Succession Planning

Using the Worker Co-op Option

[Co-operative Conversion Research Project –

Retiring Small Business Owners]

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I. Executive Summary

A business owner is retiring from a small or medium sized business. He or she has explored the options for succession and has decided to sell the business to his/her employees and managers. They have made a commitment to own and manage the business as a worker co-op.

This report documents the information, knowledge and strategies involved in reaching such a decision, for the owner and for the workers. It explains the functioning of a worker co-operative, as well as the various options available to a business owner when facing retirement. It also examines the challenges and the processes involved to ensure the continuation and long-term success of the worker co-op business.

There is a very large number of retirements by business owners expected in the coming years. Succession planning is a complex process for a business owner preparing for retirement, and an employee buy-out as a worker co-op is an option which should be given serious consideration.

II. Canadian Worker Co-operative Federation (CWCF)

The Canadian Worker Co-operative Federation is a national federation of worker co-operative businesses. It supports the development of worker co-operatives in Canada by providing technical assistance through its Worker Co-op Developers Network, term and patient capital through its revolving loan fund (the *Tenacity Works* Fund), and general programs such as conferences, advocacy and services such as a Self-Directed Registered Retirement Saving Plan for worker co-ops.

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III. Research Methodology

Research components included:

1. A literature review of succession planning issues.
2. Site visits to a number of businesses, in Ohio, in New Brunswick and in Manitoba, in which a worker co-op or an employee/management buyout was the succession option implemented by a retiring owner or to meet challenging business circumstances.
3. Interviews with key stakeholders including employees, retiring owners and professional service providers.

IV. Succession Planning: An Opportunity & a Challenge

The succession issue for small and family-owned businesses has grown due to the large number of small business owners nearing retirement. Studies in places as diverse as Australia and Quebec, have demonstrated that well over 50 per cent of small and medium sized businesses will face this challenge in the next ten to 15 years. At the same time, the overall percentage of employees working for small and medium-sized businesses has grown. There are currently 124,000 family businesses, each with sales of $1 million or more, in Canada. These companies employ about six million Canadians and generate as much as $1.3 trillion in gross annual sales. (Financial Post 2001)

Successful successions are important not only to those immediately involved but to the economy at large. They are also important, not only to the owners and their families, but also to the many key stakeholders whose economic well-being is linked with these businesses. These stakeholders include: employees, managers, customers, local unions, suppliers, lenders and local communities that need the goods, services and the employment generated.

A cursory look at the information available on the topic of succession soon brings you face to face with the reality that only about one-third of all small businesses make a successful transition to the second generation in the family. Although there are no definitive reasons for this, there is no doubt that the complexity of developing and carrying out a successful succession is a major factor. "For retiring family owner-managers, the transition to retirement is even more complicated as personal issues are generally intertwined with issues of leadership succession and development, business continuity and viability, ownership and wealth transfer, organizational governance and family harmony." (Journal of Financial Planning) Besides the complexity, another key factor is that a great number of business owners avoid succession planning until the last possible moment. This leads to a limited and inadequate approach for implementing an effective succession plan.

The experience of RoyNat Capital Inc., a Canadian merchant bank, should interest those considering succession options. "Our experience as a merchant bank, which is supported by U.S. studies, is that 70% of family businesses do not survive to the next generation. The odds are little better – just 50/50 – when the business is sold to an outside buyer." (R. Reynolds, Financial Post). These statistics are sobering news for business owners who are planning for a family succession. The challenges are significant if they hope to see their children and enterprise succeed well into the future. On the positive side, there is another succession option that has a significantly greater chance of success - the employee/management buyout. "Successions involving leveraged employee buyouts, supported by key managers, succeed in about 80% of the cases." (Ibid.) This option has the potential to serve the retiring owners and their families, as well as their existing employees. This paper will focus on this employee/management option from the vantage point of one particular form of employee/management ownership, a worker co-operative.

V. Worker Co-operatives

Worker co-operatives are businesses that are owned and democratically controlled by the members, who are the workers, including managers. The main purpose of a worker co-operative is to provide employment for its members through the creation of a viable enterprise. Members combine their skills, experience and financial resources to achieve mutual goals. They create or maintain jobs for themselves by providing a commercial/community good/service. Because they collectively develop the policies that determine the co- operative's daily and long-term operation, trust, communication and co-operation are vital to the co-op's success.

Each member pays a membership fee or purchases a membership share(s), and has one vote regardless of how much money he/she has invested in the co-op. The co-op's assets are collectively owned and surplus earnings (profits) are allocated to the workers according to policies established by the co-op and to the co-operative's collective reserves (retained earnings) for the future development of the co-operative.

Co-operatives have historically evolved when groups of people have encountered economic difficulty within an existing economic infrastructure that was not able to provide them with opportunities. The challenge presented by the potential dislocation of workers caused by a failed succession plan is one to which co-operatives can respond early on. Rather than waiting on the sidelines, the employees/managers of an enterprise, by developing a worker co-op, position themselves to take responsibility for their future. Individually the employees/managers may not have the capacity in terms of skill levels or financial resources to become sole entrepreneurs. Collectively, with their joint experience in the enterprise, they likely have the knowledge and relationships, both internally and externally, to continue developing their enterprise and benefiting their communities.

Like any business, the worker co-op must generate a profit to grow and develop. However, the worker co-op usually has social and environmental bottom lines as well as the financial one. Return on capital is not the sole driver but rather the drivers are a matrix of concerns such as financial sustainability, high quality work places, and support for the future of the broader community.

In addition, research on employee ownership demonstrates that employee-owned businesses, particularly in situations in which the workers have significant participation in decision-making, have a competitive advantage through higher levels of efficiency and commitment. This competitive advantage, plus the commitment to the workers' long-term employment, means worker co-operatives, based both upon their values and effectiveness, are excellent vehicles to create long-term employment.

These characteristics of worker co-ops, in addition to providing a good foundation for new local economic development, make them an ideal option for consideration in the succession plans for retiring small business owners who are concerned about seeing their businesses continue to contribute employment and other benefits to their communities.

VI. Succession Issues

The evaluation of the option of using worker co-ops for succession planning will start with a review of the key issues that must be faced in all succession initiatives. These issues will be used to evaluate the context in which a co-op succession may meet the needs of the retiring owner and other key stakeholders.

The evaluation is organized around the following factors:

- Succession Options
- Business Owner
- Business Issues
- Other Stakeholders
- Timing
- Technical Considerations and Professional Services
- Succession Process

A. Succession Options

There are two broad categories of succession options. The first is some form of family succession and the second is the sale of the business or its assets outside the family.

Family succession includes two distinct options. The first is to maintain family ownership and management. The second is to maintain family ownership and control of the board of directors but to transition to non-family management. The first requires family circumstances that include a competent, committed and experienced member of the second generation that sees the business as a long-term career opportunity. That person must have the trust of the first generation and of other members of the second generation. The second option requires that the business be large enough and prosperous enough to hire and reward a non-family manager(s) and develop a new governance relationship between owners and management which facilitates the continued success of the business.

The sale of the business to external parties involves a number of potential buyers with different implications for the seller and other stakeholders. These parties include an existing competitor, strategic buyer, current management, management/employee groups, an unrelated business and lastly (an unlikely option) an Initial Public Offering (IPO). The liquidation of the business could be considered a form of sale, although one in which the business doesn't survive.

