



Canada's SMEs, Business Succession, and Conversion to Co-operatives

A survey of retirement-aged owners of small- and medium-sized businesses, their succession intentions, and their knowledge and perceptions of business conversions to co-operatives in Canada

Co-opConvert Report, No.1



Projet de conversion
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Executive Summary

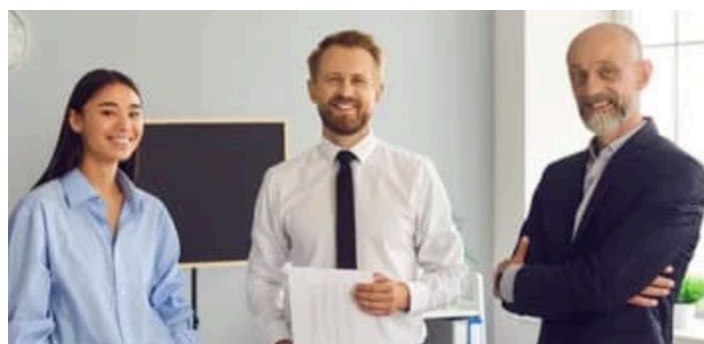
The Coming Business Succession Crunch

A major challenge for Canada's 1.2 million small- and medium-sized businesses (SMEs) is the potential for large-scale closures due to the growing number of retiring owners that lack a formal succession plan. With only 14% of retiring SME owners having a solid retirement plan, in addition to the increasing number of troubled firms due to the socio-economic ills brought on by the COVID-19 pandemic, a potential crisis of SME closures across Canada looms.

approximately
200 BCCs
have existed
in Canada
in recent years

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 200 BCCs have existed in Canada in recent years. However, the BCC solution for business succession is still not broadly known among SME owners, workers, unions, and policymakers.

The Conversion to Co-operatives Project (Co-opConvert) has conducted a representative survey of retirement-aged SME business owners in Canada. This report highlights the main findings of this survey, aiming to better understand the succession intentions and concerns of retirement-aged SME owners and the potential of the BCC model for business succession or rescue.



Canada's SME Owners are Not Prepared for Succession

Canada's SMEs, overall, are not prepared for succession. Although retirement-aged SME owners report high (52%) or moderate (41%) expectations for their succession plans, and while almost half (48%) want to retire within 5 years, only a minority of retirement-aged SME owners have a succession plan in place (14%). Further, less than half of SME owners claim to be familiar with the intricacies of succession (48%). Having an appropriate succession plan would not only guarantee the continuity of thousands of Canada's businesses and save jobs and local community economies, it would also benefit the more-than half of SME owners that plan to keep on either working part time or never retiring (53%), in a sign of the tighter financial realities today and the fact that Canadians are living longer.

**45+ aged
SME Owners in
Canada**

48% want to retire in
the next 5 years

14% have a plan

53% plan to never retire

The Main Considerations and Challenges for Succession Planning

Canada's SME owners' main considerations and challenges for succession planning include:

CHALLENGES

- Various financial aspects of succession, including macroeconomic factors, succession costs, and tax ramifications.
- Finding appropriate buyer(s), including various complications (actual or perceived) with passing off or selling businesses to family members, employees, or third parties.
- Emotional and psychological issues with "letting go" of the business and guaranteeing the owner's and business's future reputation.
- Interpersonal relationship issues.
- Finding time to work on succession plans and issues and finding appropriate professional supports.

While the BCC solution could address these considerations and challenges, only a quarter of SME owners are familiar with co-operatives, which would be a viable option for many SME owners' succession needs. Co-operatives offer stable business models

that survive crises well and provide good and stable jobs. Since, as SME owners told us, future business continuity, stability, and guaranteeing the jobs of employees are all important factors for their succession intentions, as well as maintaining their legacy and business values, it should be in the interest of SME owners, employees, local communities, and policymakers to know more about the conversion-to-co-operative option for succession.

