

Business Conversion to Co-operatives in Canada

Background information for research being conducted by the Conversions to Co-operatives Project (Co-opConvert)

Prepared by Marcelo Vieta and Fiona Duguid (www.coopconvert.ca), with the assistance of Co-operatives and Mutuels Canada (www.canada.coop) and the Canadian Worker Co-op Federation (www.canadianworker.coop)

Feb. 5, 2021



1. Background

The Coming Business Succession Crunch

A major challenge for Canada's 1.2 million small- and medium-sized enterprises (SMEs) is the potential for large-scale closures due to the growing number of retiring owners that lack a formal succession plan. With 59% of Canada's entrepreneurs over 50 years of age as of late 2018, it was estimated that nearly three-quarters of small business owners plan to retire in the next decade.¹ While 81% of these retiring SME owners intend to transfer or sell their businesses, only 14% having a solid retirement plan.² In addition to the increasing number of troubled enterprises due to the socio-economic ills brought on by the COVID-19 pandemic, a potential crisis of SME closures across Canada looms.

Retiring owners of SMEs usually first seek to transfer the business to their family or children (43%). Owners also seek to transfer or sell to private-sector, third-party purchasers (24%). But another option is the strategy of **business conversions to co-operatives (BCCs)**. A tried-and-true solution for business rescue and succession in numerous jurisdictions around the world, approximately 205

business conversions to co-operatives

opportunity for **saving jobs** and keeping potentially **thousands of businesses alive** in light of the SME succession crunch and the business closure risk due to our current pandemic reality

known BCCs have existed in Canada as of Feb. 2020, and the Co-opConvert Project records 173 enterprises³ that have emerged from conversions and that are currently still active (see Figure 1).

However, *there could be many, many more BCCs in Canada*; the BCC solution for business succession and for saving troubled enterprises is still not broadly known among SME owners, workers, unions, and policymakers in Canada. We believe this is a lost opportunity for saving jobs and keeping potentially thousands of businesses alive in light of the SME succession crunch and the business closure risk due to our current pandemic reality.⁴

What are BCCs?

BCCs take place when private, public, or non-profit companies transition for a variety of possible reasons into a co-operative. In Canada, most conversions occur as part of a succession plan whereby a retiring owner or owners sell their business to staff and they, in turn, continue to operate the enterprise as a co-operative. BCCs can also occur as a community buyout (where consumers and other community stakeholders purchase the enterprise), or a multistakeholder buyout (where employees and other community stakeholders purchase the enterprise). A unique model to Quebec, a partial conversion occurs when a worker-shareholder co-operative (WSC) is formed by employees and they then enter co-ownership

¹ CFIB, 2018.

² Vieta et al., 2021.

³ Excluding housing co-operatives. The Co-opConvert Project is still tracking conversions of private or public housing to co-operatives, which is estimated to number in the hundreds throughout Canada.

⁴ Vieta et al., 2021.

agreements with traditional investors; sometimes WSCs are a stage in the eventual full conversion of the enterprise into a co-operative.⁵

Former owners can and sometimes do also become members of the newly formed co-operative. This occurs usually when an agreement is reached between the former owner(s) and the new co-op members and can be a part of a staged retirement succession plan, a way for owners to pass on their knowledge of the business to the new owner-members, or a combination of these. At other times, usually in more crisis-based conversions or when owners are keen on fully retiring, owners completely exit the enterprise upon conversion. Increasingly, as the Co-opConvert Project⁶ has found and will be publishing in a forthcoming report, over 50% of Canada's SME owners do not desire to fully retire and a BCC could make sense as a way for the owner to continue to participate in the business and secure its legacy.⁷

BCCs are Part of Canada's Co-operative Sector

BCCs have been solutions for business rescue and succession in numerous jurisdictions around the world for decades. The research on BCCs shows that they save jobs and preserve the productive capacities of communities.⁸ They do so because co-operatives are guided by values and principles of inclusivity, mutuality, economic democracy, and concern for community.⁹

Co-ops are sustainable and viable businesses co-owned by interested members rather than disconnected shareholders, rooting capital locally. Canada already has more than 7,000 co-ops in most of its economic sectors.

Despite the enduring presence of co-operatives throughout the country, and the overall success of Canada's approximately 205 BCCs to date,¹⁰ the BCC model is mostly overlooked and not well understood in Canada as an option for sustaining SMEs in crisis (pandemic or economic) or with succession issues.