<u>Sale to an existing competitor</u>

Competitors are often seen as an excellent option for selling one's business. They are familiar with the industry and the business' place within it. They understand the value of the business, and are also often in the position to access the required capital for the purchase without vendor financing. If the seller is only interested in a good financial outcome, this is a good option. In some cases the competitor may ask the vendor to continue on in a management capacity for a period before retirement to ease the transition. This opens further options for compensation and continued involvement if desired by the vendor.

The competitor's primary goal is to grow the market share and profitability of their own company. Of course, the options for doing so vary and may include closing the company and supplying its customers from its own production. This highlights the fact that if the seller has particular desires for the future of the business, the seller will want to ensure he/she has a clear understanding of the intentions of the purchaser. The danger, of course, is that intentions may change, or the seller may intentionally mislead the vendor.

Sale to a strategic buyer

Selling to a strategic buyer is similar to selling to a competitor in many ways. The strategic buyer is more likely to have the operations continue, as often he want to integrate its productive capacity (vertical integration) with his other operations. He, too, is likely to have access to capital and may desire a transitional period during which the current owner provides management services.

Sale to current management

Selling to management is another option. However, a number of factors may come into play. Management may be about the same age as the retiring owner and have little interest in this option. Managers who have long worked in a subordinate position may not have the skills and drive to assume full leadership. Lastly, managers are not likely to have the financial capacity to purchase the business without some form of vendor financing. This increases the risk to the vendor if their future payments are dependent upon the continuing success of the enterprise. On the positive side, managers may know the business extremely well, have the required entrepreneurial outlook and be in the position to assume ownership and control in a well-planned manner.

Sale to management/employee groups

Selling to a combination of management and line employees is also a clear option. It entails some of the same issues as a management buyout with two additional ones. For owners interested in ensuring continuity of the business and protecting jobs, the employee buyout provides an excellent vehicle. Research demonstrates that employee/management buyouts have a good rate of success. However, it also shows that a well thought-out development and implementation plan is required, in order to ensure commitment, and clarity of roles. The opportunity for an employee/management buyout will be greatly enhanced if the existing owner-manager has developed and maintained an open and trusting relationship with the employees and managers.

Sale to an unrelated party

Selling to an unrelated party who is simply looking for a new business venture to own and operate can also be a good option for the seller. Buyers of this nature are likely to have access to the required financing, and this, like selling to competitors, may allow for a clean financial break from the existing business. The unrelated buyer is also very likely to want to maintain the business within it current community giving the vendor some comfort as to the business' future direction. These buyers may also want to have some continuing advice from the vendor during the first year or so. As noted above, this opens further options for compensation and continued involvement if desired by the vendor.

Initial Public Offering

An Initial Public Offering (IPO) is a very unlikely option for most small and medium businesses and will not be examined in this study.

Liquidation

Liquidation of the business sometimes represents the best financial option for a retiring owner who wants to make a clean break. This works well in circumstances in which some of the underlying assets of the business, commercial real estate, for example, may have a disproportionate value to the business being conducted within it. The business may no longer be viable or attractive to purchasers with the level of investment or debt required to purchase this asset. The best price for the asset will be obtained from a purchaser who will integrate the asset into a more lucrative business.

B. The Business Owner

From the business owner's perspective, there are many personal issues that need to be addressed if succession planning is to be implemented successfully. Many business owners find it difficult to begin the succession planning process because of the emotional weight and perceived difficulty of dealing with these issues.

To commence succession planning brings with it the explicit recognition that a certain period of one's life is coming to an end and indeed in most cases that one's life itself is entering its final period. This can lead to a sense of denial and uncertainty about the future. What will one do when no longer involved in the business? Many business people's sense of themselves, their self-worth, their places in the family and the community are intimately tied up with the business they have created. The idea of moving forward into a new situation, no longer controlling and directing the business, can leave for many a daunting gap, both emotionally and practically.

Succession planning in the family business also means, for the business owner, dealing with family issues and feelings among the owner, spouse and children. Old conflicts, misunderstandings and judgments about various members of the family will have to be faced when developing the succession plan. Some family members may actively discourage thinking about these issues while others support developing a plan. The ease of entry into this for the family will be directly related to the quality of the relationships built over the years and the openness with which financial and personal issues have been discussed among family members.

For many small business owners, the business may be their single most significant financial asset and their only source of retirement income. Developing a succession plan that allows them to live in the style the business affords, as owner-manager, may be difficult. This challenge will be addressed differently, depending upon whether or not the succession option is going to maintain family ownership and control or be sold outside the family. Of course, if the business owner has developed financial resources for retirement, independent of the business, the options for succession become more flexible.

The business owner may also have developed some long-term personal relationships with managers and employees which he/she will want to consider in a succession plan. These relationships may lead to a personal commitment to the managers/employees ensuring that whatever succession strategy is put in place, it will not negatively affect these managers/employees' future with the company. Even without such a commitment, the business owner must recognize that these key employees and their commitment to the future of the business will also affect the value of the business to any prospective buyers. He/She should proceed with this in mind.

Another factor the business owner may take into consideration is the role and value of the business to the local community. This factor may be particularly important to consider when the business owner directly, and through the business, is very active in contributing to community activities.

C. Business Issues

1. Valuation

One of the key issues in succession planning is a business valuation. Whether the business owner is looking for a family transition or an external sale, virtually all business owners will need to carry out a business valuation to determine the fair market value of the business. The owner, having dedicated his/her life to this enterprise, may have a distorted sense of its market value. Therefore it is essential that the valuation be carried out by an independent professional valuator with a good understanding of the local market, as well as the broader market for the specific industry sector. In many cases, in family owned businesses, business owners need to spend time to ensure that the balance sheets and operations present the best picture of the business as a future opportunity before the business valuation is carried out. The financial statements need to be 'normalized', eliminating non-market items such as special family compensation levels and benefits (e.g. car allowances). In addition, the business may need to clarify the transferability of key agreements such as franchise agreements or critical licenses.

The valuation essentially looks at the business based upon its recent history and future prospects. Developing a clear business plan, based upon an appropriate strategy and valid assumptions, becomes the foundation for the valuation. This plan will look at the business' short- and medium-term prospects, industry trends, strength of the management team, future capital needs, and cash flows. This valuation needs to be carried out on a professional basis by qualified valuators who can provide the owner with a business valuation that can be substantiated using accepted valuation methods. Working from the same background information, the variation in the range of valuations provided by different valuators should be modest.

For the buyer, the business' cash flow is the key to its valuation. As a going concern, the enterprise must generate cash which will be available to pay financing charges, reward the employees and provide a return on investment. The value for the buyer is thus limited by these cash flows. The buyer cannot pay a price for a business that the future cash flow cannot carry, or the business will cease to be financially viable.

Of course, the ultimate value of the enterprise is the price a buyer is willing to pay for the business. Different types of buyers will value the business differently. Strategic buyers may be willing to pay a premium because the business will generate significant synergies with their other operations. This simply means the business is expected to generate higher cash flows for the buyer than the business would if it simply continued as a stand-alone operation, making it more valuable. Lastly, as with other commercial transactions, the dollar value is only one element of the value proposition, which both buyer and seller will consider. It is the matrix of these value propositions and the trade-offs between them that will determine the final dollar value of the enterprise.

