



arise

How Co-ops Can Work as a Business Succession Strategy and Why Governance Matters

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For retiring business owners, passing ownership of a company onto its employees through converting it into a co-operative is not a commonly used succession strategy, although they have occurred in Canada and could become a growing solution to the looming SME succession crisis (Vieta, Tarhan, Duguid, & Guillotte, 2021). This strategy makes sense because both the enterprise and its legacy are preserved, along with the jobs of its employees. Furthermore, without seeking outside buyers, the business owner can generate income from the sale of the company to the newly formed co-operative. This is how J. David McAuley Architect Inc., which had been under the sole proprietorship of David McAuley for over four decades, was converted into Arise Architects Co-operative. Located in Guelph, Ontario, Arise Architects is the first architectural co-operative in Ontario, the second of its kind in Canada,¹ and the first to convert to a co-operative as a business succession strategy.



King House
source: www.arisearchitects.com

¹ The first was Pivot Coopérative d'Architecture located in Montreal, Quebec: <http://pivot.coop/>

Pre-Conversion Story:

41 Years of Practice Leading to a Co-operative Succession Plan

After 41 years of successful architectural practice in Guelph, David McAuley decided that his time to retire was approaching. Rather than wind down the business, however, McAuley was keen on a succession plan so that his business would not close its doors. Furthermore, and illustrating the future plans of 53% of Canada's retirement-aged SME owners to continue working into retirement (Vieta et al., 2021), McAuley wanted to keep working in the short term and gradually retire, but no longer wanted to be in a sole proprietorship situation. McAuley began his efforts to sell the company around 2017 but had difficulties finding the appropriate buyer. It was during this period that McAuley attended a seminar where Peter Cameron, the then Executive Director of the Ontario Co-operative Association (OCA), was speaking. When approached by McAuley after the talk, Cameron naturally suggested that McAuley might want to consider converting the business into a worker co-operative, where he could also be a worker owner and continue practicing for as long as he would be capable or willing. After all, the succession model had been tried before in the neighbouring city of Kitchener with Nelco Mechanical (Quarter, 1995) and in a handful of other succession conversions in Quebec. The idea of business succession through collective ownership via a worker co-op with fellow architects strongly resonated with McAuley.

The next step was to get the two other architects and the general manager working at his



From the portfolio of the architects prior to the conversion: Trenton Wesleyan Church.
source: <https://arisearchitects.com/portfolio/trenton-wesleyan-church>

company on board with the idea of converting to a co-op. One of these architects, Danielle Gignac, notes:

“With those of us who are at the office at that time, when he brought that idea up, it just kind of resonated with us. ... None of us have ever been part of a worker co-op though, for any of us, so this is quite new. When we started researching it, we thought, “OK, well this makes quite a bit of sense for the way that we want to work.” ... [The fact that] it was much more collective and that it would rely on everyone working interdependently appealed a lot more to me personally. We can use our skills in different ways and you don’t have to be everything to everyone. That was appealing to me as well.”

The other architect, Yvonne Ip, noted that she comes from a strong family tradition of co-operative membership and involvement; she was therefore immediately attracted to the co-operative succession option.