How Many and Where are Canada's BCCs

The following is an overview of the BCC landscape in Canada as of Feb. 2, 2021. All data has been collected and analysis conducted by the Co-opConvert Project team (www.Co-opConvert.ca).

⁵ Vieta et al. 2016.

⁶ www.coopconvert.ca

⁷ Vieta et al., 2021.

⁸ Sanchez Bajo & Roelants, 2011; Vieta, 2020b; Vieta et al., 2017; Zevi et al., 2011.

⁹ Novkovic & Webb, 2014; Vieta & Lionais, 2015.

¹⁰ www.coopconvert.ca

Figure 1: Conversions to co-operatives in Canada by province and territory, currently active enterprises (map, n = 173) and all enterprises in the Co-opConvert BCC database (pie chart, n = 205) (as of Dec. 2020)

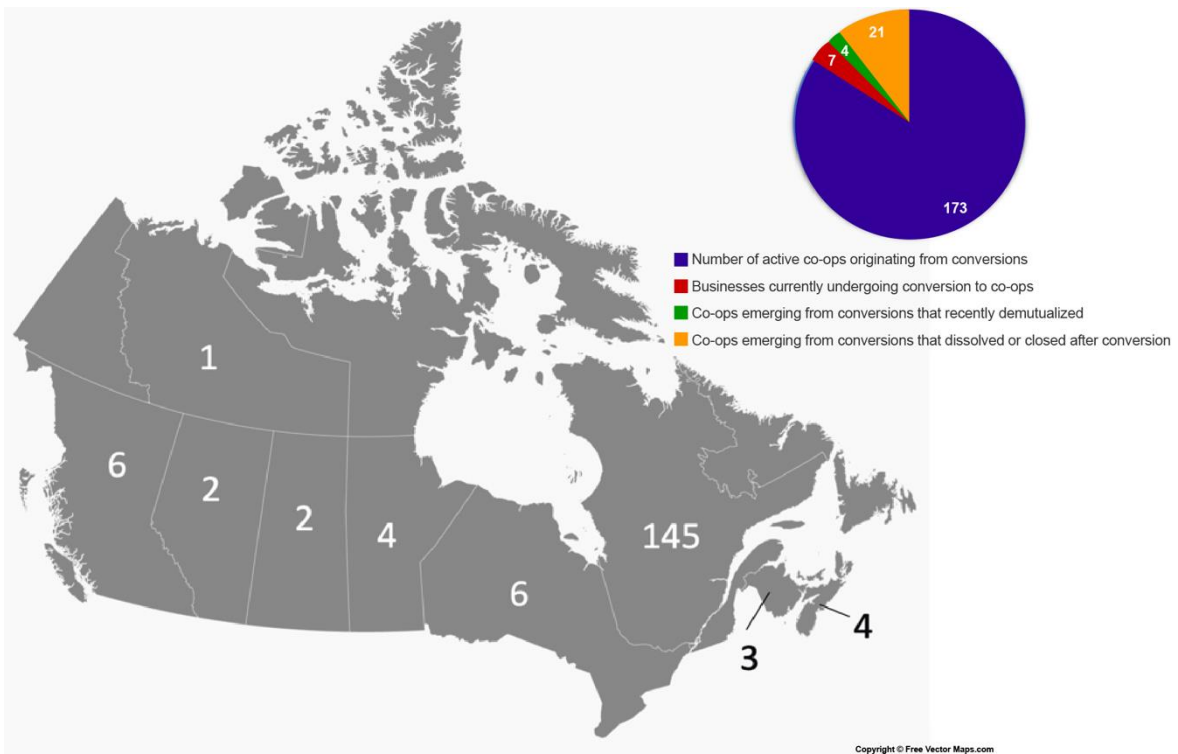


Figure 2: Conversions to co-operatives in Canada by co-operative type (n = 173, active as of Dec. 2020)