SME Owners Lack Understanding of Co-operatives for Succession

SME owners' attitudes towards co-operatives and the BCC solution are marred by their lack of knowledge and mistaken ideas of co-operatives.

Co-ops are sustainable and viable businesses co-owned by interested members rather than disconnected shareholders, rooting capital locally. Canada already has more than 8,000 co-ops in most of its economic sectors, making up 3.4% of its GDP (\$61.2 billion), which is significantly more than the telecommunication sector's and mining sector's 1.8% of GDP respectively, and the motor vehicle parts and manufacturing sector's 0.9% of GDP. Misunderstandings of co-operatives among Canada's SME owners, however, include: perceptions of inefficiency due to their democratic governance; assumptions of the model's incompatibility with particular business sectors or lack of competitiveness; and general ideological differences with a model seen to be too radical by some. Decades of research into the co-operative model's advantages and strengths shows that these are all misconceptions and that, thus, a dedicated and sustained education and promotional campaign needs to unfold in Canada to better educate SME owners to the co-operative advantage.

Canada's
Co-ops

8,000+
co-operatives

3.4% of GDP
(\$61.2 billion)

Significantly
bigger than:

- mining sector
- telecom sector
- car manufacturing sector

SME Owners Most Amenable to the Conversion to Co-operative Option

Nevertheless, we found that a small group of SME owners amenable to the BCC model exists in Canada, which includes 7% of this report's respondents that had considered converting to a co-operative already, 17% of respondents that were somewhat or likely

to consider the BCC option for succession, and 32% that reported advantages to converting to a co-operative. These advantages include:

SME Owners Amenable to BCC Model

7% already considered converting to a co-operative

17% were somewhat or likely to consider the BCC option for succession

32% reported advantages to converting to a co-operative

- Retaining and securing employment opportunities.
- A viable business model (especially when other options fail).
- Saving jobs and assisting the local community.
- Tapping into the necessary skills and knowledge of employees for business continuity.
- Worker ownership facilitates staff empowerment and loyalty, leading to greater business tenacity and efficiency.
- The advancement of socio-economic justice.
- Other advantages, such as risk sharing, client retention, and virtuous signaling.



Canada's SMEs Most Amenable to the Conversion to Co-operative Option

Derived from seven key findings suggested by our data, the following composite profile of *Canada's SMEs most amenable to converting to a co-operative* was developed, which includes:

Canada's SMEs most amenable to converting to a co-operative

SMEs with owners that do not want to retire or stop working.

SMEs that have already considered or discussed selling to their employees.

SMEs that have at least discussed converting to a co-operative in the past.

Smaller firms of fewer than 50 employees, and especially those with 10 employees or less.

Older firms over 10 years old, and especially over 20 years old.

SMEs in the services sector, and to a lesser extent in the construction sector.

SMEs that emerged from founders, rather than from mergers or acquisitions or from family inheritance.

Based on this study, SMEs consisting of these key characteristics offer the most ready and receptive audience for focused BCC messaging and education campaigns in Canada today.

CO-OPERATIVES



improve
employee
loyalty
&



decrease
employee
turnover

Our survey data also provide suggestions for two additional "entry points" for further promoting the broader uptake of the BCC model *if* SME owners understood co-operatives better. These two entry points include the broad belief among Canada's SME owners that *equity ownership in a business improves employee loyalty* (74% agree) and the implicit desire for *less employee turnover* (89% agree).

Given that co-operatives are particularly good businesses to address these two issues, we suggest that communicating how co-ops address them and mentioning them directly in

educational and promotional materials concerning the BCC option for succession could encourage more SME owners to consider conversion to co-operatives for their succession plans.

As has been proven by worker buyouts and other forms of conversion to co-operatives in other jurisdictions around the world, and also by the approximately 200 BCCs that already exist in Canada, BCCs are indeed viable options for business succession.