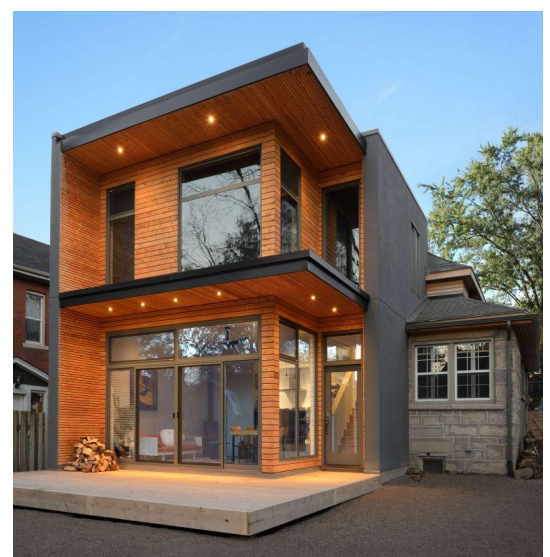


McCauley Langsing
source: <https://arisearchitects.com>

Table 1: Catalyzing Factors for Arise Architects' Conversion into a Co-op

<p>Previous enterprise characteristics</p>	<ul style="list-style-type: none"> • Owner of 41 years, David McAuley, wanted a succession plan in place for his gradual retirement • He also wanted to continue working for the foreseeable future
<p>Group/Community stakeholder characteristics</p>	<ul style="list-style-type: none"> • Conviction in the co-operative model as a viable conversion option among all involved
<p>Supporting organizations/institutions characteristics</p>	<ul style="list-style-type: none"> • Ontario Co-operative Association and its Executive Director Peter Cameron were promoting business succession into a co-operative at the time of McAuley's succession planning • The existence of Innovation Guelph (IG), a business development centre that supports entrepreneurs and small and medium-size enterprises in getting off the ground or expanding their business, helped immensely with making the conversion a reality

Once the decision was made by both David McAuley and the workers to pursue converting the company into a worker co-operative, the question became: How? What was involved in starting a worker co-operative? What would be the terms of the sales? Could the workers be able to afford purchasing the company from McAuley? To answer their questions and begin to plan the conversion, McAuley and the staff turned to the OCA for help.



source: www.arisearchitects.com

Process of Conversion:

A Multi-Actor Enabling Ecosystem

David McAuley and his fellow worker owners-to-be immediately reached out to Peter Cameron from the OCA for help with the process of incorporating into a worker co-operative. Cameron's first advice to the group was to apply for support from Innovation Guelph (IG), a business development centre that supports entrepreneurs and small and medium-size enterprises in getting off the ground or expanding their business. The group immediately applied to IG's Fast Lane program for business mentoring and project funding, and both were accepted. Subsequently, IG appointed Mark Goldberg, an accomplished entrepreneur with over two decades of business development experience as a mentor to help Arise Architects strategically plan their conversion process and initial years of operation as a worker co-op. Goldberg initially helped the group figure out the financial aspects of the conversion. The ideal strategy for the sale of the business to the co-op was one where the working capital needs of Arise in the early phases of operations would not be compromised by the conditions of the sale. Hence, McAuley and the workers agreed that Arise would pay for the purchase of the business in nine equal installments once it became operational. Besides providing support to the group with the sales of the business, Goldberg also coached the group in coming up with a strategic financial plan for the early phases of operation as a co-op.

At the same time, as part of their re-branding efforts, Arise decided to specifically emphasize the fact that they were now a worker-owned co-operative, which not all conversion to co-operative projects do. By doing so, they believed that the co-operative could reach a clientele base sympathetic to the social and environmental aspects of the firms they wanted to work with. Gignac told us that with this strategy, they indeed received quite a bit of interest from clients, new and old, around the fact that Arise Architects was now a co-operative. Arise's experience can serve as an



Founding worker-owners Yvonne Ip, Danielle Gignac, and David McAuley (left to right) at the co-operative's launch event - October 2019.
source: Arise Architects Co-operative's website

inspiration and a roadmap to groups that are considering converting into a co-op in that the conversion could indeed help the business reach a broader, more diverse and perhaps even community-oriented clientele base. That being said, Yvonne Ip told us that they were also contacted by a few concerned existing clients who wondered

whether this conversion would affect their projects given that they were used to dealing with a hierarchical management structure. It is therefore also critical for groups considering the conversion route to openly communicate with clients with such concerns, to emphasize the viability of worker co-ops as businesses, and inform them about the co-operative governance structure.