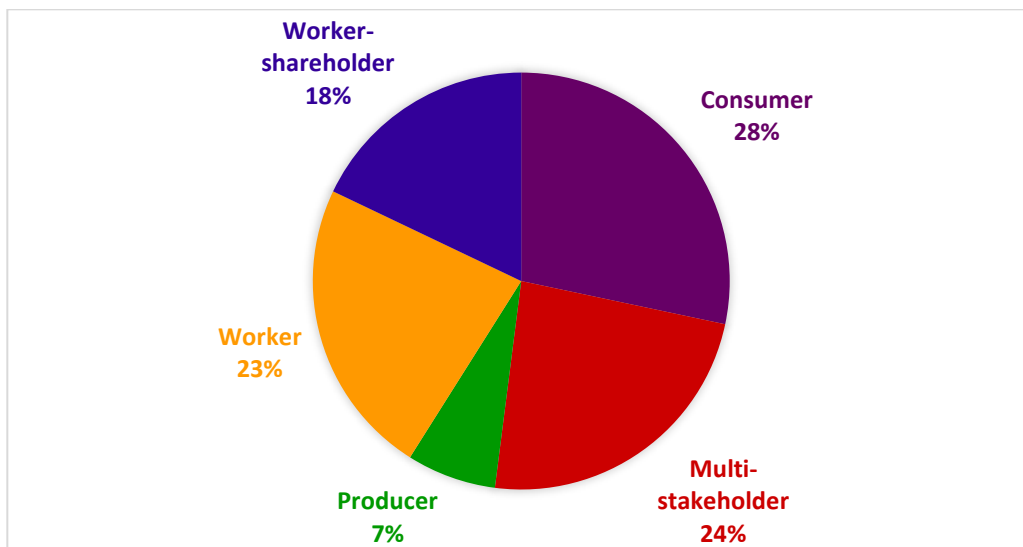


Figure 3: Conversions to co-operatives in Canada by industry/sector and NAIC code (n = 173, active as of Dec. 2020)

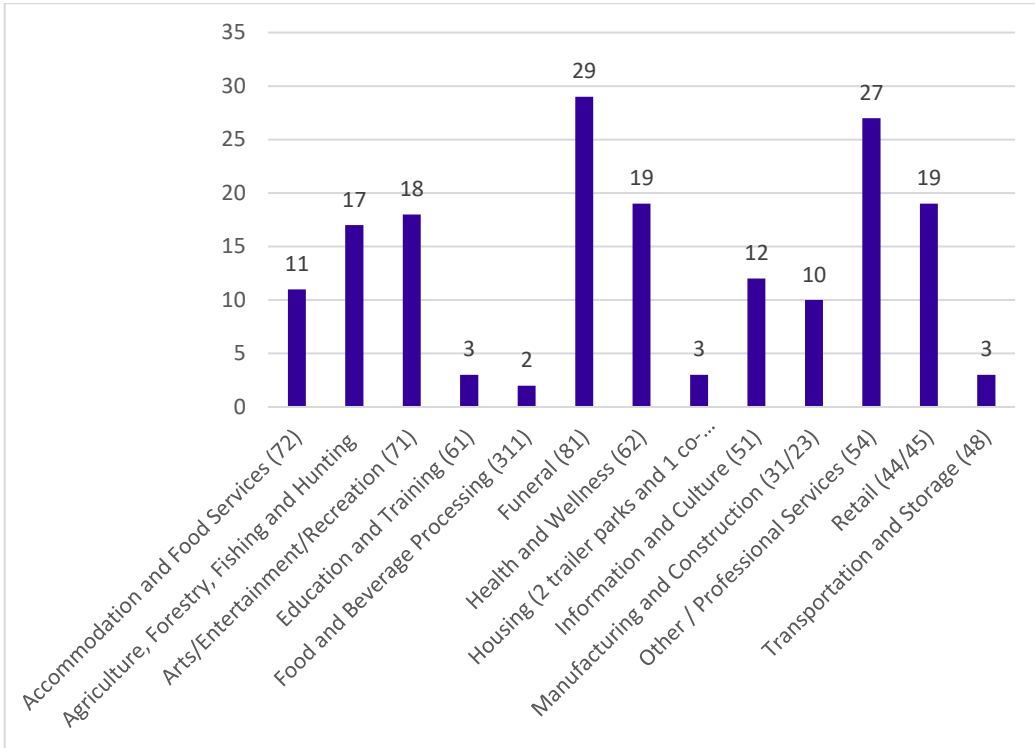
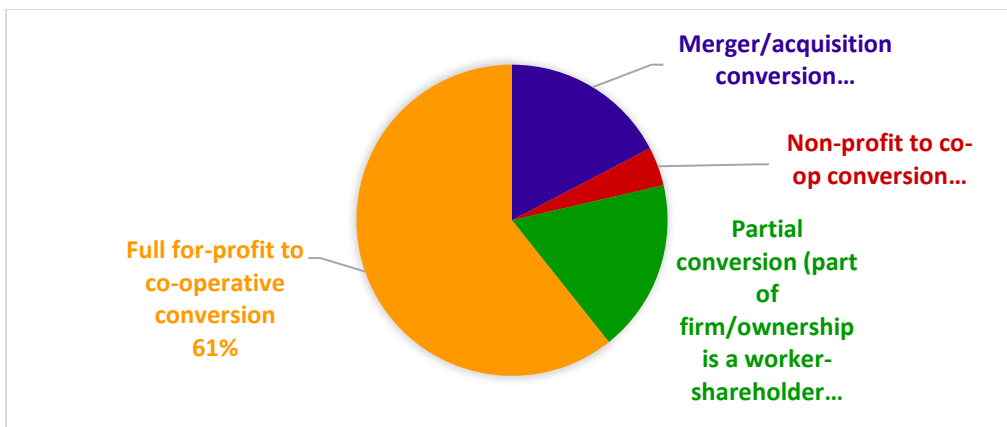


