

# THE CO-OPERATIVE OPPORTUNITY

## A Strategy for Small Business Succession in Ontario

**DR. SEAN GEOBEY AND MEG RONSON**

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UNIVERSITY OF WATERLOO  
FACULTY OF ENVIRONMENT

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# THE PROSPEROUS PROVINCE: STRATEGIES FOR BUILDING COMMUNITY WEALTH

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Commissioned by the Atkinson Foundation, this report from Sean Geobey and Meg Ronson at the University of Waterloo is intended to support informed discussion and guide decision-making related to succession planning and decent work in small businesses across Canada. The report is part of the research series, **The Prosperous Province: Strategies for Community Wealth**.

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1 Yonge Street,  
Suite 702,  
Toronto, ON  
M5E 1E5 Canada

416.368.5152  
info@atkinsonfoundation.ca  
atkinsonfoundation.ca  
@atkinsoncf



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200 University Avenue West  
Waterloo, ON  
N2L 3G1 Canada

+1 519 888 4567  
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Cover image: When the previous owner decided to retire in 2010, community members in Campbellford, Ontario rallied to convert the Aron Theatre into a member co-operative. Photo Credit: Russ Christianson/Aron Theatre

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# FOREWORD

This paper is a contribution to the Atkinson Foundation's continuing series, *The Prosperous Province: Strategies for Building Community Wealth*. The series provides briefing notes for an important mission: making Ontario's economy work for everyone who lives here.

Across Ontario, community organizers, politicians, public servants, trade unionists, business owners, philanthropists, academics and others are coming together to transform our economy into a more equitable one. Some have been pursuing this mission for a long time while others have been recently seized by its urgency.

The issues examined in this paper — succession planning and the opportunity of co-operative conversions — deserve an even wider audience. Small businesses employ over two million workers in Ontario. The continued employment of these workers is not guaranteed with 41 percent of small business owners projected to retire over the next five years. Three out of five do not have a succession plan. Many small businesses are expected to shutter, especially in rural areas, resulting in job losses and the erosion of local services and economies.

With support, however, there are several examples of how engaged employees can successfully help their employers make the transition to co-operative models of ownership. Co-operatives have long been a big part of the movement for fair economies advancing principles such as democratic governance and member control of capital underpinning them. We have learned that a culture and climate for conversions to co-operatives can be created.

This paper draws together lessons from Spain, Italy, the United Kingdom, Quebec, and the United States to understand how all of the levels of government in Ontario can help support co-operative conversions.

At Atkinson, we believe this is a promising strategy to share prosperity and address inequality. I look forward to working with you to realize this ambitious goal.

COLETTE MURPHY  
Atkinson Foundation

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# INTRODUCTION

Activists, policymakers and researchers working to create more decent work in Ontario are looking for creative solutions. Rising concerns about precarious work, depressed wages and rising housing costs cry out for new approaches. Small businesses provide a large share of the province's jobs and the sector as a whole is facing a major succession crisis as Baby Boomer business owners look to retire without having adequately planned for passing off their businesses to new owners. For advocates of decent work, this crisis presents an opportunity as some of these businesses could be converted into co-operatives – a form of enterprise that can support workers in building decent work.

Successful co-operatives of all forms leverage the insights, social connections and passions of their members to build sustainable enterprises. As democratically owned and operated businesses rooted in a global tradition spanning centuries, reenergizing the co-operative sector can advance decent work in Ontario and beyond. Co-operatives already have a strong presence in Quebec, the prairies, and British Columbia as well as specific sectors of the Ontario economy including agriculture and housing. This model presents a wealth of advantages and is uniquely poised to address a looming concern in virtually every region of the province: succession.

As Baby Boomer business owners continue to retire, their exits not only pose great risk to the livelihoods of their employees, but also to supply chains and communities they are critical parts of, especially in rural and remote areas that may rely heavily on them for essential services. At the same time, there are ample precedents for these businesses to be converted into co-operatives. With the right supports, the workers and communities that had relied on these enterprises can use them as the foundation for sustainable economic development and decent work.

This report explores this opportunity to expand the co-operative sector and to support the economic security of many Ontario workers. It is composed of three sections. Part 1 describes the national and provincial context of decent work, recent government action to uphold it, and introduces co-operative enterprises as a natural generator of decent work that is often left out of policy action. Part 2 explains the practice of converting conventional firms into co-operatives, and how such a practice could be used to advance the sector given Ontario's imminent challenge of ensuring the continuity of businesses whose owners will be retiring in the coming fifteen years. Part 3 provides international and out-of-province examples of such strategies being successfully supported or employed, and outlines the first steps to be taken in Ontario to ensure similar successes.

# 1 DECENT WORK AND THE CO-OPERATIVE SECTOR

## A/ THE FUTURE OF WORK IN CANADA AND ONTARIO

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Jeremy Rifkin's 1995 *The End of Work: The Decline of the Global Labor Force and the Dawn of the Post-Market Era* predicted that information technology and automation would hollow out the middle class, plunging the majority of the global population into unemployment and poverty. With twenty years of hindsight we can see that while Rifkin correctly identified many sources of disruption in the labour market, he did not fully anticipate effects. Work did not end, it changed. This change was not always for the better.

In Ontario over the last several decades we have seen increases in the number of jobs at or near the minimum wage (within \$4 of minimum) (Block, 2015). The share of Canadians holding part-time work has increased over time: each recession since the 1970s has seen modest bumps in part-time employment, from 12 percent of employment in 1976 to over 19 percent after the most recent recession (Lowe & Graves, 2016). There has also been a gradual increase in temporary and part time work: over the last twenty years it has increased by 2% in Canada, and by 3% in Ontario.<sup>1</sup>

Ontario's small businesses account for over a third of all of Canada's small businesses.<sup>2</sup>

Both the province and the federal government have made positive moves here. In Ontario, Bill 148, Fair Workplaces, Better Jobs Act was passed into law in November of 2017. The law is meant to create more opportunity and security for workers by, among other things, steadily increasing the minimum wage and then fixing it to inflation, and mandating equal pay for part-time, temporary, casual, and seasonal employees doing the same work as permanent employees (Ontario Government, 2017a). The Federal Government has laid out an Innovation and Skills Plan intended to support "innovation to drive growth, improve lives of Canadians, and create jobs economy-wide" (Innovation, Science and Economic Development Canada, 2016, p. 3). However, having workers directly setting priorities in their own workplaces can provide them with more direct control over the creation of decent workplaces.