Recommendations for Further Promoting and Supporting the BCC Model in Canada

This report ultimately contends and concludes that more SME owners would consider the BCC option for succession planning or for business rescue if they understood better the advantages of the co-operative business model and of converting their businesses to a co-operative.

SUGGESTIONS

We provide several suggestions for new **educational and communications initiatives** that could increase the uptake of the BCC model for succession and business rescue in Canada, including:

- Countering the misconceptions of the co-op business model by making the empirical evidence on co-operative businesses more readily available.
- Creating more partnerships between the co-op sector and post-secondary institutions, governments, and business development organizations.
- Focusing on the business advantages of co-ops first then on the community benefits in outreach materials.
- Providing better and more accessible succession and co-op conversion resources.
- Ramping up educational resources on starting and running a co-op and the benefits of employee ownership.
- Developing accessible real-world conversion case studies.

1



Introduction

1.1 Succession

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,

* Small- and medium-sized enterprises (SMEs) in Canada are businesses under 500 employees. Employer SMEs do not include sole-proprietorships or other businesses without employees, or "large businesses" with over 500 employees (ISED, 2019). This report focuses on employer SMEs.

according to the Canadian Federation of Independent Business (CFIB).¹ And 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 this report's research in early 2020, there was only a slightly better scenario with 14% reporting a formal succession plan.

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%).”²

At stake is over \$1.5 trillion in assets and the fate of 850,000 businesses,³ affecting over a third Canada's private sector workforce.⁴ This coming SME succession crunch, termed “the silver tsunami” by some, was already being discussed by the early 2010s in Canada.⁵ Economic experts in the US and the EU have also been warning of a similar phenomenon on the horizon for over a decade now.⁶ In short, *jobs and the socio-economic wellbeing of Canada's communities are potentially at risk.*



A SME succession and business rescue option long available but not well-known in Canada are

business conversions to co-operatives (BCCs).

BCCs include selling or transferring businesses to employees and/or other community stakeholders and creating co-operatives. Overall, the potential of the BCC model for business succession or rescue remains mostly untapped in Canada.

1.2 Business Conversions to Co-operatives as Solutions to the SME Succession Crisis

Co-operatives adhere to seven principles:

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

A SME succession and business rescue option that has long been available but is not well-known in Canada are **business conversions to co-operatives (BCCs)**. BCCs include selling or transferring businesses to employees and/or other community stakeholders and creating co-operatives. These converted businesses can become worker co-ops (with employees as the new owner-members), consumer co-ops (with consumers as owner-members), or multi-stakeholder co-operatives (with employees, investors, consumers and/or others as owner-members). In the agricultural sector, they often become producer co-operatives (with farm owners as member-owners of a joint processing and/or marketing co-op).[†]

Crucially, for a business to be considered a completed BCC – fully converted to a co-operative – both the firm's *property* (the ownership of the firm's various assets) and *control* (the management, administration, and governance of the firm) must pass from the former owner(s) to the membership of the new co-operative.⁷ Most usually and overwhelmingly, this constitutes *the creation of a formal co-operative* adhering to the values and principles of the International Co-operative Alliance.

BCCs are tried-and-true solutions for business rescue and succession in numerous jurisdictions around the world. BCCs have especially emerged over the past four decades in countries that have

[†] For a review of business conversion to co-operatives and their typology in Canada, see the forthcoming Co-opConvert Report, No. 2.

struggled with the impacts of offshoring due to globalization, austerity-based neoliberal economic policies, or a rising tide of firm succession needs due to the retirement of baby boomer owners. 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-operatives are guided by values and principles of inclusivity, mutuality, economic democracy, and concern for community.¹⁰

Co-ops are sustainable and viable businesses co-owned by interested members rather than disconnected shareholders, rooting capital locally. Canada already has more than 8,000 co-ops in most of its economic sectors, making up 3.4% – \$61.2 billion – of its GDP, significantly more than the telecommunication sector's and the mining sector's 1.8% of GDP respectively, and the motor vehicle parts and manufacturing sector's 0.9% of GDP.¹¹

Despite the enduring presence of co-operatives throughout the country, and the overall success of Canada's approximately 200 BCCs to date,¹² *the BCC model is mostly overlooked and not well understood in Canada as an option for sustaining SMEs in crisis or with succession issues.*

Driven not just by profit but also by **VALUES**, including

- self-help,
- self-responsibility,
- democracy,
- equality,
- equity, and
- solidarity

What are co-operatives?