Figure 4: Typology of conversions to co-operatives in Canada (n = 173, active as of Dec. 2020)



2. Key Issues

A major looming challenge for Canada's 1.2 million small- and medium-sized employer businesses (SMEs) is *the potential for large-scale permanent closures due to the growing number of owners nearing retirement but without a formal business succession plan*. With 59% of Canada's entrepreneurs over 50 years of age as of late 2018, it was estimated that nearly three-quarters (72%) of small business owners plan to retire in the next decade. While 81% of these retiring owners intended to transfer or sell their businesses, 41% had an informal succession plan, and 51% had no formal plan, according to the Canadian Federation of Independent Business.¹¹ And

**Only
8%
Retirement Age
SME owners
have a
succession
plan**

only a minority had a formal succession plan: the CFIB found in 2018 that only 8% of owners had a formal plan for succession; by the Co-opConvert Project's SME succession research in early 2020, there was only a slightly better scenario with 14% reporting a formal succession plan.¹²

This lack of overall succession preparation is further complicated when we consider that almost half of these near-retirement owners (48%) plan to sell their business to third parties – almost always a challenging and time-consuming task – “while others prefer to pass their business on to one or more family members, whether through a sale (25%) or [inheritance] transfer (21%).”¹³

At stake is over \$1.5 trillion in assets and the fate of 850,000 businesses,¹⁴ affecting over a third Canada's private sector workforce.¹⁵ This coming SME succession crunch, termed “the silver tsunami” by some, was already being discussed by the early 2010s in Canada.¹⁶ Economic experts in the US and the EU have also been warning of a similar phenomenon on the horizon or over a decade now.¹⁷ In short, *jobs and the socio-economic wellbeing of Canada's communities are potentially at risk*.

Canadian SME Owners' Succession Plans

Most of Canada's SME owners, as Figure 5 shows, have identified that they have had some form of discussion about selling the business (26%), transferring the business to family (20%), or transferring to employees (15%). These, however, are discussions; very few have identified that they have actually developed a formal succession plan.

¹¹ CFIB, 2018.

¹² Vieta et al., 2021.

¹³ CFIB, 2018.