Small businesses account for over 2,000,000 jobs, or 37%, of all private employment in Ontario.<sup>3</sup>

## B/ SMALL BUSINESS, CO-OPERATIVES AND DECENT WORK

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### SEVEN CO-OPERATIVE PRINCIPLES

Every co-operative around the globe also shares in a distinct identity as a co-operative, along with a set of seven principles that are meant to guide how they operate their enterprise. Those principles are:

1. Voluntary and open membership
  2. Democratic member control
  3. Member economic participation
  4. Autonomy and independence
  5. Education, training, and information
  6. Co-operation among co-operatives
  7. Concern for community
- 

Fostering local businesses has long been an essential pillar of economic development policy. There has been no shortage of formal and informal support for for-profit entrepreneurs and start-ups, whether from public, private, or non-profit funding, mentorship, or other forms. Entrepreneurship in Canada is said to be on the rise, and ahead of all G7 countries save the United States (Grant, 2015b). However, support networks continue to consider small business as a distinctly individualistic endeavor, instead of as a collective process that draws from a multiplicity of people, groups, and resources (Muske et al., 2007). This has severely limited our collective imagination of the many ways people can be enterprising.

Co-operative enterprises, by contrast, are based in a collaborative approach to business in which a specific group of stakeholders in an enterprise collectively own—and in some cases operate—their firm (Diaz-Foncela & Marcuello, 2013). The primary distinction between a co-operative and a for-profit firm is its ownership and governance structure. While ownership and decision-making in for-profit companies is often concentrated in one person or by shareholders according to “one share, one vote” rules that gives power to larger investors, co-operatives are run according to member-based principals in which each member-owner holds one vote in a “one person, one vote” democratic structure.

This structure allows co-operative members to pool their personal finances and dilute the risk, similar to what investors achieve in a standard for-profit corporation. Co-operatives can operate in any industry and provide goods and services just like a for-profit corporation. There are a handful of sectors where co-operatives have been particularly common in Canada, notably agriculture, housing and finance. Co-operatives can provide a wider variety of people in a community with an ownership stake in their local enterprises than the more common exclusively for-profit corporate forms.

What this owner membership base looks like varies significantly depending on what kind of co-operative it is, with the following common co-operative models in Ontario.<sup>4</sup>

- In a **worker co-operative**, the members are the employees. Example: La Siembra Co-operative, which produces Camino branded organic, fair trade food.
- In a **consumer co-operative**, the members are the consumers of the product or service. Example: Mountain Equipment Co-op, credit unions.<sup>5</sup>
- In a **producer co-operative**, the members are the producers of the product or service. Example: Gay Lea Foods.

- In a **multi-stakeholder co-operative**, there are different kinds of members, each with their own powers and responsibilities. Thus, they are able to combine member groups like clients, investors, employees and even community organizations (Gould, 2015). Example: West End Food Co-op in Toronto.

Regardless of the membership-ownership structure, each co-operative is organized to support and advance the collective needs of those members.

International, national and provincial numbers on co-op sector			
	INTERNATIONAL <sup>i</sup>	NATIONAL <sup>ii</sup>	PROVINCIAL <sup>iii</sup>
# of co-operatives	2.6 million	7,865	1300
# of members	1 billion	not available	1.4 million
# of employees	12.6 million	87,963	15,500
Annual revenue	\$2.98 trillion	\$34 billion	not available

<sup>i</sup> Dave Grace and Associates, 2014; <sup>ii</sup> Rivard, 2016; <sup>iii</sup> Ontario Co-operative Association, 2007

## Co-operatives and decent work<sup>6</sup>

### 1. Decent work means workers have a voice.

Co-operatives have a 'one-member, one-vote' governance structure that grants an equal voice to each one of their members regardless of financial contribution. In worker co-operatives, this translates to workers having direct control of their company. In consumer, producer and multi-stakeholder co-operatives the non-worker owners often see the benefits of investing in their workforce.

### 2. Decent work means workers have an engaged and socially conscious employer.

Co-operatives are frequently found on top employer lists. The Co-operators, Farm Credit Canada, Mouvement Desjardins, and Libro Credit Union are among *Canada's Best Employers* (CB Staff, 2015). Co-operatives are also often viewed as the original form of social enterprise in that their primary purpose is to serve member needs first, while profit-making is secondary.

### 3. Decent work means workers are paid fairly for their labour.

Across all industries, co-operatives are statistically more likely to pay higher wages than conventional firms (Bailly, Chapelle & Prouteau, 2017).

**4. Decent work means workers are given opportunities for personal and professional development.**

The fifth co-operative principal is a commitment to education, training and information sharing among but also within co-operatives. By their nature as co-operatives, co-operatives also facilitate firm-level human intelligence mobilization (CECOP CICOPA Europe, 2013).

**5. Decent work means workers have stable and consistent work when possible.**

Co-operatives are historically proven to weather economic downturns better than conventional firms. Because of their social, democratic and member-driven purpose they are able to prioritize long-term success and viability over the short-term financial gains often sought by traditional shareholders, which results in them closing due to short-term loss (Jensen, 2011).

The co-operative model further bestows benefits on the region that contains it and the firms that adopt it in the following ways:

- A healthy mix of co-operative and conventional firms ensures a diverse and dynamic economy.
- Co-operatives are more resistant to economic shocks than conventional firms (Birchall & Ketilson, 2009).
- Co-operatives tend to operate in spaces where there is market failure or monopolistic or exploitative market behavior, providing a more robust social and economic base (Hansmann, 1999).
- The co-operative sector and its merging of economic and social interests have been suggested as possible fixes to major global problems, including energy shortages, food security, and inequality (Lewis and Conaty, 2012).
- Co-operatives are usually owned locally, and local ownership is said to ensure “a community’s long-term ability to set the pace of its own development, ensure long-term social benefits from the enterprises in the community’s region, and maintain resilience against shocks” (Varghese et al., 2006, p. 506).

The co-operative sector has a long history of supporting local economies when they are facing difficult transitions. Rural Quebecois towns like Sacré-Coeur, reliant on the struggling lumber industry, were able to revive their economies by consolidating several failing firms into a consortium of local co-operative businesses in the 1980s (Lund, 2011). Internationally, the Basque Country transformed from an isolated and economically challenged region into the most celebrated—and economically successful—co-operative ecosystem in the world (Heales, Hodgson & Rich, 2017).