2. Management

Another key element for the business is a management and governance succession plan. No matter what form the succession takes, the management and governance system will require change. What was appropriate for success under the original owner will not meet the needs of the business when new management and ownership are put into place. This is true whether it is a family transition or an external transition. Issues regarding authority, responsibility, accountability, skill sets, and job descriptions are just some of those that will need to be addressed.

In preparing for a succession, the business owner must identify what key contributions his/her management and governance make to the business and determine how the succession plan will replace those contributions in the new context. This may be particularly difficult with a small business in which the owner has been the driving force in both strategy and decision-making. The depth, capacity and commitment of the non-owner managers to the future of the business will be crucial for any successful transition. It will also be a key factor in any examination by potential purchasers.

D. Other Stakeholders

The success of any enterprise is dependent upon good will, effective communication, and mutual benefit among various groups of stakeholder and the owners. For a successful succession to take place, the issues and concerns of the various stakeholders must be addressed in order to limit uncertainty and solidify their commitment to the future of the business. For the business owner some level of confidentially is expected and required. So, there is a bit of a balancing act which is carried out in deciding what information to share, and when.

1. Managers

Managers are the repositories of key business information. Because they often have long-standing contacts with customers, suppliers and regulators, they may be vital for the continued success of the business. They also will be aware of, and likely be required to assist with, the issues that need to be addressed in getting the business ready for either a family transition or a sale to an outsider. At the same time, they may be feeling very vulnerable to any change in ownership, wondering if and how they will fit into the future plans for the business. Therefore it is very important for the retiring owner to be aware of their concerns and to maintain their support. At a minimum, they should be kept informed as to the succession planning process, the options being considered and how these options will affect them. The possibilities of sharing this information will be limited in part by the type of working relationship and information sharing that has transpired in the past between the owner/manager and the subordinate managers, and by any conflict of interest between the managers and the succession options being considered by the owner.

2. Employees

Unless the succession takes the form of an employee/management buyout, line employees will have little necessary involvement in any planning process. However, it is important for morale that appropriate information is provided to them so that any uncertainty about the future of the company is addressed. Ongoing, unfounded gossip during the relatively long period required for succession planning and implementation can be harmful. The company doesn't want to be in the position of losing key employees or hurting productivity through poor morale.

Of course, in the case of an employee/management buyout, it is important for the employees to be very involved in the planning process. Employees need to select their own representatives to the transition-planning group. There should also be an employee education program about worker-ownership and the proposed organizational structure and operations of the business.

3. Customer and Suppliers

Both customers and suppliers are key to the future of the business. A successful succession will need to assure both customers and suppliers that the smooth functioning and the financial stability of the business will be maintained. An analysis of current relationships and lines of communication will be required to ensure that continuity with these stakeholders is not lost during the transition. For example, relationships with customers and suppliers, particularly in small businesses, are often directly with the current owner. If this is the case, the new key contacts and/or owners should to be introduced to the customers and suppliers well in advance of the transition. .

4. Community

The local community may also have an important stake in the business. In many small communities, a local business often contributes to the community's identity, provides crucial jobs and goods and services which may not otherwise be readily available, and helps to create a critical mass of economic activity which is important for the well-being of the community as a whole. Although the community may not play a formal role in the succession process, its needs may be a major consideration for a retiring owner who has played a significant role in the community's life. In some cases where a business is vital the survival of the community, the owner may want to involve the community leaders in a discussion regarding his/her succession options and their possible effects on the community.

E. Timing

Effective successions take significant time to plan and implement. Of course, the actual amount of time will vary with the complexity of the situation, the goals of the owner and the succession option chosen. However, the general consensus is that the sooner the business owner starts to look at the issues and plan for an appropriate succession, the better.

There are three basic stages to a succession: planning, implementation/transition and continuation. The case for early planning rests upon having the time to ensure that the best plan is put in place to meet the goals of the business owner, and that all the crucial issues for continued success are identified and effectively addressed. Successions that in reality are akin to crisis management have too many opportunities to go wrong, both for the owner and all the other stakeholders.

F. Technical Considerations and Professional Services

Successful succession planning generally will require advice and assistance from a number of professionals. Some issues that need to be addressed include: business valuation; taxation implications for the business owner, inheritors and purchaser(s); legal agreements such as trusts, share or asset purchase agreements; shareholder agreements, share redemption plans; retirement and estate planning; and financing agreements (vendor financing).

In all these areas, experienced professional advice should be used to ensure that, after implementation, a succession plan doesn't produce unexpected and unpleasant surprises. Some of the professionals involved include: financial planners, lawyers, accountants, and business valuators.

Another professional option that business owners may want to consider is hiring a succession facilitator. It is recommended by a number of authors that a professional facilitator be used to guide the whole process. A succession facilitator has the interpersonal and process skills and succession planning knowledge required to organize the succession process. He/She can ensure that all the key stakeholders are heard and integrated in an appropriate way into the process. Often the other professionals, although having high levels of technical expertise, lack these important skills. As well, the business owner is often too entangled in the situation, emotionally and operationally, to have the distance and capacity to shepherd the process and deal effectively with all the various stakeholders.

G. Process

Each business is unique and there is no one-size-fits-all package for developing and implementing a succession plan. The following are general guidelines that will be helpful in going through this process.

1. Get an introduction to the issues that need to be addressed in order to ensure a successful succession plan.

2. Determine the goals of the business owner and other key stakeholders identified by the owner, as they are crucial to the owner's goals. This will include spouse, other family members and managers. What are their needs, and can their needs fit with the owner's goals and desired outcomes? Review and confirm goals. Through this process some of the primary goals may be revised to reflect the realities of the situation, e.g. goal of a family succession may change to an outside sale, due to information and findings as the various stakeholders are consulted.

3. Determine the best option for meeting these goals. This may require preliminary work to assess different possibilities and to clarify some of the technical issues noted above.

4. Map out key steps to develop and implement the option, with necessary timelines and sources of expertise. Determine who is responsible for moving the process forward. This should be detailed as it relates to the internal business issues during and after transition, ownership and governance changes, and taxation and retirement planning issues.

5. Draft all the required legal documents. Review with advisors and modify as required. Finalize and sign documents.

6. Implement the plan, monitor its progress and modify, if required.

VII. Owner/Employee Situation and Characteristics Conducive to Considering a Worker Co-op Succession

There is no single situation or characteristic which indicates that the worker co-op option should be considered. Rather, there is a series of considerations which, although not sufficient in and of themselves, collectively give a strong indication that the option has good potential as a succession vehicle, that it will address the values and meet the needs and goals of the owner and other stakeholders. Simply put, the overriding requirements for considering the worker co-op option are trust and confidence between all the players, a firm belief in the potential of the business and available financing.

A. Owner

1. Family Circumstances

In some circumstances there is no interest in or no viable family succession option. The owner and/or family may recognize that the internal family circumstances make a family succession problematic in the long term. The family may not be capable of dealing with the various issues around joint sibling ownership and control. The parent may not be able to release real control to his/her children. There may be no interest in the business by potential family successors, or they simply may not have acquired the skills, experience and maturity to take on ownership and control of the business.

2. Employee Relationships

A situation in which there have been positive long-term relationships among the owner of the enterprise, the managers or senior employees and line employees is a good foundation for a potential worker co-op. The owner, in recognizing the important role employees have played in the success of the business, may want to help ensure the future of the employees. The owner's experience should provide him/her with the confidence that the managers and employees have the experience and skills to continue to make the business a success. The owner must also believe that the challenges of effectively developing an employee-based business can be met, and that the benefits for both the business and the employees will be substantial.