Furthermore, the funding provided by Innovation Guelph enabled the group to hire the OCA, led by Peter Cameron, to help with the process of starting a worker co-operative. Cameron first trained the group on worker co-operatives and how they are collectively governed. Cameron provided by-law and article templates and connected them with other co-ops who were willing to share their current articles of incorporation. This is how, before even officially becoming a co-operative, Arise experienced the sense of solidarity within the co-operative ecosystem. Moreover, they were able to learn the most important ins and outs from the experiences of other co-ops and Ontario's apex co-operative association, the OCA, in a clear demonstration of the seventh co-operative principle – co-operatives co-operating (ICA, 2021). As Gignac further explains:

“We worked with actually quite a few co-ops who were helpful with providing their bylaws for us to ... look over and help us with what we can put into ours. The co-op community people are quite willing to share information which was really helpful for us.”

Subsequently, Cameron from the OCA also referred the group to a co-operative lawyer that helped with the drafting of the final co-operative by-laws and articles.

The final task the newly-formed co-operative faced was registering with the Ontario Association of Architects (OAA). Gignac told us that this process ended up requiring a bit more back and forth than expected due to Arise being the first co-operative that ever applied to the OAA for registration. Eventually, however, they received their certificate and were able to host their official launch party on October 20, 2019. This event served both as a celebration of David McAuley’s career and that of the conversion of J. David McAuley Architect Inc. into Arise Architects Co-operative.

Following this event, Arise officially took over the practice in January 2020.

Table 2: Enabling Conversion Ecosystem for Arise Architects

Type of Support	Stakeholders	Enabling Action
Financial Support	Innovation Guelph	<ul style="list-style-type: none">• Provided a mentor, Mark Goldberg, to help with strategic financial planning and business coaching• Covered the costs of hiring the Ontario Co-operative Association for co-op development

In-kind support	Ontario Co-operatives Association	<ul style="list-style-type: none"> • Education on co-operatives and co-operative governance • Provision of co-operative by-law and article templates • Incorporation support • Referring the group to Innovation Guelph
Technical/ development support	Legal professionals	<ul style="list-style-type: none"> • The group hired two legal professionals – one to help with the incorporation and by-laws, the other with the sale and purchase of the company.
	Innovation Guelph (indirectly)	<ul style="list-style-type: none"> • Although not directly a governmental agency, Innovation Guelph is a business development center that is sponsored by the government at municipal, provincial, and federal levels to assist the start-up needs of small- and medium-sized firms.
Government Policy/ Program Support	N/A	<ul style="list-style-type: none"> • N/A

Post-Conversion:

Success Challenged by Governance and Interpersonal Issues

As stated in the previous section, Arise did succeed in converting J. David McAuley Architects Inc. into a co-operative. While this in itself is a success story, talking to the three initial members of Arise Architects Co-operative Inc., David McAuley, Danielle Gignac, and Yvonne Ip, in fact, reveals a story of governance-related and interpersonal challenges. Indeed, these challenges reached a point where the relationship between

McAuley and the two other worker owners became irreparably severed and McAuley left the co-operative in December 2020. We were able to interview all three worker owners and asked them about their key learnings from their governance-related and interpersonal challenges and their recommendations to other groups considering the co-operative model as a conversion and/or succession strategy. Their learnings are summarized below under four key interconnected recommendations:

Recommendation #1:

Test-running the co-operative option well before taking over the business. Having worked together for about three years at J. David McAuley Architect Inc., a sole proprietorship, the group had their individual roles and internal dynamics established in a certain way. Hence, one worker owner told us that rather than immediately focusing on *how* they could make the conversion a reality, they should have initially focused on *whether* they should pursue the conversion through a test-run of the co-operative way of working:



Trenton

Source : [Site Web d'Arise Architects Co-operative](#)