## 2 CO-OPERATIVE CONVERSIONS AND SMALL BUSINESS SUCCESSION

### C/ CO-OPERATIVE CONVERSIONS

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A co-operative conversion is the process by which a company is restructured as a co-operative. When it is the employees who lead this process, it is called a worker buyout (WBO), though the restructuring is not always as a formal worker co-op as the more common worker buyout approach involves maintaining the corporate form and instead having workers purchase shares through an Employee Stock Ownership Plan (ESOP). An ESOP can be a useful precursor to a full a co-operative conversion though ESOPs that do not lead to a conversion are more frequent (Frisch, 2001).

Conversion activities are one way that the co-operative sector has been able to expand in various regions of the world. In some instances, as in Argentina or Italy, conversions are undergone to revive failing businesses. In Canada and Ontario—as well as in the UK, Spain, the United States and others— conversions are being actively examined as both an opportunity to increase the capacity of the co-operative sector, but also as a solution to our looming small business succession challenges.

### D/ SMALL BUSINESS SUCCESSION

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The topic of small business succession planning has seen a surge in public discourse over the last twenty years. As the baby boom generation begins to retire, many sectors will feel the strain, and the small business sector is no different, with 41% of Canadian small business owners projected to retire over the next five years (Business Development Bank of Canada, 2017). Traditionally succession planning has simply meant passing on a business to a relative. However, as owners wait longer to retire when their adult children have moved farther along in their careers, this option has become less and less common. Indeed, nearly half (48%) of Canada's small business owners are expecting to sell to someone unrelated to them as their exit plan (Bruce & Wong, 2012). Meanwhile, well over half of small business owners (59%) have no succession plan, with an additional 21% stating they have only an informal, unwritten plan (ibid). Various reports from before and since have put out similar numbers (Bruce, 2006; Bruce & Picard, 2005; Bruce & Wong, 2012; Equicapita, 2014; Tal, 2012), and media outlets have recently published stories on regional or provincial concerns (Parkinson, McFarland & McKenna, 2017; Rastello & Tomesco, 2017). The Ontario Ministry of Economic Development and Growth also released a study early in 2018 which provided an updated survey of the issues provincially as well as globally (Shore Consulting, 2018).

The high number of small business owners looking to sell, and the dismally low number of small business owners planning out their succession constitutes a serious economic risk.

Many small business industry experts and researchers are pointing to these converging statistics as a warning that a large number of small businesses are simply going to close (ATB Business, 2016; CB Insights & Deloitte LLP, 2014; Jackim & Phillips, 2007; Rastello & Tomesco, 2017; Templin et al., 2017; Vanwyck, 2010) rather than successfully transitioning through the owner's retirement.<sup>7</sup>

Because no demographic imbalance quite like this has occurred in small business ownership within or beyond our borders, it is difficult to predict its effects: most of the research highlights what *the scale* of the effects might be, but seldom *what* those effects could be. We do know that an owner exiting a business affects many people and institutions, and sometimes whole communities or countries (Koladkiewicz & Wojtyra, 2016), and it stands to reason that many doing so at the same time will amplify those effects.

## **E/ ONTARIO'S SMALL BUSINESS SUCCESSION CHALLENGE**

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Based on publically available data, the following may be at risk over the next 15 years if ownership transitions are mismanaged.<sup>8</sup>

- Lost productive capacity: Up to \$100 billion of Ontario's GDP.<sup>9</sup>
- Lost employment: Up to 1 million jobs in Ontario.
- Lost tax revenue stream: Indeterminate loss of government revenue derived from income, sales and corporate tax.
- Further decline of Ontario's rural communities: Many aging small business owners are in small towns and their business exits may deprive rural areas of access to key goods and services, further contributing to talent flight and the economic decline of rural Ontario.
- Strain on retirement supports: Business owners who fail to plan their succession risk selling their business at a depressed value, increasing their reliance on public support systems such as Old Age Security as roughly half of SME owners anticipate the sale of their business to fund their retirements (ATB Business, 2016) and with half of SME owners lacking diversified investments beyond their businesses (BMO Wealth Management, 2016).
- Lost knowledge and expertise: The skills, business processes and institutional memory tied to an SME can be lost when it closes, which in turn can damage local supply chains, worker productivity and innovative capacity of industry.

How much of this downside will be realized is highly dependent on the capacity of policymakers and the market to manage the transitions gracefully. However, it is clear that the consequences will not be evenly distributed across industries in the province. If there are to be policy interventions into succession planning and co-op conversions, those industries with the greatest potential negative impact are the ones that should be targeted.

## **F/ THE CONVERSION LANDSCAPE IN ONTARIO**

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There is precedent of businesses converting into co-operatives in Canada, though documentation and research into these events is scarce. The national and provincial associations have nevertheless compiled significant resources surrounding this opportunity to expand the co-operative sector, with the intent of providing assistance in cases where a co-operative conversion is feasible.

### **Examples of conversions in Canada**

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While Canadian worker buyouts are less common than in countries like the United Kingdom, France, and Italy, there are still recent successes in Canada. The Western Labour/Worker Co-op Council (WLWCC), which supports labour unions and worker-owned co-operatives in Western Canada, described numerous successful conversions in a 2009 report.

- In British Columbia, Nanaimo Forest Products was created out of a group of four worker organizations with equal ownership.

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### **FURTHER READING**

Co-operative Business Succession by Russ Christianson (2015): <https://www.ontario.coop/sites/default/files/Co-operative%20Business%20Succession%20V1.4%20Oct%2021-15.pdf>

Business Succession Planning Through Worker and Multi-Stakeholder Cooperatives by Lori Gould (2015): <http://manitoba.coop/Uploads/Resources/Business%20Succession%20Planning%20Research%20Report%20Gould%20May%202015.pdf>

Succession Planning Using the Worker Co-op Option by Peter Hough (2005): <http://community-wealth.org/content/succession-planning-using-worker-co-op-option>

Business Owner's Guide to Selling a Business to a Cooperative (n.a.) by CoopZone: [http://www.coopzone.coop/wp-content/uploads/2015/07/Business\\_Owner\\_Guide\\_Full\\_.pdf](http://www.coopzone.coop/wp-content/uploads/2015/07/Business_Owner_Guide_Full_.pdf)

Companion Guide to Transferring a Business to a Cooperative (n.a.) by CoopZone: [http://www.coopzone.coop/wp-content/uploads/2015/07/Co-operative\\_Business\\_Advisors\\_Guide\\_Full\\_REV.pdf](http://www.coopzone.coop/wp-content/uploads/2015/07/Co-operative_Business_Advisors_Guide_Full_REV.pdf)



- In Quebec, the ambulance sector converted to a co-operative model in which eight different co-operatives handle about half of ambulance services in the province.
- In Nova Scotia, an at-home care service business was bought by its employees from its retiring owner (Grant, 2015), and remains the quite successful Careforce Health Services.