3. Business Circumstances

The foundation for all business considerations must be the belief that the business has the potential for a strong future as an independent entity. This would appear to go without saying. It is emphasized here because a realistic assessment of the future of the business will be the foundation for all the parties: owner, managers and employees. It will determine their desire to get involved in a process which requires great commitment in terms of time, effort and money.

As well as the potential for the business to continue as an independent entity, a strong commitment by the owner to seeing this happen, is an important factor. Owners have often grown their businesses from start-up and strongly identify with their enterprises. It is often experienced as an extension of their persons. They see it as their legacy, one that can continue to grow and contribute to the community into the future through the employment and goods and services it provides. Outside buyers, strategic or independent, are unlikely to have the same attitude toward the business or its community. On the other hand, the managers/employees who have helped grow the business and who will benefit from its continuation are much more likely to share the owner's feelings and commitment to seeing the business continue as an independent enterprise and remain in the local community.

In contrast to the fear that the business may not continue independently, in some circumstances there may simply be a lack of potential outside buyers or buyers that the owner is willing to consider. For example, the owner may not want to deal with a local competitor.

There also may be a desire to maintain business and personal privacy. Putting the business on the open market would preclude this. Even with the usual confidentiality agreements, the inner workings, strengths and weaknesses are exposed to the potential buyers. By looking at the management/employee option, the owner can carry on business without the inner workings of the business being exposed to potential buyers.

4. Owner's Personal Goals and Needs

In some circumstances the owner may want to continue to be involved, but to a lesser degree over the course of a number of years. Developing a succession plan with employees provides a good option for structuring such an involvement that can benefit both parties.

If the business owner is in a position where he/she does not have the need or desire to focus on only the dollar value of the transaction, it can be conducive to working with employees. Employees, as noted above, are likely to require some vendor financing to complete the deal. Although the owner doesn't want to be in the position of having to return to the business to secure his retirement stake, as long as he/she has secured his/her required retirement income through the first stage of the transaction and/or with other resources, the vendor financing likely required by the employee option is less of a concern.

B. Management

1. Confidence and Commitment

For the worker co-op option to be considered, it is vital that the existing managers have great confidence in the future of the business as well as in their ability, with the other employees, to meet the challenges of the future. Managers are often in the best position, particularly in a situation where the owner has been open and collaborative in his/her approach, to assess the strengths and weaknesses of the business and its future prospects. The other employees will be judging management's commitment and confidence as part of their evaluation of the business' future prospects

Managers must also be ready for a new level of commitment, perhaps in terms of time and certainly in terms of personal stress. They must evaluate whether they are ready for taking on and managing the process of strategic leadership and decision making, particularly within a context of broad employee ownership; a context in which they and others will be finding their way for the first time. There will be many bumps on the road as everyone learns their new roles in the worker co-op.

Lastly, managers must be prepared to invest their own financial resources. An element of financial risk and more responsibility will be added to their work lives. What's more, this responsibility as key leaders is not just for their financial contribution but also for those of their fellow employees. The transition from being simply an employee to that of being an owner, even within the broad ownership context of a worker co-op, will be challenging.

2. Management Style and Values

If managers have enjoyed a collaborative and team approach within the workplace, they are likely be more open and ready to embrace the worker co-op model. If they are excited about building a strong employee team and accomplishing results together, they are likely to be interested in the worker co-op model.

A resonance and responsiveness to the co-operative values are important. Although managers may or may not have a previous understanding of the co-operative values, it is essential that when they are exposed to them that they see a reflection of their own values. This is not to say they need to understand from the beginning all of the issues and implications of the principles and values. Rather they must intuitively sense the merits and organizing principles underlying them and see their value as a basis for the relationships within the business.

C. Employees

1. Confidence and Commitment

Employees also must have strong confidence in the future of the business if they are to be interested in the worker co-op option. This confidence must go with a desire to remain a long-term employee and the belief the business can and will meet their needs into the future.

Employees will often have a more limited understanding of the business as a whole, even though they may have great expertise in specific operational areas. This means they will be initially very dependent upon information provided to them by the owner and management. A situation where employees have come to recognize and respect the integrity and intentions of the owner and managers is an important foundation upon which to build their interest and confidence in employee ownership.

Trust and confidence in their co-workers are also required. The first understanding that you are being offered some sort of collective ownership will put the focus on one's co-workers. Are they really the kind of people I can trust and commit to in order to make the enterprise succeed?

There is a strong element of uncertainty that will underlie much of the employees' reaction to this option. Many employees are comfortable without the responsibilities of ownership and have little understanding of the risk/return evaluations that, to the owner, are second nature. Employees will rightly question, "What are the extra benefits of being an employee-owner that I am not already receiving?" Answers to these questions will likely be somewhat abstract or based upon future developments in the business, which may or may not come to pass. This element of uncertainty can only be met when the employees have the self-confidence that they can learn to participate effectively and that the business has the potential to succeed under the direction of the worker co-operative's leadership team.

2. Ownership and Values

The employees must also be comfortable in considering the required financial investment that they will have to make. But more than that, they need to have a sense of excitement about the benefits and satisfactions working as a member-owner will have. This is mostly likely to happen if they, too, have an intuitive response to the values and principles that underlie the worker co-operative concept. (See Appendix A for more on the Co-operative Principles.) Embracing these values will help to create a sense of solidarity with their co-workers and inspire them to work as if their example is the one which all their fellow workers will follow. It will also be beneficial if, through the development process, the employees gain an understanding of the policies and rules that will govern the workplace for themselves and for any management or co-op governance positions. This will help to develop realistic expectations regarding the consequences of employee ownership and provide a good foundation for positive member morale.

VIII. Worker Co-op Succession Considerations

The challenge in pursuing a worker co-op as a succession option is to build an understanding of the situation and the opportunity that is available to all parties, and through this process to build commitment and solidarity that will lead to its successful implementation.

A. Owners

Business owners are very likely to be unfamiliar with worker co-ops. They will need to be introduced to the concept and learn to trust that it can provide a successful option for their succession transition or, at a minimum; that it is a concept worth exploring. Developing the knowledge and trust that a worker co-op can be the right succession option will likely come from two sources. Examples of successful worker co-op succession initiatives that have had positive outcomes for the stakeholders are important. The second source is through the active process of exploring the worker co-op option with the managers and employees.

The owner is likely to be significantly involved during the period in which all parties initially look at the worker co-op option and reach an understanding of it and its potential. Once past this early stage, the worker co-op leadership team will then take the lead with the employees, and the owner will focus more directly on his/her specific interests and how they will be addressed in the actual transition.

Owners must recognize that during these initial steps they may well be perceived by managers and employees with a certain skepticism regarding their intentions or good faith. Owners who have open and trusting relationships with employees and managers will find it easier to initiate the process.

Owners will need to deal with their retirement planning within the context of a sale of their business to an independent entity, the worker co-op. Either immediately or through a staged process, they will see control and ownership of the business transferred into the hands of the employees and managers. This sale may be either one of shares of the existing corporation or one of assets, as negotiated by the parties. The owner will require good professional advice in these areas to ensure his/her needs and goals can be met through the formal agreements that will regulate the sale and transition period.