Co-ops are sustainable and viable businesses co-owned by interested members rather than disconnected shareholders, rooting capital locally.

According to the International Co-operative Alliance, "co-operatives are people-centred enterprises owned, controlled and run by and for their members to realise their common economic, social, and cultural needs and aspirations.

1.3 The Aims of the Report

THIS REPORT AIMS TO BETTER UNDERSTAND THE SUCCESSION PLANS OF RETIREMENT-AGED SME OWNERS IN ORDER FOR THE BCC MODEL TO BE EXPLORED AND IMPLEMENTED MORE IN CANADA.

This is the first pan-Canadian study of its kind. Other related studies of SME owners focusing on their retirement and business succession plans and attitudes in Canada have been conducted.¹³ However, *no study to date has used primary and representative survey research data to gauge for SME owners' propensity to and challenges of converting to a co-operative as a business succession strategy.*

In late 2019 and early 2020, The Co-opConvert Project surveyed a representative sample of 319 retirement-aged SME owners and strategic decision-makers with ownership stakes in SMEs from across Canada and from a wide cross-section of business sectors. The survey asked about their *retirement and succession plans* and their *knowledge, attitudes towards, and likelihood to engage in a conversion to a co-operative* as a retirement plan or business transfer strategy. In a second survey conducted in October 2020, we also asked additional questions regarding *the possibilities of BCCs as solutions to business continuity during the COVID-19 pandemic.*

Research questions guiding this report:

What are the knowledge levels, preferences, and plans of retiring SME owners in Canada concerning business succession, co-operatives, and business conversion to co-operatives (BCCs)?

What possibilities and challenges exist for retiring business owners for choosing the BCC solution?

Are co-operatives and BCCs perceived to be viable (or not) for Canadian SME owners facing business succession, closure, or other business continuity issues?

How open are retiring SME business owners to the idea of converting their business to a co-operative?

Methodology

A survey of *retirement-aged SME owners and strategic decision-makers with ownership stakes in SMEs* was conducted using the Modus Research Business panel. The Modus Research Business Panel is purpose-built to provide complete coverage of the business population in Canada. It is representative of managers and executives across all enterprises by type, sector, organizational size, and region. It is Canada's only probability-based business research panel, and so has several advantages over other business panels that rely on opt-in recruiting, or lobby group and member lists.

The survey was conducted online Nov. 25, 2019 and Jan. 7, 2020 in both English and French. In total, 319 responses were obtained from owners and strategic decision makers over 45 years old and in firms with fewer than 500 employees.

An additional two questions were asked regarding the possibilities of BCCs as solutions to business continuity issues during the COVID-19 pandemic in another survey carried out between Oct. 5-9, 2020 by Modus Research at the request of The Co-opConvert Project.

Section 1 Notes

¹ CFIB, 2018.

² Ibid.

³ Ibid.

⁴ Parkinson et al., 2015.

⁵ Bruce & Wong, 2012; CBC, 2011; Israelson, 2017.

⁶ CFIB, 2018; COSME, 2013; European Commission, 2011.

⁷ Vieta, 2016, 2020a.

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

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

¹⁰ Novkovic & Webb, 2014; Vieta & Lionais, 2015.

¹¹ Duguid & Karaphillis, 2019.

¹² According to the ongoing research of The Co-opConvert Project (www.coopconvert.ca), to be confirmed and published in a forthcoming Co-opConvert report.