While worker buyouts tend to be enacted to preserve jobs, consumer buyouts have also been successful in preserving important consumer or cultural needs of a community. A movie theatre in Campbellford called the Aron Theatre is a favourite story in the co-op world. Not only was the community able to buy the theatre and continue running it, but the theatre has become a central part of arts and entertainment in the town's core and surrounding area (Ferguson et al., 2015). Consumer buyouts are not well-documented in Canada or internationally, but present an attractive succession option for low-capital, low-skill, essential service providers like grocery stores, or key cultural assets like art centres, museums, etc.

Multi-stakeholder buyouts involve multiple classes of members, and so tend to be more complex to undertake and often involve separate mandates and voting rights for each member type. Nevertheless, they are a promising form for conversion because they allow a merging of different interests under one firm to contribute to its survival, ie: investors, workers, consumers. Moreover, this model may be particularly useful as a temporary stop-gap in a transition

Image: Employees at the *Prince Albert Daily Herald* took over the newspaper in May 2018, saving one of Canada's oldest dailies and reinvesting in local coverage. Photo Credit: Nick Purdon/CBC Licensing

to another type of co-operative that may be easier to manage long-term. In Québec, multi-stakeholder co-operatives are often referred to as solidarity co-operatives and have played a crucial role in maintaining essential service networks in more remote communities, particularly in personal care services (Lund, 2011).

It is worth mentioning that much of available conversion literature and examples tend to focus on worker co-operative conversions and not consumer or multi-stakeholder conversions. This constitutes an unfortunate gap in our understanding and application of the co-operative model, since in some cases, a worker co-operative may not be feasible as a succession strategy for a number of reasons. There may be situations in which a producer co-operative might be preferred, such as when a wholesaler or processor in the agricultural sector is in the process of transition. However, it is consumer and multi-stakeholder co-operatives which are likely the most underutilized form. These models could be attractive in sectors where the quality of goods and services is important and hard for consumers to easily gauge, such as in health care, social services and childcare, as well as in small communities that rely on businesses for which there are no alternative providers.

# 3 SUPPORTING THE STRATEGY

## G/ INTERNATIONAL AND OUT-OF-PROVINCE EXAMPLES

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There are plenty of international examples of impactful government support structures for both the co-operative sector as well as co-operative conversions as a succession solution. The following is a brief summary of some of the more successful co-operative and conversion ecosystems.

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### SPAIN

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In 1972, Spain created a Labour Societies (Societas Laborales) model that was a democratic corporate governance business model. A 1986 Act then enabled the use of innovative financing models to establish co-operatives, like allowing workers to use government Unemployment lump sums as funding for their co-operative ventures.

In 2011, Spain implemented the Social Economy Law, “to establish a common legal framework for social economy entities and to promote, develop and provide support to SE entities and their representative bodies” (Giagnocavo & Gerez, 2011, p. 2). It created a typology that can be tracked and measured by the government, and a Council for the Promotion of Social Economy, which will advise upon actions to take within the social economy and serve as a communication channel to the government.

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### ITALY

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Italy’s worker buyout climate is described as springing from the decline of its once thriving manufacturing sector in the ‘90s and ‘00s, and enabled by the supportive legislation of the Legge Marcora, implemented in 1985. Worker buyouts have been on the rise in Italy since 2008, with a historic counter-cyclical pattern (Vieta, 2015).

The Italian state “has made available two funds for the development and consolidation of worker co-ops” (Vieta, 2015, p. 41). One (Foncooper) consists of low-interest loans accessible to co-operatives looking to improve employment levels, modernize processes or equipment, or increase productivity. The other (Special Fund) is for the development of new work-generating or

producing co-operatives. It is available for institutional investors who are then required to invest into new co-operative projects. Their financial contribution is meant to be in direct proportion to how much the workers themselves invest. Rather than debt financing, it is risk capital financing, where the financial institution has shares as a financial member. Thus, the onus of repayment is on the members themselves, which means there is limited financial burden on the state. Two financial institutions are mandated by Economic Development of the state to finance co-operatives. They work closely with their beneficiary groups and perform “technical assistance, SWOT-type business analysis, feasibility studies” (Vieta, 2015, p. 42). They are entrusted to carry out the objectives of the Legge Marcora.

Employees of firms in distress are allowed to tap a broad range of resources of self-financing to create the new cooperative, including “their severance pay, unemployment insurance, personal savings, or debt or risk capital financing” (Vieta, 2015, p. 55).

The legislation directly applies to worker buyouts, and contains within it a mandate to support work-generating co-operatives.

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## UNITED KINGDOM (UK)

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In the UK, the ‘social enterprise’ concept is a policy vehicle for co-op conversion: in 2002 the government launched a Social Enterprise Unit, which developed an Action Plan to encourage and support social enterprise development in the country. This has been successful in advancing the co-operative sector (Spear, Cornforth & Aiken, 2009). They are understood and treated as “the business side of the third sector” (p. 252) in the country. Despite shifting governments, support has continued, with regular updates of social enterprise policy and laws.

2006 saw the release of the UK Social Enterprise Action Plan, with sweeping action items to help expand the sector. Also in 2006, co-operatives were granted the ability to issue investor shares for non-user investor members to facilitate capital-raising. Restrictions on the shares ensure the existing members’ interests are protected (Snaith, 2010). In 2014, the Finance Act created two tax incentives for employee-owned enterprises (Voinea, 2015), furthering the sector’s ability to finance itself.

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## QUEBEC

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Quebec has a promising climate both for addressing succession challenges and for advancing the co-operative sector. It has a strong network of institutions, which includes the Centre de transfert d'entreprise du Québec (Centre for the Transfer of Enterprises of Quebec), Fonds de Solidarité FTQ (The Solidarity Fund of the Federation of Workers of Quebec), and the Chamber of Commerce of Metropolitan Montreal in direct partnership with the Government of Quebec - all are designed to assist small businesses transition ownership, develop co-operatives, and in some cases both at once. There is even a word in French not directly translatable into English that encapsulates buying an enterprise from the initial owner: "repreneuriat" is a port-manteau of the words repreneur (someone who takes back) and entrepreneuriat (entrepreneurship). In May of 2018, Montreal hosted le Sommet international du repreneuriat (International Summit for Retaking Enterprises), which recurs every year and spun out associated events in Gatineau and Quebec City. All this amounts to tremendous awareness, partnership, and capacity-building for addressing the province's succession challenges as well as supporting co-operative solutions.