The owner's future role in the business, perhaps even as a member of the worker co-op, will have to be negotiated and secured through formal agreements. Although it will be the co-op members' decision regarding management and governance roles within the worker co-op, the owner will need to be involved in the discussion at least to the extent required to agree on a process for the transition of power. However, if the owner's role is to continue as mentor or even as interim manager for the first year or two, then the owner will need to be more fully involved with the worker co-op leadership team in determining the management roles and responsibilities and the process for the transition to the new management.

B. Managers and Employees

The first issue for managers and employees, as with the owner, is to come to an understanding of the worker co-op option and how it can work effectively for all the participants. It is very important that they receive assistance from a knowledgeable worker co-op development professional to ensure they have a good understanding of the option.

One of the major challenges for the employee-management group is to identify effective an leader(s), capable of and committed to providing leadership focused on benefiting all the potential worker co-op members. Also, the worker co-op must be organized around the needs of the business if it is to continue to be successful.

As noted above, prior relationships based upon personal integrity and honesty are an essential foundation. Where obvious and natural leadership is readily apparent to all the players, a good foundation exists. If it is not readily apparent, it must soon become apparent or the process will not move forward effectively.

Emerging leadership must have the trust and support of the potential worker co-op members. Key individuals that focus on the co-operative aspects of the organization and others that focus on the business' aspects are both needed. Depending on the situation, the same person may be a key player in both areas. However, the key is to recognize that both areas of leadership are required and must be coordinated. The trust is essential as all the participants are going to be placed in a situation where, based upon information provided by them through the various players, they must make a decision as to whether or not to be part of a worker co-op buyout. If trust is high, the focus is upon understanding the information and clarifying its implication. If trust is low, skepticism of the players' motives will subvert the development of a clear common understanding of the situation.

It is important to note here the role of the potential members' families in seeing the project move forward, particularly regarding spouses. The spouse must understand what is being proposed and be supportive of their spouse investing in and committing to being a member of the worker co-op. It is important that spouses have the opportunity to be heard and have their questions answered. However, it is also important that they recognize that they are not formally involved as a decision maker within the co-op but rather only as an influence on their spouse.

Financing of the worker co-op is also another key activity. This has two key aspects. The first is securing the individual member's equity contribution to the co-operative. The second, built upon the foundation of the first, is the complete financing package to purchase and operate the business. This is an area where the issues of risk, commitment and responsibilities of owner/membership become tangible. For a detailed exposition on financing a worker co-op see: Preparing and Marketing Financing Proposals: a Plain-Language Guide for Worker Co-ops, available at www.canadianworker.coop.

Lastly, potential co-op members should consider getting individual advice from either professionals or knowledgeable friends or family members regarding any issues about which they are uncertain. They could also contact members of other worker co-ops that have been developed as succession initiatives.

To ensure that members join with a true understanding and commitment, the worker co-op should take an open approach to the timing of having individual members make a formal commitment to participate as a member/owner of the co-op. Each person has a different approach to coming to an understanding of the situation and to recognizing its benefits. Flexibility will encourage the widest participation of the existing employees.

C. Labour Unions

Situations with labour unions require special consideration. In Canada, labour has traditionally been resistant to becoming involved in employee ownership situations. Labour's preference has been to let owners and management assume the risks and responsibilities of ownership, while unions focus on securing the best deal for the employees, given the industry or commercial sector. This has been and is an effective strategy in normal circumstances. Certain labour unions, notably the United Steelworkers of America in the northeastern US and the Confédération des syndicats nationaux in Québec, have been supportive of worker co-op buyouts of unionized businesses, particularly when it is seen as the best or only way to save union members' jobs. The experience built by these unions and in other situations shows that a unionized worker co-op can be successful, with the union and worker co-op each having distinct roles to play.

A number of questions for the union are: Are there benefits for the union members that the worker co-op option, through its process of democratic ownership, can secure beyond the traditional negotiated packages? Are the workers seeing this as a positive opportunity or are they feeling somewhat coerced into considering the worker co-op option? Could the union's refusal to consider worker co-op succession force the retiring owner to take a succession option that would create significant danger for the employees? As noted above, the worker co-op succession option is likely to only be considered in situations in which there are good owner-employee relations, and in this case good relations within a unionized context. This may in itself encourage the union to consider investigating the option.

If a unionized worker co-op is the option that is examined, some specific issues will have to be addressed. Although it is beyond the scope of this paper to detail the many issues of developing and operating a unionized worker co-op, two issues will be highlighted.

In worker co-ops as with other organizations, interpersonal issues, equitable application of policies or work rules may arise that need to be mediated to ensure fairness and equity. The union's traditional role of negotiating working conditions with management and ensuring their fair application through a grievance procedure can continue effectively in a worker co-op. Indeed, in a worker co-op the union should have the opportunity to work even more effectively on behalf of its members because as joint owners there is a positive outcome for all within the worker co-op when fair work conditions are in place.

The reality of joint ownership is, however, the second issue which must be highlighted if the union is to consider participating in a worker co-op succession initiative. The union members are also members of the worker co-op. Through the democratic process of the co-op and the board of directors, they hold management accountable and indirectly through management hold the union accountable for its contribution to the success of the enterprise. This dual source of influence has different focuses. As union members, they are interested in employee benefits which they receive on a day-to-day basis, perhaps regardless of the short-term effects on the enterprise. As worker co-op members, they are interested in the long-term success of the co-op which will provide for their long-term work and financial security but which may at times require making some hard choices between short-term employee benefits and long-term member benefits.

For these dual roles to work effectively, leadership and members in all areas of the organization must understand the trade-offs that must be made between short- and long-term benefits to the members. Managing this effectively will ensure long-term business success and good member morale on a day-to day basis. Leadership and members must be prepared to support initiatives that will secure such an outcome.

D. Professional Service Providers

As noted in the Succession Issues section, professional service providers have an important role in assisting in succession planning. One service provider which wasn't mentioned in the earlier section is the worker co-op development professional. Worker co-op development specialists have two broad areas of expertise, which although they overlap with the expertise of some of the other professions shouldn't be used as a substitute for those professionals.

Worker co-op development professionals are well versed in basic business issues such as business planning, financing, and marketing. They are also knowledgeable about worker co-op organizational development issues such as bylaw and policy development, member education and training for the various roles within the co-operative and developing effective organization structure on both the business and governance sides. Because of this, they are in the best position to play a key role in outlining and clarifying the worker co-op succession option for all parties. However, beyond this initial provision of information to all the stakeholders, the worker co-op professional's primary role is to assist employees and management develop and implement the worker co-operative aspects of the succession plan.

It is very important that the other professionals play their various roles and that the owner and managers/employees have their appropriate and independent advisors. It is important to note for the professionals advising the worker co-op that they should be careful to work effectively with the leadership to ensure that all the pertinent issues and recommended options can be shared and clearly understood by the potential co-op members. They should also be cognizant that for many of the potential members, this may be their first experience in being involved in a sophisticated business transaction. The use of plain language and the defining of some basic concepts will be required.

E. Worker Co-op Parameters

The worker co-op succession plan requires the marrying of three sets of interests. The owner's and related parties, current management or senior employees, and line employees. The separation and scope of these parties' interests will depend significantly on the scale of the enterprise. A small enterprise of five to 10 employees and a single owner is likely to have a relatively simple organization with only modest differences between the interest of managers and that of line employees. A relatively large enterprise of 30 to 50 employees and even larger enterprise of 100 or more employees with a number of shareholders will have significantly different interests and organizational processes which must be taken into account. The forms and types of communication and the timeline used to explore and implement a worker co-op succession will be greatly affected by these varying organizational parameters.