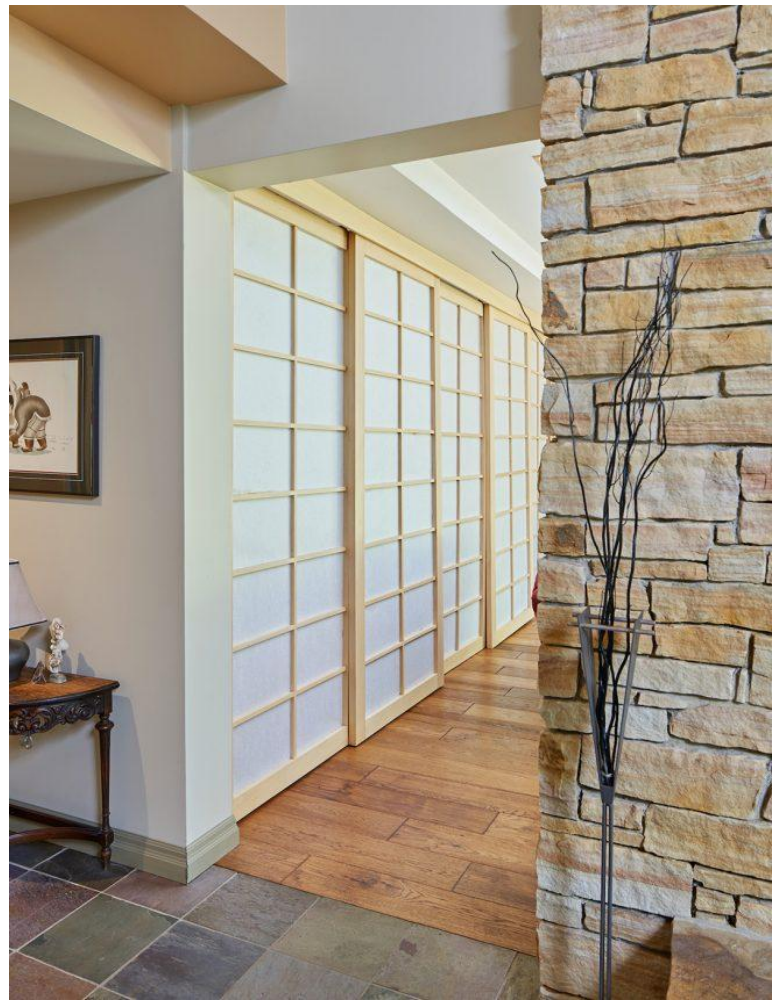
“We should have practiced operating as [a co-op] prior to becoming one to find out if it would even actually work. Because, you know, it’s like a marriage, right? So, you know, you want to start dating a bit and finding out really if it’s going to work or not. Some might want to start living together before you actually make that commitment, right? So it took three years for us to get to the sale and only in a couple of places for the most part we operated as we had always been operating under J. David McAuley Architect. That was probably a mistake. We should have said, ‘we’re headed for the co-op world, let’s start reorganizing ourselves and the way we work together, and let’s see whether we can do it.’ But we found out after the fact that [the interpersonal side] wasn’t going to work...”

Recommendation #2:

Receiving communications and decision-making support as soon as you decide on exploring co-op conversion as an option. Closely tied to the first recommendation, the Arise worker owners told us that a key part of preparing to become a co-op was receiving professional support to build participatory and clear communication practices and to build capacity for consensus-based decision-making among the workers. One worker owner greatly stressed that any group considering converting into a co-operative should hire a qualified instructor for a communication and consensus-making workshop very early on in the conversion process. We believe that this is a critical point especially for cases where organizational hierarchies and interpersonal power relations will inevitably be challenged and transformed through a co-op conversion, and especially where the previous firms’ owner(s) stay on as members of the new co-op.

Recommendation #3:

Deal with potential conflicts of interest right from the onset. All three founding worker owners told us that identifying potential conflicts of interest and putting governance procedures in place that address such conflicts is critical for the eventual success of both the conversion process and the co-op itself. Such conflicts of interest were evident and central to the experience in the case of Arise, where the previous sole proprietor sold the company to a co-operative where he was then a worker owner. As one worker owner told us:



McAuley House
source: www.arisearchitects.com

"So, if the co-op is purchasing the company from the previous owner and that previous owner is also going to be a current owner, there are challenges there. They have to declare a conflict of interest and not vote on anything that involves their vested interest and that can be challenging because that sort of starts to divide people in a way when someone is no longer part of discussions that can possibly [impact] the co-op. And so I think clarifying that from the outset will be really important to make sure that the previous owner is not feeling left out of things."