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## UNITED STATES (US)

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The United States has a strong and growing activist network dedicated to advancing economic democracy that is embedded in numerous organizational structures. They participate in advancing the co-operative economy in interconnected and complementary ways.

- The New Economy Coalition is a grassroots, member-based organization that provides lobbying, training, grants, and other supports for their members.
- The U.S. Federation of Worker Co-ops provides similar advantages to its community, which is exclusively worker co-operatives. They additionally help worker co-operatives to implement benefits plans for their member workers.
- The American Sustainable Business Council is particularly active in conversion activities in the United States, and specifically aims to help Congress understand small business succession challenges and consider conversions as viable and desirable solutions. They assist with addressing some of the finer details of conversion legislative barriers, such as lobbying for bills that would allow a small business operating under a specific government grant to be able to retain that grant in the event of a conversion.

- The Working World is a dedicated investment group that uses a non-extractive lending model to finance co-operatives looking to expand, and has been instrumental in reviving regional economies in Argentina and Nicaragua, but is also now funding co-operatives in the US.

The United States has seen significant growth in the worker co-op sector, with the majority of that growth occurring as a result of conversions from conventional businesses. 40% of all of the United States worker co-operatives are less than 5 years old. They see much of that growth concentrated in light manufacturing, the service sector, home cleaning and services, and retail, and also see it clustering significantly in only certain regions (Kelly, 2017).

### **Summary of enabling mechanisms**

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- Tax breaks for co-op members starting a co-operative
- Law allowing unemployment benefits to fund co-operative conversions
- Funding and partnerships to promote the co-operative model and the conversion solution
- Active organizational leaders and networks to assist with co-operative development, conversion, and lobbying to government
- Legislation to ensure and sustain the above

CECOP CICOPA Europe (2013) names three factors that make conversions more common in some countries than others:

- A legal framework protecting and promoting co-operative enterprises
- High levels of co-operation and consolidation of worker co-operatives
- Policy measures that facilitate business ownership transfers to employees

## H/ WHERE TO START IN ONTARIO

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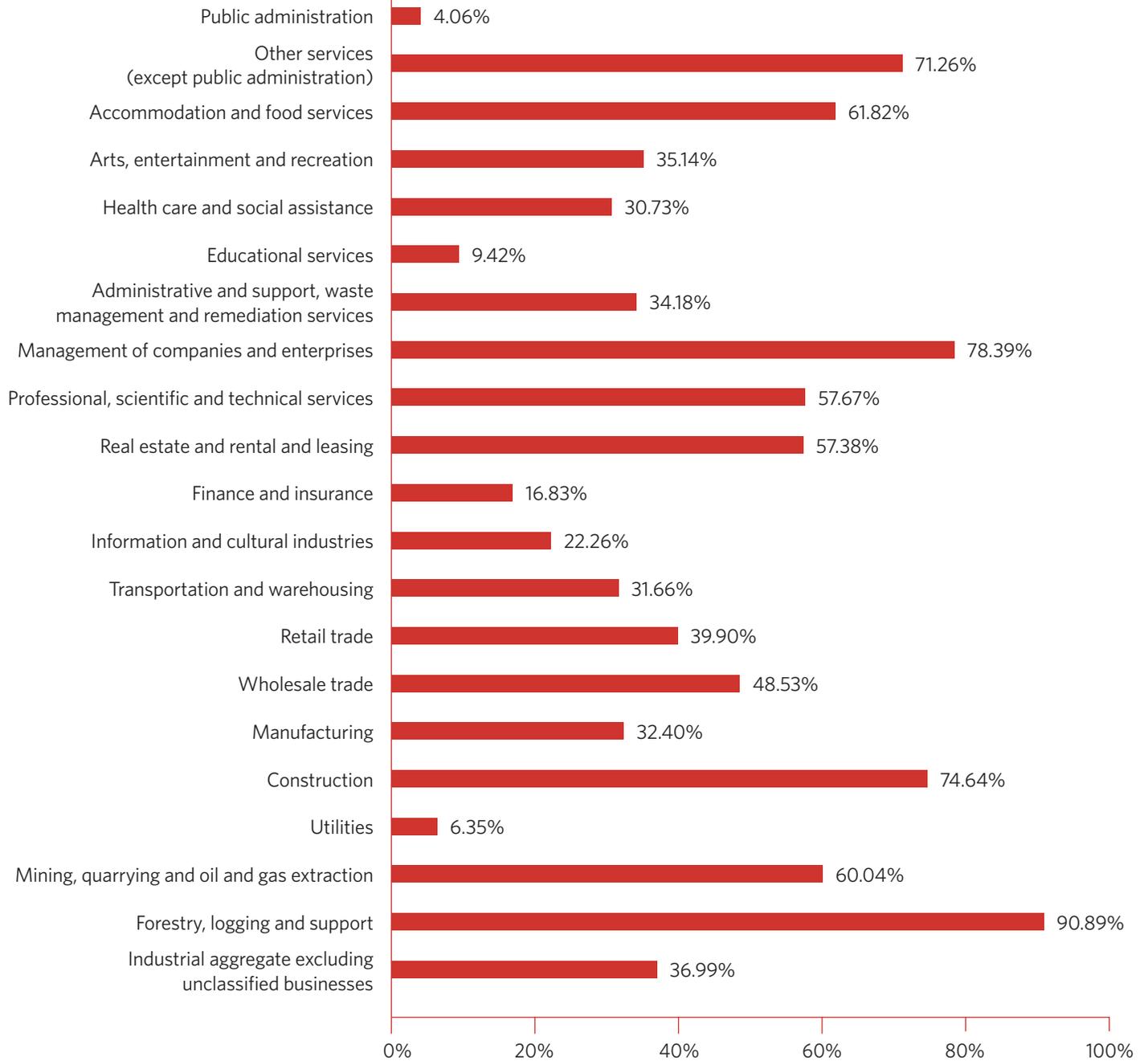
The opportunity to increase decent work through expanding the co-operative sector via business succession conversions requires a tailored approach that targets industries that stand to be most affected by failed ownership transitions, as well as industries that have a history of success in the co-operative sector.