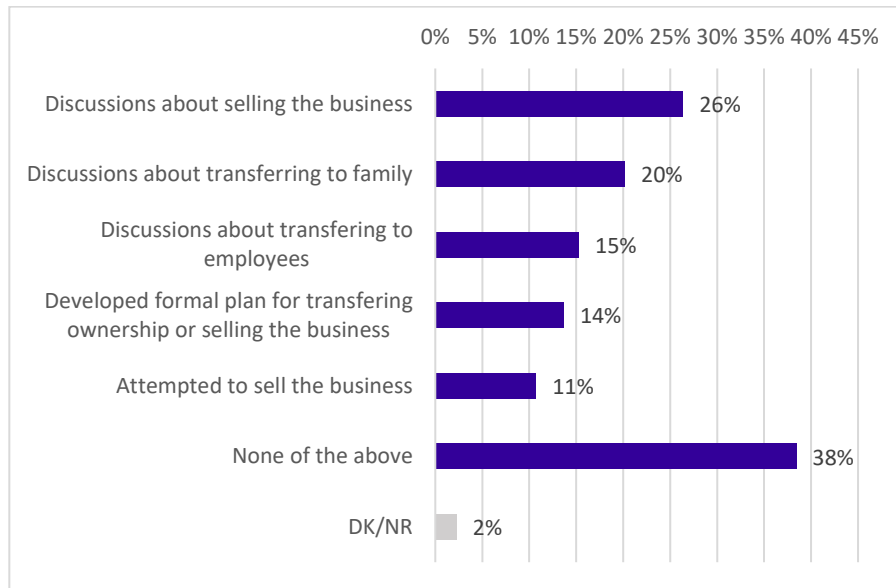
¹⁴ CFIB, 2018.

¹⁵ Parkinson et al., 2015.

¹⁶ Bruce & Wong, 2012; CBC, 2011; Israelson, 2017.

¹⁷ CFIB, 2018; COSME, 2013; European Commission, 2011.

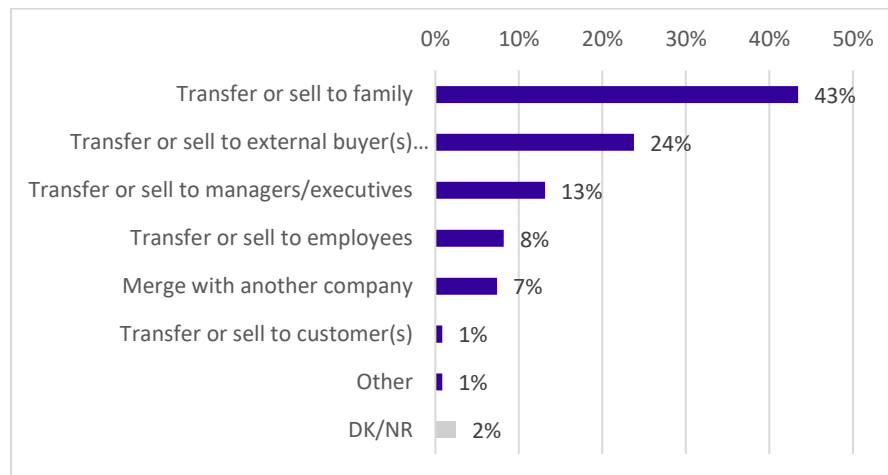
Figure 5: Succession activities in SMEs over the past 5 years (n=305)¹⁸



While Canada's SME owners are optimistic about how successful their succession plans will be,¹⁹ this is in stark contrast to how ill-prepared most retirement-aged SME owners are in practice for succession: Only 14%, for instance, have actually developed a formal succession plan, while a mere 11% have attempted to sell their business. Equally alarming, 38% of retirement-aged business owner respondents have not done none of the activities listed in Figure 5.

Figure 6 highlights what retirement-aged SME owners' who have planned or have thought about succession are thinking. By far most of these respondents are looking to transfer or sell the business to family (43%), however almost a quarter (24%) plan to transfer or sell to an external buyer. Looking internally to the business, some respondents have identified they will transfer or sell to managers or executives (13%) or to employees (8%). There is also some interest in merging with another company (7%), but very little interest in selling to customers (1%).

Figure 6: Current succession plans for those SMEs that have considered transferring ownership or selling the business (n=122)



¹⁸ Multiple answers allowed.

¹⁹ See: CFIB, 2018; Vieta et al., 2021.