The marrying of these interests requires clear objectives for all parties, a transparent process with open and honest communication, negotiations, and sophisticated technical advice from professional advisors.

Aside from all the issues which relate directly to the succession transition noted in section VI "Succession Issues," the development of the worker co-op requires a coherent integration of three organizational elements: ownership/membership, governance, and management/operations with their concomitant aspects of responsibility, authority and accountability.

Given the diversity of individual members, types of enterprises and scales of operations, each worker co-op is necessarily unique and follows the path set out by its members. Worker co-ops may require and have diverse management and governance structures. Each co-op must find a structure that provides an effective framework for achieving the goals set by the members. Focusing on the relationship among responsibility, authority and accountability is a useful way in which to clarify the scope of the various organizational elements noted above and to outline their structure in a particular case. The information is useful for understanding the nature of the worker co-op for the members and for others.

Within the worker co-op, each role an individual plays comes with some particular responsibility that must be carried out to achieve the goals of the co-operative. Responsibility requires that one have the authority to act. The source of the authority depends upon what your responsibilities are and which organizational element is in play. Lastly, there is the aspect of accountability. The individual is not acting within a vacuum but must be accountable to others for the part they have accepted to play (their responsibilities) to ensure that the common objectives are met.

The following matrix shows these three aspects as they relate to membership, the board of directors and the CEO/Manager.

Group/Individual	*Responsible For*	*Accountable To*	*Receives Authority From*
Members	▪ Contributing financially ▪ Supporting activities of the co-op ▪ Participating in member meetings ▪ Electing the Board of Directors ▪ Participating in setting the broad goals and objectives of the co-op ▪ Monitoring the performance of the board and governance processes	▪ Other members ▪ Community at large	▪ Co-op legislation – one member one vote, etc. ▪ Worker co-op's Articles and Bylaws ▪ Board of Directors (Approves individual memberships)

Boards of Directors	▪ Participating in the development of the strategic plan ▪ Approving the annual budget ▪ Hiring and monitoring the general manager ▪ Ensuring the financial viability of the co-op by monitoring the finances of the co-op ▪ Approving key policies to guide the affairs of the co-op ▪ Ensuring the co-operative meets its obligations to members	▪ The membership ▪ Accountable to other directors ▪ Accountable under law for some of the financial obligations of the co-op	▪ Members through election ▪ Co-op legislation ▪ Co-op bylaws
CEO/Manager	▪ Guiding the overall affairs of the co-op to ensure it can meet is goals and obligations ▪ Facilitating and assisting the Directors in carrying out their responsibilities ▪ Organizing, leading, directing and supervising the management team ▪ Controlling the finances of the co-op through budgeting, monitoring and spending controls ▪ Mentoring the management team and other staff as required	▪ Board of Directors (acting as a whole)	▪ Board of Directors (formal) ▪ Co-op Policies (formal) ▪ Management team and staff (informal)

It is important to note that these three aspects play out in all areas of the co-operative's life. The business plan for the co-operative will provide a summary articulation of these aspects in the areas of business concept, governance, management and operations.

IX. Worker Co-op Succession Outline

This succession outline is not a technical guide for either the owner or for the employees/ managers, but rather identifies the key development elements and decision points for the implementation of a worker co-op succession.

This outline assumes that the initiative starts with the retiring owner, and reflects only this circumstance. It is also possible that the initiative may come from management and/or a group of employees who have learned of the option. Although the catalyst for starting the process will affect the approach used to determine if there is serious interest in examining the worker co-op option, the key development steps outlined here will still be required. To begin developing or investigating the worker co-op option, one of the first fundamentals is to gain the commitment from the owner to seriously examine the option. This is vital as the owner has the determining say about whether the worker co-op option will be given consideration.

This outline also assumes that specific promotional materials have been developed for both retiring owners and potential management/employee worker co-op members, which is not the case at the time this report is finalized. The promotion package, which CWCF plans to create, will include:

- An outline of key issues in succession planning
- A brief outline of the succession alternatives and some of their challenges
- A checklist of factors indicating that a worker co-op may be a good option
- A presentation on the key selling points of employee ownership and participation
- The Statement of Co-operative Identity, Values and Principles
- Examples of successful worker co-op conversions

A. Phase 1: Developing Understanding and Commitment

1. Determining Owner Interest and Commitment

At a first meeting with the owner, the worker co-op developer should map out the key issues in any succession plan and then, within that context, review the worker co-op succession planning promotion package. If appropriate, the developer can assist the owner in mapping out an appropriate process to decide if a worker co-op succession is an option that may meet his/her goals. This should include: a process for clarifying the owner's goals, retirement requirements, timing requirements and future desired role in the business. This is likely to involve meetings with other family members, business co-owners and with the owner's professional advisors. Being thorough at this stage of the process is very important. If the owner makes a commitment to exploring this option, it is very important that he/she understand the implications for him/her and other stakeholders from the beginning. As noted above, the owner is in the position to scuttle the process at any point. Before exploring the option with manager and employees (assuming the initiative has not started with them) it is very important that there is a basic commitment to the concept by the owner. It will not be beneficial and may be harmful to the relationships of the various parties if the owner discovers some compelling reason to stop the process after getting employee buy-in.

At the end of this initial process, the owner reaches the decision point as to whether to pursue the worker co-op succession option with his/her employees.

2. Determining Management/Employee Interest and Commitment

The process of determining interest and commitment is one of sharing information with the various stakeholders in situations in which they will feel at ease in raising any questions and discussing any concerns they may have. Assuming these meetings occur after the owner has decided to seriously explore this option, it is appropriate that the owner attend at some point in the sessions to outline why he/she is interested in pursuing this option and to outline the benefits that he/she sees for the various parties. However, stakeholder groups, whether it is management, employees or union representatives need to discuss their issues and concerns within their stakeholder group in private, to ensure that there are no constraints on the discussion.

With a micro-business, which is owner-managed and has less than 10 employees, it is likely desirable to meet with all the employees and managers together for the first session. In larger businesses it is better to meet first with each group (i.e. managers, employees, union representatives) to develop the understanding of the opportunity and its implications for the particular group, and then to bring the groups or their representatives together so that they can each share their perspective and interest in pursuing the opportunity. The individuals in each group should come prepared with a clear outline of their understanding, questions, and feelings about the worker co-op opportunity. The worker co-op developer may need to assist in the preparation of the materials to enable this. In large organizations, if the meeting with the stakeholder representatives is supportive of the worker co-op succession option, further information sessions should be held until all potential participants have been able to come to an understanding of the opportunity, and indicate their level of interest.

These initial sessions will focus on the realities of the opportunity from the employee/management perspectives. The sessions will focus on worker co-op basics, a brief outline of the worker co-op succession process, and some examples of successful worker co-ops, either successions, or worker co-op businesses that are similar to the enterprise in question. The sessions will emphasize the different roles members play in a worker co-op and the necessity for sharing of common goals and objectives for the future success of the business.

In addition to the above, a brief presentation by the owner should be made which includes:

- the owner’s reasons for retiring
- his/her reasons for believing that the worker co-op option can meet his/her personal goals
- his/her assessment of the business’ future prospects
- his/her assessment of how the worker co-op can contribute to the long-term success of the business.