The following are conditions for which co-operative conversions are more likely to succeed:<sup>10</sup>

- **Small firm size:** A business with a small number of employees converting into a co-operative will face a less complicated transition, with governance and finances being split across fewer players than a larger firm.
- **High levels of social capital:** The community that forms around a co-operative is one that relies in no small part on the ability of the members to trust and identify with one another—what Quarter and Brown (1992) call “community linkages.”
- **Firms that are labour intensive but low in financial capital,** like the service sector (Vieta, 2016).
- **Firms and industries with a high degree of employee collaboration** (ICT, consulting, creative services) (CECOP CICOPA Europe, 2013).
- **Knowledge and adoption of the co-operative identity:** Sousa and Herman (2012) argue that co-operatives have unique advantages over conventional firms that need to be leveraged in order for a conversion to be successful.
- **Clustering:** Co-operative conversions tend to happen in clusters, meaning that localized knowledge of the co-operative model, the conversion process, and operation will all facilitate more conversions.
- **A depressed economy:** While not necessarily presenting “good” conditions for co-operatives, it does make conversions more likely. Co-operatives tend to function as market-fixers, providing needed services and resources to areas where the market and at times the government fail to act due to the low income/impact nature of the area. This is historically why credit unions have persisted in markets where larger banks have pulled out, and why food co-operatives like the Moonbeam Food Co-op are created where grocery stores choose not to locate: it is the people’s need for the service, rather than simply financial return, that motivates the firm’s location and operations.

The table following illustrates which industries rely most heavily on small businesses for their employment in Ontario. Over a third of the private sector employees work for small businesses, with sectors like Forestry, logging and support; Management of companies and enterprises; and Construction holding roughly three quarters or more of their sector’s total employment within small businesses.

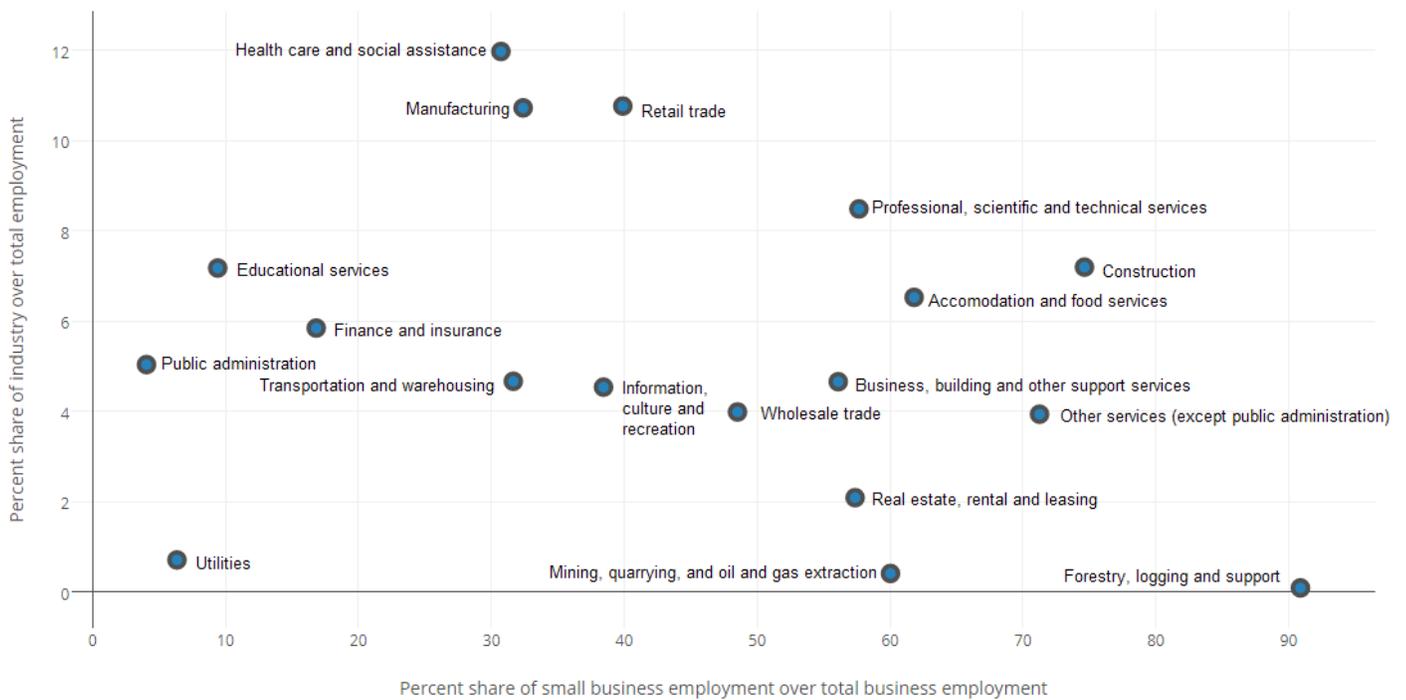
**Percent share of small business employment of total private business employment in Ontario, by industry <sup>11</sup>**



<sup>11</sup> Data accessed from CANSIM Table 281-0042.

The figure below is a graphical representation of the industries where mishandled transitions pose the greatest risk to decent work in Ontario. The upper right quadrant shows the highest-risk industries given both their high percentage share of Ontario employment as well as their high percentage of employment provided by SMEs. Although this analysis is crude, it helps prioritize industries that are best to target for co-operative conversion efforts.

Employment distribution in Ontario



The table below ranks these risk levels by multiplying their two variables alongside total employment in July of 2017 to estimate potential impact.<sup>12</sup>

Risk	Industry	Affected employment numbers in Ontario
1	Construction	382,000
2	Professional, scientific and technical services	348,000
3	Retail trade	305,000
4	Accommodation and food services	287,000
5	Health care and social assistance	262,000
6	Manufacturing	247,000
7	Other services (except public administration)	200,000
8	Business, building and other support services	186,000
9	Wholesale trade	138,000
10	Information, culture and recreation	124,000
11	Transportation and warehousing	105,000
12	Real estate and rental and leasing	85,000
13	Finance and insurance	70,000
14	Educational services	48,000
15	Mining, quarrying, and oil and gas extraction	17,000
16	Public administration	15,000
17	Forestry, logging and support	6,000
18	Utilities	3,000

While the above approach does outline a largescale, provincial impact of the succession issue, each region and municipality will have its own unique conditions to contend with. For example, though industries like forestry and logging, mining, quarrying, oil and gas are not provincially significant, local governments in regions that depend heavily on these industries for employment must be able to target their succession activities accordingly.