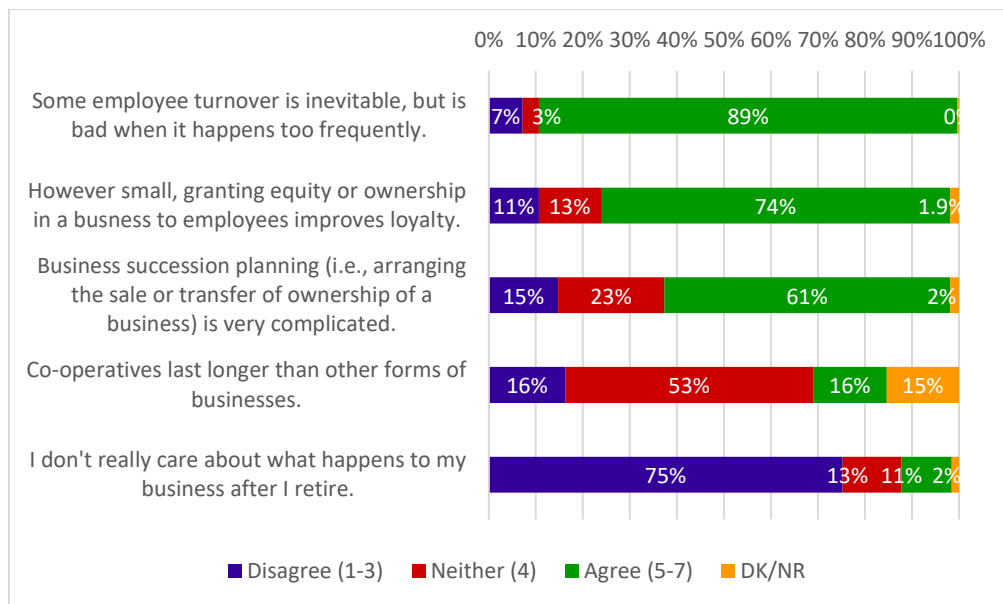
As we can see from Figure 6, most SME owners are working under the assumption that they will either sell or transfer their business to family or to an external buyer. *At the same time, the opportunity to sell or transfer to internal figures (i.e., managers or employees) is not being widely taken up by Canada's SME owners, a lost succession opportunity.*

To add context here, business succession to family members has a very low success rate. Only 30% of family businesses survive into the second generation and a mere 12% are still viable by the third generation.²⁰ On the other hand, succession plans that include selling the business to employees has a comparatively high success rate, and when they also convert to co-operatives, the survival rate of the subsequent enterprise is comparatively high.²¹

Lack of Knowledge of BCCs as an Option by SME Owners

Overwhelmingly, as Figure 7 depicts, 75% of SME owners care about what happens to their business after they retire. They agree that some employee turnover is inevitable but understand this to be bad when it happens too frequently (89%). They also agree that granting some equity or ownership in the business to employees improves loyalty (74%). Additionally, a majority (61%) agree that business succession planning is very complicated. And interestingly, 53% neither agree nor disagree and 16% disagree that co-operatives last longer than other businesses.

Figure 7: Attitudes towards broad themes related to succession (n=319)



These results show that the long-term viability of co-operatives – an empirically known strength of co-ops – does not resonate well for most Canadian SME owners. Contrary to the empirical evidence that co-operatives have a high survivability rate compared to other business types,²² only 16% of survey respondents in Figure 7 agree that “co-operatives last longer than other forms of businesses.” This reflects a *general lack of familiarity or a misunderstanding of co-operatives by SME owners.*

²⁰ Family Business Institute, 2016.

²¹ Ben-Ner, 1988; Vieta et al., 2017.

²² Co-operatives UK, 2019; Status of Co-operatives in Canada, 2012, p. 9; Vieta et al., 2017.

However, the themes in Figure 7 show a possible hidden acceptance of co-ops for succession should more SME owners know about the advantages of the co-operative model. Among SME owners, there is overwhelming agreement, for instance, for less employee turnover, granting more equity or ownership to employees, and a continued interest in the business after retirement. These views show that most retirement-aged SME owners possess and enduring attentiveness, if implicitly, to the business, to their employees, and to continuing to provide good or services to the community. *These results suggest that there could exist more acceptance of the co-operative model by Canada's SME owners when thinking about succession if they were to know more about co-operatives and their benefits in addressing employee loyalty, ownership stakes, and business continuity.*

Canada's co-operative movement should find an important opening here for more education and promotion of the co-operative business model among Canada's SME owners nearing retirement, suggesting also an untapped demographic for inspiring the creation of new co-operatives.

BCCs as Potential Solutions to Pandemic-Led Business Closures

Awareness of community- and worker-ownership is increasing in response to economic turmoil, including the COVID-19 crisis.²³ During the current COVID-19 crisis, Canada's co-operatives have readily responded to community needs, often sooner and with much more local impact compared with government and corporate responses.²⁴ This crisis is demonstrating that local economies must be self-sustaining rather than reliant on volatile global value chains. Economist Michael Schuman²⁵ refers to this as the “comparative resilience” of localities, which will be vital for Canada's rebuilding process post-pandemic.