¹³ BDC, 2018; Bruce & Picard, 2005; Cruz, 2018; Deloitte, 2014; Geobey & Ronson, 2018; Hough, 2005; Shore Consulting, 2018.

2

SME Owners' Succession Plans and Concerns



2.1 What SME Owners are Thinking and Doing about Succession Planning

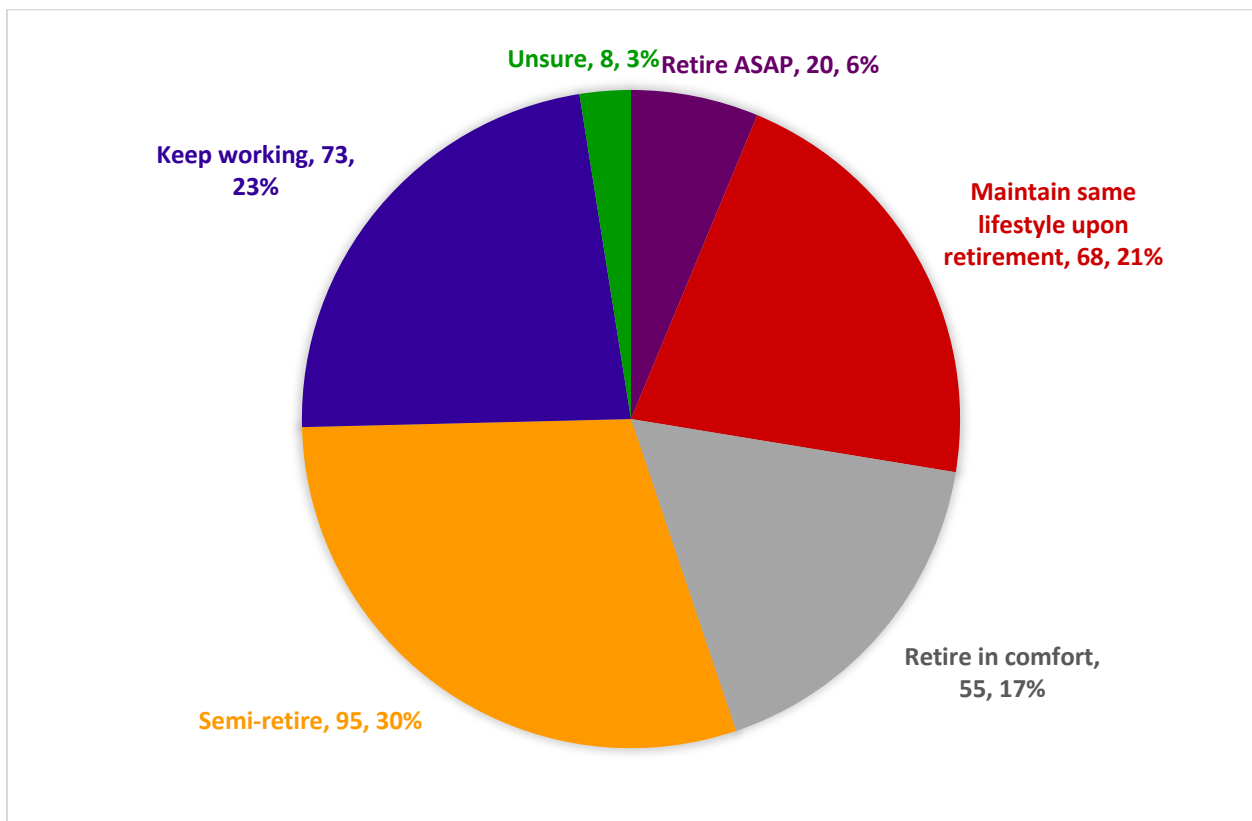
Our survey began by asking retirement-aged SME owners several questions concerning their plans, activities, and attitudes towards business succession and retirement. These include their retirement intentions, attitudes towards and familiarity with broad succession themes, the actual succession plan activities they have engaged in, their timeframe for succession, and the most important factors for successful business succession.