### **Suggested industries by type of conversion**

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The following are hypotheses of conversion feasibilities based on the current activities within the co-operative model.

- **Worker co-operative conversions**  
Worker co-operative conversions are most common in industries that require a high-skill workforce. Thus, conversion opportunities in construction;<sup>13</sup> professional, scientific and technical services; healthcare and social assistance; and manufacturing are strong candidates.
- **Consumer co-operative conversions**  
Consumer co-operative conversions are most common in cases where the quality of a product or service is of high concern. Grocery stores or other retail businesses are therefore excellent opportunities, as are health care or social assistance service providers.
- **Multi-stakeholder co-operative conversions**  
The power of multi-stakeholder co-operatives is their flexibility. Because they have seen limited uptake outside of certain regions, there are fewer examples to draw from. In Quebec, the UK, and elsewhere, health care and social service co-operatives have seen rising success with the multi-stakeholder model especially when government-funded services have proven inadequate for local needs. Multi-stakeholder co-operatives stand to be a powerful model in industries that involve “a diversity of interests, but a commonality of need or aspiration on the part of the stakeholders, capturing a range of types of interests and impacts” (Lund, 2011, p. 3) that a business or organization may have. The flexibility of this model may also be useful in structuring conversions where there are few precedents such as in the tech sector.

## I/ CHALLENGES AND SOLUTIONS

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To support the expansion of decent work through the co-operative sector in the manner outlined in this report, the three key challenge areas identified below must be addressed through policy and action at the provincial and local levels of government and supported through further applied research.

### Conversion challenges

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- **Knowledge and awareness of the co-operative model**  
Co-operatives are not widely known or understood in Ontario. Many small business owners are unaware that co-operatives exist, let alone that converting their enterprise into a co-operative might be a good succession option for them. Further to this, there are also few working professionals that assist with business succession (such as lawyers, management consultants, and accountants) that are familiar with co-operative conversions (CECOP CICOPA Europe, 2013). Finally, converting from single ownership to co-operative ownership requires preparation and training. The Ontario Co-operative Association and the Conseil de Co-opération de l'Ontario are both active co-operative associations with mandates to assist businesses interested in converting. However, they receive limited funding because the Ontario co-operative sector is relatively small, and they can therefore be limited in their ability to assist with the transition.
- **Human and social capital**  
A central challenge of converting a small business into a co-operative is that the new member-owners must possess the human capital between them in the form of the necessary skills and abilities to manage the company. If they don't already have management skills, they may need the support of the exiting owner, who may not have the time or ability to assist in building this capital (CECOP CICOPA Europe, 2013). Furthermore, a successful co-operative conversion requires that the new, purchasing member-owners are in possession of high levels of social capital—strong commitments to each other as well as the support of their community (Kranz & Steger, 2016; Sousa & Herman, 2012).
- **Financing**  
Co-operative conversions are seldom able to occur through the financial capacity of the new owner-members alone, usually requiring outside sources of funding. Conventional banks and other forms of financial support tend to be reluctant to fund co-operatives because they are unfamiliar with the model and therefore feel they are a greater financial risk.

## Policy solutions

	<b>Increases knowledge and awareness of the co-operative model</b>	<b>Increase human and social capital</b>	<b>Improve financing options</b>
Ontario government	<p>Provide resources and training to Ontario Network of Entrepreneurs (ONE) experts about co-operative legal forms.</p> <p>Review current small business support programs to ensure that funding, training and other supports available to for-profit companies can also be accessed by co-operatives.</p>	<p>Create a small business succession task force to work with regional development organizations and local financial organizations - especially credit unions - to support conversion succession planning strategies.</p>	<p>Introduce a co-operative investment plan (CIP), modelled after the Quebec CIP to assist in the expansion of the co-operative sector.</p>
Local governments	<p>Locally assess risks arising from faulty succession plans.</p> <p>Include information on co-operative conversions in your succession resources for local small businesses.</p>	<p>Work with local postsecondary institutions to develop leadership training programs to build management capacity amongst potential co-operative owners.</p>	<p>Work with local credit unions and foundations to develop a fund that can be used to provide financing to potential co-operative conversion members (worker, consumer, producer or multi-stakeholder).</p>
Federal government	<p>Review current small business support programs to ensure that funding, training and other supports that are available to for-profit companies can also be accessed by co-operatives.</p>	<p>Empower the Business Development Bank of Canada to support co-operative conversions.</p>	<p>Revise Registered Retirement Savings Plan (RRSP) to allow a portion of assets to be withdrawn without penalty for co-op investments, similar to current RRSP usage in home purchases.</p>

### Further directions for applied research

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- Conduct a national scan of small business succession needs to identify key industries and regions at risk.
- Conduct market research on small business owners that can be used to develop outreach and education strategies.
- Compile a small business succession kit that includes how-to instructions, local resources lists (ex. legal, management consulting, accounting, financing) and online supports (ex. [joi.com](http://joi.com), [successionmatching.com](http://successionmatching.com)) for retiring small business owners.
- Develop an evidence-based business diagnostic tool that can be used to screen enterprises with high potential for co-operative conversion and identify their most promising co-operative structures for them.

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## ENDNOTES

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- 1 Data accessed in CANSIM table 282-0080.
- 2 Data accessed from CANSIM Table 527-0008.
- 3 Data accessed from CANSIM Table 281-0042.
- 4 Regulated under the Ontario Co-operative Corporations Act.
- 5 Credit unions in Ontario are regulated under the Ontario Credit Unions and Caisses Populaires Act rather than the Ontario Co-Operative Corporations Act.
- 6 The International Labour Organization published a Reader in 2011 linking decent work and social economy enterprises like co-operatives. The insights into what comprises decent work are partly inspired from this Reader.
- 7 No matter the exit strategy or the size of a business, any exit of a key manager or funder will prove difficult for the firm to weather without proper planning. In a situation where ownership and management functions are tied to one person, it is all the more challenging. A succession plan is a business tool that ensures the process goes as smoothly as possible. Simply put, a succession plan will prepare the business itself for the transition, the owner for their exit, and the new owner(s) for their entrance.
- 8 See Appendix A for breakdown of calculations.
- 9 Data accessed from Innovation, Science and Economic Development Canada, Small Business Branch. (2016). Key Small Business Statistics: June 2016. Ottawa.
- 10 See also Appendix B for a breakdown of what an individual firm ideal for conversion looks like.
- 11 Data accessed from CANSIM Table 281-0042.
- 12 It should be noted that small businesses in this chart include businesses with no employees. Thus, in employment like in professional, scientific and technical services, there are a high number of small businesses because of the many independent consultants in this field. This does not negate their importance in employment numbers, but does explain the larger figure.
- 13 The construction industry in Canada/Ontario has a strong history of unionization to ensure the rights and fair pay of construction workers. While the historic relationship between the labour and cooperative movements has ebbed and flowed between cooperation and antagonism at different times in different places, unions have occasionally been instrumental in assisting with worker co-operative conversions. This is frequently the case in Italy, for example (Voinea, 2015).