Here, it is important to note that Recommendations #1 and #2, namely test-running the co-operative model prior to the conversion and receiving communications and

decision-making support, can be helpful in both identifying and addressing conflicts of interest.

Recommendation #4:

Establishing a shared mission and vision prior to conversion: Given that conflicts of interest had a significant influence on the conversion and post-conversion process, all three founding worker owners of Arise told us that the group should have spent more time on establishing a shared mission and vision prior to conversion. One member likened their conversion process to an “arranged marriage rather than an intentional one,” meaning they all moved through the process not necessarily addressing potential conflicts of interest and establishing a shared mission and vision. Another worker owner stressed that an experienced professional can also help with the process of collectively setting a vision and mission early on in the conversion process.

Summarizing the recommendations:

We believe that these four interconnected recommendations are helpful for any group considering a co-op conversion but are essential for worker co-ops where the previous sole proprietor remains on board as a worker owner and long-embedded hierarchies or intra-organizational power relations are inevitably challenged and transformed as a result. Furthermore, Arise Architects’ experience demonstrates that interpersonal relations are central to co-operative governance and that they must be cultivated well before the conversion takes place.

Finally, it is worth noting that despite hardships, all three founding worker owners of Arise told us that they continue to believe in the worker co-operative model as a viable option both for business succession and the architectural profession. In fact, the



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importance of democratic decision-making and co-operative governance was even reinforced in the eyes of one worker owner:

“Once the trappings of democratic involvement are gone, everything becomes a business decision. It’s easy to just say, when you’re making decisions about the work you’re doing, to say that these are business decisions. To say that it’s not about personal feelings or interests. I think the heart of a co-operative is the people, so it’s not just a business. It’s a business made up of people and when we stop listening to one another respectfully, and we stopped actually wanting to hear what the people want, then it does just become like any other corporation and I think that’s really important for co-operatives to in a way to maintain that kind of grassroots ethos to them, that it always comes from the workers and what they want.”

Meanwhile another worker owner told us:

“All the baby boomers are going to be retiring over the next let’s say 10 years. There’s going to be a lot of people looking at alternatives and I think a succession plan as a worker co-operative is a very good way of doing it, but I think you have to do it over some time and with your eyes open to [the recommendations listed above]. I think if we’d taken those steps, it’d be a different story we would be telling. Either we wouldn’t have a worker co-operative or we’d have different people and I think we might have had half a chance to be working together over the next three years.”

Finally, it is worth mentioning that as of March 2021, Arise Architects Co-op continues its operations, albeit without two of its three founding members and with some difficulties in carrying out their businesses due to Covid-19 restrictions. As of this writing, Arise Architects Co-op is looking to expand their team and take on new worker members.

