatively little about how owners themselves evaluate this choice. This report draws on interviews with 25 leaders from 23 firms that transitioned ownership through ESOPs or other employee ownership structures, offering new insight into why they sold to their employees, what outcomes they observed, and the lessons they would share with others.

Across industries, regions, and business sizes, sellers described employee ownership as a pragmatic and financially attractive exit strategy that is often values-driven as well. ESOPs enabled those interviewed to solve specific business problems while also meeting or even exceeding their financial goals, and at the same time preserving jobs and rewarding employees who helped build the company.

Our interviews suggest that the decision to pursue an ESOP sale typically unfolds in two stages. First, a concrete problem or triggering event prompts owners to explore their options. Second, as they assess those options, they come to see employee ownership as uniquely capable of addressing the challenge while also advancing a broader set of priorities.

Two stages of typical decision process leading to ESOP transition



Owners also cited real hurdles, including limited advisor knowledge, perceived complexity, and financing structures that require patience and creativity. Nevertheless, satisfaction with completed transitions was high, and many emphasized the model’s potential to build truly meaningful wealth for workers.

Key Findings and Takeaways

1. ESOPs are a competitive exit strategy, not a niche compromise.

Many sellers found ESOP deals financially competitive with private equity once taxes and risk were taken into account, and by working with experienced advisors were often able to get most of the upside of a private equity transaction.

“ I don’t subscribe to the idea that you get more money by not going with an ESOP.”

- Jim Balestrieri, founder of MyPath (Oconomowoc, WI)

2. While practical “triggers” typically start the process of considering employee ownership, values drive the final decision.

Sellers commonly encounter the idea of a full or partial sale to an ESOP when faced with a looming retirement and/or succession, need for a partner buyout, retention challenges, or tax planning dilemmas. However, they typically indicate that they chose an ESOP over other options because it allowed them to maintain their company’s culture or unique identity.

“ [Private equity buyers] come in, they hand you money, and you go away. You don’t have to hear from them again. But can you sleep at night? I wouldn’t have been able to sleep at night.”

- Jane Hileman, founder of American Reading Company (Blue Bell, PA)

3. Employee ownership protects worker livelihoods and community ties.

A number of the sellers interviewed had rejected private equity bids out of concern over future layoffs or company relocation. For these individuals, employee ownership emerged as a way to safeguard jobs for their workforce and preserve their business’ local roots.

“ We’re well-respected in our community, and will continue to be because of what we’ve accomplished here. This is probably the single best thing that we could have done for the company.”

- Thomas Ruper, co-founder of NHS Northstar (Chisholm, MN)

4. Tax advantages can make ESOPs the most financially compelling option for addressing major business challenges.

Key incentives include those under Section 1042 of the Internal Revenue Code – the so-called “1042 rollover” – for C corps, or the ESOP income tax exemption for S corps. These provisions can benefit both sellers and the companies themselves, for instance by accelerating the payoff of debt related to the ESOP transaction or by supporting new investments in the business.

“ *The federal tax exemption is foundational to our ability to pay off the loan [used to finance the ESOP transaction] so quickly.*”

- “A. B.”, founder of “ABC Creative”

5. Awareness and advisor expertise remain major barriers.

Many of those interviewed report that they initially heard ESOPs were “too complicated” or otherwise infeasible, but that doing their research and finding an advisor with the right knowledge and experience made all the difference.

“ *Not everyone in the business arena is aware of the topic of employee ownership.*”

- Tracy Till, co-founder of Butler/Till (Rochester, NY)

6. Flexible structures support partial sales, phased exits, and ongoing leadership.

Some sellers began with partial ESOPs – selling just a portion of company stock to employees – as a way of “testing” the model, or continued to work for the business or remained on a board after the change in ownership in order to ensure a smooth leadership transition.

“ *Even though we’re 100%-employee-owned now, I’m staying on for at least five years as the president and chairman of the board. I’ve still got a lot of oversight, and I can take the time to make sure we have the right leadership in place...”*

- Ellis Guiles, former owner of Graboyes Commercial Window and Glass Solutions (Bristol, PA)

7. Alternatives broaden options for smaller or mission-driven firms.

For companies where the ESOP model may not be viable or preferred, employee ownership can be achieved through alternative structures. Worker cooperatives and employee ownership trusts can preserve purpose with lower ongoing costs and reduced complexity, though with fewer tax benefits and statutory protections for employees.

“ *We’re in love with the [employee ownership] trust because it’s so beautifully simple to understand... If you’re an owner who has goals beyond just financial benefit, it’s definitely something to explore.”*

- Brad Herrmann, co-founder and CEO of Text-Em-All (Frisco, TX)

8. Successful employee ownership requires early planning and sustained communication.

By and large, interviewees advised other business owners considering an employee ownership transition to start preparing years before an exit and to ensure that their business is in a strong enough financial position to manage ESOP “repurchase obligations,” or the liabilities associated with buying back shares from those who retire or leave the business. Moreover, they stressed the need to educate workers about the significance of an ESOP in terms that are meaningful to them.

“ I tell people that if you think starting an ESOP is just flipping a light switch and everyone gets it, you're crazy. It can be a years-long process. We really tried to bring in a lot of the good ideas that we've heard about developing an ownership culture and educating people about what it means to have employee ownership.”

- Dan Kenary, co-founder of Harpoon Brewery (Boston, MA)

Taken together, these accounts challenge the assumption that selling to employees is solely an altruistic choice. For many of the businesspeople interviewed in this study, employee ownership—most often via an ESOP—was a pragmatic, competitive, and tax-efficient exit strategy that aligned with a broader vision of stewardship and long-term community impact. As one seller remarked, “[w]hen I explain what I’ve learned, people are surprised—by the tax advantages, by the structure, and by how feasible it really is. Once they understand it, many want to explore their own options.”

To download the full report, visit eohub.rutgers.edu/resources/sellersreport/.

Support for this research was generously provided by the MetLife Foundation.

The Institute for the Study of Employee Ownership and Profit Sharing conducts research on all forms of employee ownership. For more information, visit smlr.rutgers.edu/InstituteEO.