## APPENDIX A

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Just under 240,000 or 57.7% of Ontario's small businesses will be changing hands within the next fifteen years, with one-fifth of that occurring quite soon, as their owners are already past provincial retirement age. These assumptions are based on Canada-wide small business owner data drawn from the 2014 Survey on Financing and Growth of Small and Medium Enterprises with Ontario business counts from CANSIM 527-0002. Meanwhile, a 2012 CFIB survey of their members indicated that 91% of their of small and medium-sized business owner respondents do not have formal succession plans. In 2016 small businesses made up 97.9% of Ontario businesses (Statistics Canada, CANSIM Table 552-0005). Multiplying these three percentages ( $0.577 * 0.91 * 0.979$ ) gives us an estimate of the affected proportion of small businesses and their associated numbers: 51.4%. The most important caveat for this estimate is that while this is an estimate based on all small businesses, it would be reasonable to assume that the larger a small business is the more likely it will have developed succession plans that would mitigate risk for their employees, in turn reducing the potential impact on jobs.

## APPENDIX B

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Successful worker co-operative conversions require three groups of stakeholders – business owners, business management, employees – to have aligned incentives for a successful conversion. **Note that consumer co-operative conversions and multi-stakeholder co-operative conversions are still relatively rare so more research needs to be done to create an analogous list for those processes.**

- From the standpoint of the **owner**
  - There is **no family member** willing or able to take over the business
  - There have been long-term **positive relationships** with the business managers and employees
  - There is potential for long term **continued success of the business** and the owner is committed to preserving their legacy, keeping the business in the hands of people who care about it and keeping the business for the good of the community
  - There is a desire for the owner to **continue to play a role in the business**, and they are financially able to transition out of the business over time. The owner may want to act as financial vendor or mentor for a number of years before fully retiring
  
- From the standpoint of **management**:

- Man[a]gers are highly **skilled and committed** to the continued success of the business
- Managers are **willing to commit their own financial resources** to become owners and be willing to accept new challenges and responsibilities
- Managers are **collaborative** and eager to build a strong employee team
- From the standpoint of **employees**:
  - They are **interested in staying with the business** for the long term
  - Employees **trust management and owners** and are willing to accept their guidance in learning more about the business
  - Employees are willing and **able to accept the financial risks** that come with business ownership
  - Employees must be **willing to commit their own financial resources** and be comfortable in an ownership role with others (ie: adapting to the co-operative principles of solidarity, one vote, etc.)

(Gould, 2015, p. 14-15)

## APPENDIX C

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These numbers were determined by taking the lowest average wage of the small business employee number groups (depicted in the table below) multiplied by the number of small business employees in Ontario (data taken from CANSIM Table 281-0042).

## APPENDIX D

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Average annual earnings for employees of small businesses in 2016 in Ontario	
All business sizes	50,625
0 to 4 employees	45,851
5 to 19 employees	41,830
20 to 49 employees	44,645
50 to 99 employees	45,830

Data for this table were retrieved from CANSIM Table 281-0044 (average weekly earnings) and multiplied by 52.

## **Stakeholder groups and associated institutions**

### **1. Small businesses and small business owners**

- Canadian Federation of Independent Businesses
- Canadian Association of Family Enterprise
- Provincial and local Chambers of Commerce
- The Canadian Council for Small Business and Entrepreneurship
- Exit Planning Institute (U.S.)

### **2. Credit unions and financial cooperatives**

- Credit Unions of Ontario
- Canadian Credit Union Association
- Co-operatives and Mutuals Canada
- Financial Services Commission of Ontario – regulates co-operatives and credit unions

### **3. Banks**

- Business Development Bank of Canada
- Canadian Bankers Association

### **4. Co-operatives**

- Canadian Association for Studies in Co-operation
- Ontario Co-operative Association (ON Co-op)
- Canadian Co-operative Association
- Conseil de la Co-opération de l'Ontario
- Co-operatives and Mutuals Canada
- Canadian Worker Co-operative Federation
- Democracy at Work Institute (U.S.) – [Conversion resources](#)

### **5. Employees**

- Canadian Federation of Labour
- Ontario Federation of Labour

### **6. Governments**

- Federal
  - Government of Canada
- Community Futures Network of Canada
- Provincial
  - Government of Ontario
  - Canada Business Ontario – “Your Business Information Connection”, part of the National Canada Business Network
  - Community Futures Ontario (FedDev and FedNor)
  - Ontario Network of Entrepreneurs (ONE)
  - Municipal

- Association of Municipalities of Ontario
- Regional and municipal governments (currently 444 governments, divided by regions, counties, districts, and single-tiers)
- 61 Community Futures Development Corporations
- Local business centres

#### **7. Service providers**

- Legal
  - Law Society of Upper Canada
- Accounting
  - Chartered Professional Accountants of Ontario
  - Chartered Professional Accountants of Canada
- Consulting
  - Canadian Association of Management Consultants

**8. Clients and customers:** case-by-case basis, but in industries where finding alternate suppliers may be difficult (ex. manufacturing supply chains, rural/northern retail) these would be important stakeholders

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DR. SEAN GEOBEY is Assistant Professor of Social Entrepreneurship and Social Innovation in the University of Waterloo's School of Environment, Enterprise and Development (SEED). His research focuses on tools that can help people work together to generate social innovation, including crowd-funding, cooperatives and credit unions, and participatory budgeting. He is the Director of Academic Programs at the Waterloo Institute for Social Innovation and Resilience and is affiliated with a number of research and policy organizations including the Canadian Index of Wellbeing, the Canadian Centre for Policy Alternatives, and the Filene Research Institute.

MEG RONSON is an experienced researcher, educator, and resource coordinator, and has a passion for changing the succession landscape in Canada. She received her Masters of Economic Development and Innovation from the University of Waterloo in 2017, where she worked as research assistant for Dr. Sean Geobey. She is now the Director of Partnerships and Analyst at SuccessionMatching, a business that matches buyers and sellers of businesses and connects them with succession planning professionals.

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