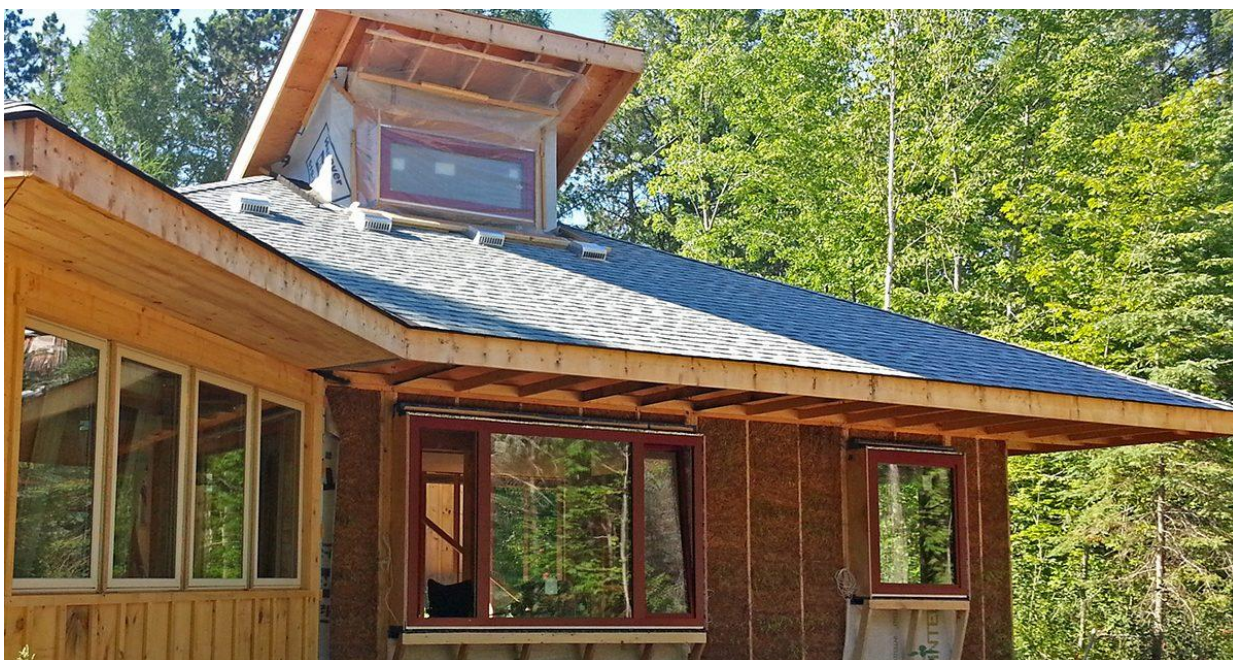
Conclusion:

What the Case of Arise Teaches Us

Overall, Arise Architects Co-op's conversion story stands as a very practical example of a succession plan that could be replicated by other retiring business owners looking to generate value from the sale of the company and preserve its legacy while the previous owner continues to work for a while longer. It also shows the viability of the worker co-op model for professional services firms, and has inspired other architectural firms in other parts of Canada to take note and consider the co-op conversion option. It also stands both as a testament to and a cautionary tale about the importance of interpersonal relations in co-operative governance. The founding members of Arise Architects Co-op provided us four interconnected recommendations: Test run co-operative governance prior to conversion; seek professional communications and decision-making support; identify and address potential conflicts of interest; and establish a shared mission and vision. All four recommendations point to the importance of working on interpersonal relations and sound governance practices that nurture them well in advance of the conversion.

At the same time, Arise Architects also stands as a trailblazing co-operative in Ontario's architecture scene and therefore an inspiration for architects and for other forms of professional services providers that collectively owning and managing their workplaces is a possibility. After all, professional partnerships are, in practice if not legally, a type of co-operative (Hansmann, 2000), and it is not farfetched to see law firms, engineering firms, accountancies, and other professional services businesses

choose the co-operative form. In fact, in early 2020, a group of young architects from Toronto reached out to Arise in their pursuit of converting their workplace into a worker co-operative. In true co-operative spirit, Arise worker owners told us that they were happy to provide them with all the information and support they needed. Finally, we found a unique form of local business and economic development institutional support in Arise Architects' relationship with Innovation Guelph that can be replicated in other jurisdictions for co-op conversion. This shows the importance of both governmental and social economy and community supports geared to forming and funding local business development centres. Mark Goldberg from Innovation Guelph told us that the case of Arise Architects also raised their awareness of co-operatives as a very viable business succession option and that they now hope to raise awareness of the co-op model in the business community. If this form of institutional partnership could be replicated in other jurisdictions, with awareness of the co-operative model as a viable succession strategy, many more Arises could rise to the occasion.



source: <https://arisearchitects.com>

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