Co-operatives are ideal ways to secure community resiliency. One sector where BCCs could be deployed during the pandemic is in the healthcare, care home, and home care sectors, for instance, which have been greatly affected by the COVID-19 crisis. Research indicates that non-profit care homes for the elderly (including co-operative care homes) are faring much better than private-sector care homes during the current COVID-19 pandemic, with far fewer resident deaths.²⁶ Home care workers have also been effectively organized as co-operatives of care workers in Quebec and in the US. More of these non-profit care homes and home care co-operatives could be created through BCCs, ultimately establishing more stable and community-rooted management and ownership models for elderly care and for the care of other vulnerable communities (Armstrong, 2020). BCCs, therefore, in health care and across Canada's economy, need to be seriously considered as viable responses to closing enterprises and lost jobs as a result of the pandemic.

During the current **COVID-19** crisis, Canada's **co-operatives** have readily responded to community needs, often **sooner and with much more local impact** compared with government and corporate responses
(Vieta & Duguid, 2020).

3. Summary and Next Steps

Co-operatives and Mutuals Canada and the Canadian Worker Co-op Federation (CWCF), with the assistance of the Co-opConvert Project, would be delighted to provide more information if required, such as case studies. The CWCF also has [a proposal](#) to partner with the Government of

²³ Balsillie, 2020; Graham, 2020; Lingane, 2020.

²⁴ Vieta & Duguid, 2020.

²⁵ Schuman, 2020.

²⁶ CCPA, 2020; Ontario Health Coalition, 2020.

Canada, *Building Community Resiliency*, and this priority that will be reflected in both upcoming pre-budget submissions.

It should also be noted that one of the three priorities of the [People-Centered Economy Group](#) is the enabling of Employee and Community-Based Ownership Succession and Buyouts.

The idea of enabling conversions is already being explored through various government programs, notably:

- The [Conversion to Co-operatives Project](#) is a three-year study funded by the Social Sciences and Humanities Research Council of Canada (SSHRC).
- The [Legacy Leadership Lab](#) (L3) project at the Waterloo Institute for Social Innovation and Resilience is helping build expert-driven solutions for Canada's transitioning small business community. It is funded by Canada's Social Innovation and Social Finance Strategy's [Investment Readiness Program](#).
- The [Atlantic Canada Opportunities Agency's](#) funding of the Canadian CED Network project entitled Business Recovery, Stabilization, and Succession: Using Co-operatives and Social Enterprise to address COVID-19 and the challenge of rapidly retiring business owners in rural communities across Atlantic Canada.

In conclusion, encouraging traditional business conversions to co-operatives would offer an option to retirement-aged owners who do not have a succession plan²⁷ and help maintain local businesses threatened by financial hardship caused by the COVID-19 pandemic. Enabling conversions would safeguard businesses, jobs and keep communities resilient.

References

Balsillie, J. (2020). Data conference 2020: [Unlocking the power of data](#). Canadian School of Public Service. Feb 13.

Ben-Ner, A. (1988). [Comparative Empirical Observations on Worker-Owned and Capitalist Firms](#). International Journal of Industrial Organization, 6(1), 7–31.

Borzaga, C., Salvatori, G. & Bodini R. (2017). Social and Solidarity Economy and the Future of Work, 2017

Bruce, D., & Wong, Q. (2012, November). [Passing on the Business to the Next Generation](#). Canadian Federation of Independent Business (CFIB).

CBC. (2011, October 17). [10 Surprising Stats about Small Business in Canada](#). CBC News.

CCPA. (2020). [Re-imagining long-term residential care in Canada](#). Canadian Centre for Policy Alternatives. June 4.

CFIB. (2018). [Nearly Three Quarters of Small Business Owners Plan to Exit their Business Within the Next 10 years](#). Canadian Federation of Independent Business (CFIB).

Co-operatives UK. (2019). [Co-operative Business Survival](#). Co-operatives UK Research Report.

COSME. (2013). European Association for SME Transfer: Position Paper: Transfer of SMEs in COSME Programme. Brussels: Transeo AISBL.