The owner’s presentation is important to ensure that the managers and employees have a chance to hear directly the owner’s perspective and that they have the opportunity to ask the owner specific questions relevant to the proposal.

At this point, a process needs to be implemented to give the managers/employees an opportunity to indicate whether or not they are interested in pursuing the worker co-op option. The process chosen should provide people with an opportunity to indicate their true feelings without being pressured or influenced by others. A confidential ballot should be used so that individuals could indicate their level of support on a sliding scale. In the case of a confidential ballot with larger groups, although names would not be used, it may be useful to identify the results by stakeholder group to evaluate the support from the various groups.

It is important for everyone to understand that this is not a final commitment on anyone's part, employees or owner, but rather the commitment to embark on the process to move to the next decision point. Although 100 per cent support is not expected or required, strong opposition from any of the stakeholder groups will make it very difficult, if not impossible, to move forward. It is also essential that a leadership group, which represents the management/employee group, readily step forward to become the employee/management representatives, to act on their behalf and be accountable to them.

B. Phase 2: Assessment and Planning

After buy-in by all parties, a joint meeting of the owner, leadership team, co-op developer and succession facilitator should be convened to determine the next steps. Discussions need to take place about who will be responsible for the various actions and costs that will be incurred as the process moves forward. Although there is no hard and fast rule, the owner, through the business enterprise, is probably in the best financial position to shoulder the exploratory cost. What is important here is for the owner and leadership team to recognize the financial capacity of the players and to agree to share the costs in a fashion that allows the next stages to be carried out in a timely manner, supporting the momentum gained in the process to date.

One of the first steps is to have an independent valuation of the business completed that will become the foundation for a realistic assessment of the situation for both the owner and the worker co-op. The business should be valuated as an independent going concern based upon its historical performance and upon realistic assumptions of future performance that take account of the future market and competitive conditions. The valuation report will be used by both the owner and leadership team. Although the valuation arrives at a fair market price for the business, negotiations of the final price may take into consideration issues not accounted for in the valuation and therefore the formal selling price may be adjusted. However, for tax purposes, the Canada Revenue Agency (CRA) may choose to impose a price they feel reflects the true value of the business if it is apparent that for various reasons, sale did not occur at fair market value. The negotiated price must ultimately reflect a defendable fair market price.

During this period, the owner also needs to complete his/her assessment of his/her retirement and estate planning goals and work with professional advisors to determine the various ways of meeting these needs through the sale to the worker co-op. It is very important that the implications of the various options are clear to ensure that the negotiated agreements with the worker co-op will meet the owner's needs.

If the owner is to continue on in some capacity as a manager or management consultant with the worker co-op, discussions should be held with the leadership team as to what role and type of authority the owner will have.

The employee/management team also has much work to do. The first is to develop a business plan to seek financing and to provide a strategic guide for the co-op during the transition period with the owner. The second area of work is the organizational development of the co-op. Although in many ways these are distinct pieces of work, the outcome of the organizational development is required for key elements of the business plan narrative. Areas such as co-op structure and governance, management team, and nature of the operations need to be included. The two activities should be carried out in parallel.

The business plan will be developed under the direction of the leadership team by appropriate experts within the business, possibly with the help of the owner and/or other professional service providers.

The organizational development of the co-op will be facilitated by the co-op development professional. In order to ensure broad support and input from the stakeholder groups, the work team should include the leadership team and a broader selection of stakeholders. The co-op developer will guide the process and provide model versions of elements like the incorporation document and bylaws which can be adapted for use by the worker co-op.

The bylaw development is a very important part of this work, as the bylaws essentially are the constitution of the worker co-op. The bylaws set out the rights and responsibilities of membership, the democratic nature of the co-op, the financial contribution required for membership and the way profits will be distributed.

As noted in section VIII.E on "Worker Co-op Parameters," the organizational roles in all areas of the co-op such as governance, management and operations, can be clarified and articulated using the responsibility, authority and accountability matrix. This approach provides a mapping of the organizational structures and builds an inclusive view of the business. It can be easily presented to the other potential worker-owners who are not able to directly participate in the organizational development process.

With the organizational development and draft business plan complete, the leadership team is ready to complete the final negotiations with the retiring owner based upon all of the work done to date by both the team and the owner. If they have not already been involved, it is time now to include appropriate legal counsel and other advisors to assist in negotiating the final agreements that will provide for the legal framework during transition. It is also time to seek the required financing required for the transaction and future operation of the business.

These final negotiations lead to the decision point with both the owner and the management/employee group. They now must make the final decision to go forward. Once this final commitment is made, all the agreements can be drafted, the worker co-op incorporated and financing agreements completed in preparation for the official closing.

C. Phase 3: Implementation

With the signing of the documents to implement the succession transition, the process enters its final phase.

There are two primary focuses at this stage. The first is the implementation of the new governance, management and operations roles. Depending upon the situation, this may be implemented completely at the time of the formal closing date. However, it is just as likely, especially if the owner is to continue in some management capacity, that the implementation may occur in a staged manner as agreed upon through the earlier negotiations.

The second focus is the personal and psychological adjustments that must be made over time as the worker co-op members take on their new roles and responsibilities within the worker co-op framework. Although it is the case that most of the employees will continue in the same or very similar roles with the day-to-day operation of the enterprise, the new member/owner role and other specific roles, such as being a member of the board of directors, will take time to learn and perform effectively. It is very important that the worker co-op has and implements a plan for member education, training and participation in the life of the worker co-op, both on the business and governance sides. It is also important that regular communication and reports on the affairs of the business be implemented with all members. This is particularly important, as it will set the tone for the ongoing relationship among the members of the worker co-op into the future.

X. Timing

The worker co-op succession outline has not included any time lines. As noted in the Succession Issues section, thorough preparation and effective planning and implementation require a great deal of time. From the owner's perspective it is never too early to be considering succession issues. From the worker co-op perspective, effective organizational development will take significant time.

The scale of the business operation and its annual business cycle will influence the speed of the process. There is no right length for the process. Rather, what is important is the focus and commitment by all parties to move the process at the speed required to ensure the best outcome. Tasks with timelines need to be set and achieved not as an end in themselves but to ensure the process continues to move effectively toward its goal. Setting a realistic timeline at the beginning of Phase 2 will create reasonable expectations with all the stakeholder groups. It will assist the process in moving ahead smoothly.

XI. Conclusion

This research has examined an important opportunity for the expansion of the worker co-operative form of enterprise. The challenge of creating successful succession plans for retiring owners is one that faces the Canadian economy and business owners. This research has examined the key issues that must be addressed in succession planning and has examined successful employee/management successions. It is clear from this research that worker co-ops are an opportunity for succession transitions that can be successful and can support the continued growth and stability of local economies. They are an opportunity worth pursuing. It is hoped that the information within this report will provide the foundation for developing a program to support a worker co-op succession program across Canada.

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Appendix A:

Statement of Co-operative Identity

Definition:

A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically-controlled enterprise.

Co-operative Values

The co-operative values are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. Co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

The 7 Co-operative Principles

Voluntary and Open Membership

Co-operatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

Democratic Member Control

Co-operatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives, members have equal voting rights – and co-operatives at other levels are organized in a democratic manner.

Member Economic Participation

Members contribute equally to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. They usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing the co-operative, possibly by setting up reserves, part of which at least would be indivisible, benefiting members in proportion to their transactions with the co-operative, and supporting other activities approved by the membership.