²⁷ Bruce & Wong, 2012; CBC, 2011; Israelson, 2017.

- Duguid, F., & Karaphillis. (2019). [Economic Impact of the Co-operative Sector in Canada](#). Ottawa: Co-operatives and Mutuals Canada (CMC).
- European Commission. (2011). *Business Dynamics: Start-up, Business Transfers and Bankruptcy*. Brussels: European Commission, Directorate-General for Enterprise and Industry.
- Family Business Institute. (2016). [Family Business in Transition: Data and Analysis](#).
- Government of Canada. (2019) [Financial and non-financial statistics on Canadian non-financial co-operatives, 2019](#)
- Government of Canada. (2019), [SME Profile: Financing and Growth of Co-operatives in Canada, 2017](#)
- Graham, J. (2020). [One of Canada's fastest growing family businesses is becoming employee owned: Here's why that could be a major trend post-pandemic](#). Future of Good. May 1.
- Israelson, D. (2017, March 3). [Business-Transition Tsunami Coming for Aging Baby Boomers](#). The Globe and Mail.
- Lingane, A. (2020). [Flattening the curve for small business](#). Project Equity.
- Novkovic, S., & Webb, T. (Eds.). (2014). *Co-operatives in a Post-Growth Era: Creating Co-operative Economics*. Winnipeg: Fernwood.
- Ontario Health Coalition. (2020). Release and analysis: [COVID-19 death rates in Ontario long term care homes significantly higher and increasing in for-profit homes vs. non-profit and publicly-owned homes \(new data analysis\)](#). May 6.
- Parkinson, D., Mcfarland, J., & Mckenna, B. (2015, November 6). [The Boomer Shift: Boom, Bust, and Economic Headaches](#). The Globe and Mail.
- Shuman, M. (2020). Comparative resilience: 8 principles for post-COVID Reconstruction. Resilience. April 7. <https://www.resilience.org/stories/2020-04-07/comparative-resilience-8-principles-for-post-covid-reconstruction/>
- Sanchez Bajo, C., & Roelants, B. (2011). *Capital and the Debt Trap: Learning from Cooperatives in the Global Crisis*. London: Palgrave Macmillan.
- Status of Co-operatives in Canada. (2012, September). [Report of the Special Committee on Co-operatives](#) (chaired by Blake Richards, MP). Ottawa: Government of Canada.
- Vieta, M. (2020a). [Workers' Self-Management in Argentina: Contesting Neo-Liberalism by Occupying Companies, Creating Cooperatives, and Recuperating Autogestión](#). Leiden / Chicago: Brill / Haymarket.
- Vieta, M. (2020b). Saving Jobs and Businesses in Times of Crisis: The Italian Road to Creating Worker Cooperatives from Worker Buyouts. In B. Roelants, H. Eum, S. Eşim, S. Novkovic, & W. Katajamäki (Eds.), *Cooperatives and the World of Work* (pp. 162-187). London: Routledge.
- Vieta, M. & Duguid, F. (2020). [Canada's co-operatives: Helping communities during and after the coronavirus](#). The Conversation Canada. Apr. 19.
- Vieta, M., Quarter, J., Spear, R., & Moskovskaya, A. (2016). Participation in Worker co-operatives. In D. Horton Smith, R.A. Stebbins, and J. Grotz (Eds.), *Palgrave Handbook of Volunteering, Civic Participation, and Nonprofit Associations* (pp. 436-453). Houndmills, Basingstoke, UK: Palgrave Macmillan.
- Vieta, M., & Lionais, D. (2015). Editorial: The Cooperative Advantage for Community Development. *Journal of Entrepreneurial and Organizational Diversity*, 4(1), 1-10. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2639138
- Vieta, M., Depedri, S., & Carrano, A. (2017). [The Italian Road to Recuperating Enterprises and the Legge Marcora Framework: Italy's Worker Buyouts in Times of Crisis](#) (Report 015-17). Trento, Italy: European Research Institute on Cooperatives and Social Enterprises (EURICSE).
- Vieta, M., Tarhan, D., Duguid, F., & Guillotte, C.A. (2021). *Canada's SMEs, Business Succession, and Conversion to Co-operatives*. Co-opConvert Report No. 1. Toronto: Centre for Learning, Social Economy & Work, University of Toronto. (Forthcoming.)