Autonomy and Independence

Co-operatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

Education, Training and Information

Co-operatives provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their co-operatives. They inform the general public – particularly young people and opinion leaders – about the nature and benefits of co-operation.

Co-operation among Co-operatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

Concern for Community

While focusing on member needs, co-operatives work for the sustainable development of their communities through policies accepted by their members.

Appendix B:

Retiring owner's checklist for considering the worker co-op succession option

1. Is any family member capable of and interested in succeeding you as the business owner?

2. Do you have a good relationship with your current employees?

3. Have your employees played an important role in your business success?

4. Is it important to you that your employees' future welfare is solid?

5. Do you want to see your business continue as an independent entity?

6. Is it important to you that employment is maintained in the local community?

7. Are you in a position to state that the dollar value you receive for the business is not the only consideration in selling?

8. Does the nature of your business limit the number of potential outside buyers?

9. Is it important to you that in the process of selling your business, you are able to maintain business and personal privacy?

10. Do you believe that the business has a good future?

11. Do you have confidence in the current management and employees?

12. Would you like to be involved in the business' future in some limited capacity?

Appendix C:

Manager's checklist when deciding to become a business owner in a worker co-op

1. Are you confident of the business' future?

2. Do you enjoy a collaborative and team approach to business?

3. Do you have confidence in your personal abilities to manage the business?

4. Are you ready to accept the challenges of strategic leadership and decision making?

5. Are you prepared to invest personal financial resources?

6. Are you prepared for the time commitment required?

7. Are you prepared for the additional stress that will be involved?

8. Are you excited about building an employee team?

9. Are you attracted to the co-operative values and principles? Do these values and principles resonate with you?

10. Are you prepared to be accountable to a board of directors made up of peers?

Appendix D:

Employees' checklist when deciding to become business owners in a worker co-op

1. Do you have confidence in and are you committed to the business' future?

2. Are you prepared to commit to long-term employment in the business?

3. Are you prepared to invest personal financial resources?

4. Do you have trust in the owner's integrity and intentions?

5. Do you have trust in managers' integrity, skills and intentions?

6. Are you prepared to learn and take on the various roles that co-operative ownership will require?

7. Are you excited by a chance to have partial ownership and control of the business, and more control over your future?

8. Are you prepared to make your work an example for your co-workers?

9. Do you believe and trust in your co-workers?

10. Are you attracted to the co-operative values and principles?

Appendix E:

Interview Questions

The following questions were used as a guide for interviews with various stakeholders.

Business Owner

1. What was the catalyst for you to begin examining succession options?

2. What sources (professionals, organizations, media types) did you use to obtain information on succession planning?

3. What options for succession did you examine?

4. What role did your family play in your considerations and decision?

5. Why didn't you pursue a family succession option?

6. What did you see as the most attractive features of an employee/management buyout?

7. What did you consider its most unattractive features?

8. How important was the business to your long-term financial security (did you have other significant financial assets or was the business you primary asset)?

9. What was the relative weight you gave to:
    - Long-term financial security?
    - Providing for other family members (spouse, children etc.)?
    - Your desire to see the business continue successfully?
    - The business's contribution to the local community?
    - The future/security of long-term employees?

10. What other factors were important in your decision-making?

11. What were the issues that needed to be addressed during the negotiations with the employees/managers?

12. How did you arrive at a valuation of the business?

13. How transparent was business information to your other managers and employees before the succession planning got underway?

14. What do you think attracted the employees to get involved with ownership?

15. Were you involved with the employees and managers in determining what the future management system would be after your departure?

16. Did you provide any consulting for the business in the first years after the buyout?

17. If so, do you think it was effective? Why or why not?

18. Any particular issues that you think are important to consider which we have not mentioned?

Professional Service Providers

1. To what extent does your professional practice engage in succession planning?

2. What are the key issues that you focus on when assisting with succession planning?

3. When advising a client considering an employee/management buyout, what are the key issues you would highlight for them; benefits, dangers, etc.?

4. Do you see any unique challenges when the succession involves an employee/management buyout?

5. If you were to rate the general attractiveness of employee buyouts as a succession option how would it fare against the alternatives?

6. Are there particular challenges in financing employee buyouts? What are the concerns which financiers want addressed? Are these different from other forms of business successions?

Employee/Management

1. What was the attraction of getting involved with an employee buyout?

2. What were your greatest fears regarding getting involved?

3. How would you describe your relationship and attitude toward the company and owner before the buyout? How did they influence your decision to get involved with the buyout?

4. What sorts of information were required to help you to make a decision to get involved?

5. Was your spouse/partner involved in making the decision with you? What were their concerns?

6. Were you involved in developing a business plan or assessing the future of the business? How was this done?

7. Did you have professional advisors, personally and/or collectively? Who were they, and what type of assistance did they provide?

8. How was a valuation determined for the business?

9. What has been the greatest challenge in becoming an employee owned enterprise?

10. What do you see as the most important benefits?

11. Has the change increased your general sense of job satisfaction? Do you have a greater commitment to the business? Do you have a greater participation in the operations of the business?

12. Was financing your part of the buyout difficult? What factors made you comfortable with the risk?

13. Would you have any advice for others, owners or employees, who are considering using an employee buyout as a succession plan?

Developer/Promoter

1. What has been your approach to promoting employee buyout/co-op succession plans?

2. What do you see as the major benefits to the owner and the employees?

3. Are there key conditions that you look for in assessing whether or not an employee buyout will be a good fit?

4. What conditions would be red flags?

5. What do you see as the key steps to ensuring a successful transition?

Appendix F:

Descriptions of Employee-Owned Businesses Visited

New Brunswick:

Moncton Restaurant Equipment Co-op owns and operates Gorman's Restaurant Equipment Ltd. The Co-op, formed in 2001, buys, reconditions and sells used equipment. It also sells and installs new equipment. The Co-operative has about 10 employees.

Ohio:

DairyPak, of Olmsted Falls, Ohio is a division of Blue Ridge Paper Products, Canton, North Carolina. DairyPak manufactures packaging products. Blues Ridge Paper was formed in 1999 as a partial employee/management buyout (40% employee, 5% management and 55% venture company) to purchase and operate the paper mill and a number of converting facilities   It has about 2000 employees and is a unionized workplace. The employee ownership was initiated to address the threat of closure to the facilities.

Producers Service Corp. of Zanesville, Ohio provides hydraulic fracturing and acidizing services to the oil field industry. The employee ownership was initiated when the controlling shareholder decided to sell his interest to another company that was going to close business and ship the equipment to an overseas operation. The employee counter-offer saved jobs in the local community and now employees over 20 people. The employees own 100% of the company.
www.producersservicecorp.com

ACRT Inc. of Akron, Ohio is an international consulting service and training organization in the utility and urban forestry, arboricultural, environmental, natural resource, biological, and horticultural sciences. ACRT has 4 offices throughout the various regions of the USA. In all it has about 200 employees.
www.acrtinc.com

Manitoba:

Cando Contracting Ltd. of Brandon, Manitoba is a supplier of full support and logistics services to Class 1 railroad, shortline and industrial customers in Canada and the United States. The company has over 250 employees and three major centers of operations. The company designed its own employee ownership program in association with an investment from the Crocus Fund (a labour sponsored fund operating in Manitoba).
www.candoltd.com

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