2.1.1 Retirement intentions

As presented in Figure 1, only 44% of respondents plan on fully retiring (“retire ASAP,” 6%; “maintain same lifestyle upon retirement,” 21%; and “retire in comfort,” 17%). This

roughly corresponds with the recent survey by the Business Development Bank of Canada (BDC), which reported that 41% of retiring SME owners plan on exiting the business and not acquiring another upon retirement.¹ Interestingly, and in a sign of the changing times and tighter financial realities faced by Canada's SMEs and their owners today, 23% of our respondents plan to "keep working" and 30% wish to "semi-retire." This corresponds with findings by the BDC, reporting that 51% of Canada's entrepreneurs do not intend to retire and would like to keep on working.²

Figure 1: Retirement plans of Canada's SME owners (n=319)

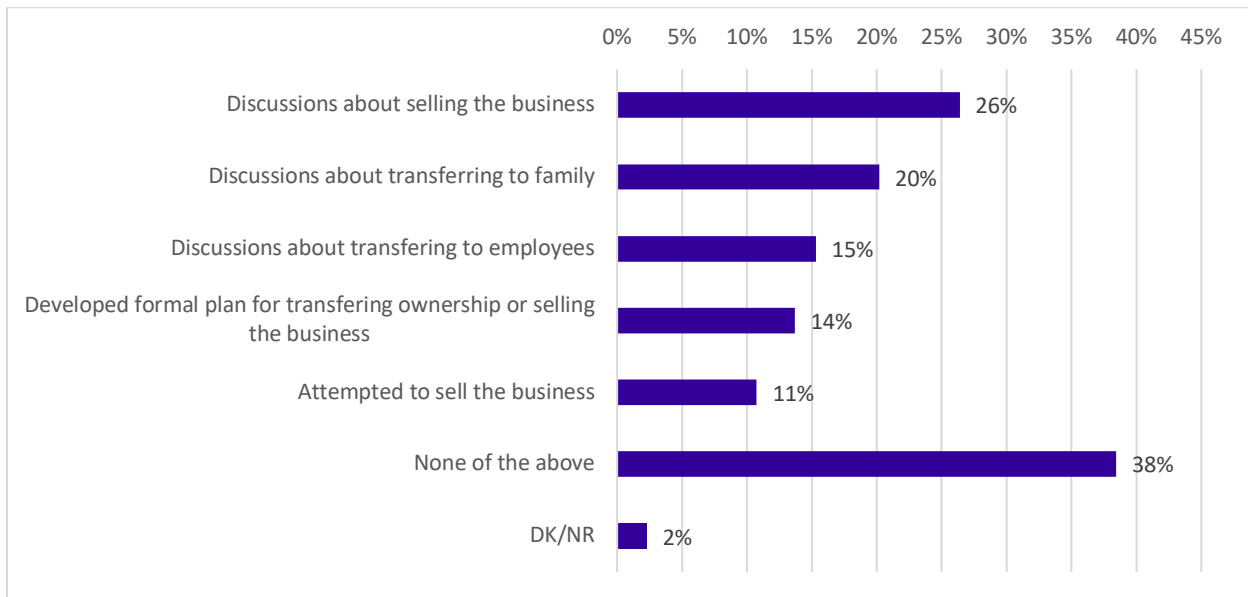


1.1.2. Succession intentions

Figure 2 presents the succession activities engaged by SME owners in the past five years. As presented, of the respondents that have engaged with succession activities, most 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 (14%) or actually attempted to sell (11%). Telling of how unprepared many of Canada's SME owners are regarding succession, 38% of

respondents identified that they have not done any of these activities. This begs the question: have these SME owners done something else not captured in our survey, or have they not engaged with any activities related to succession planning for their business?

Figure 2: Succession activities in SMEs over the past 5 years (n=305)[‡]

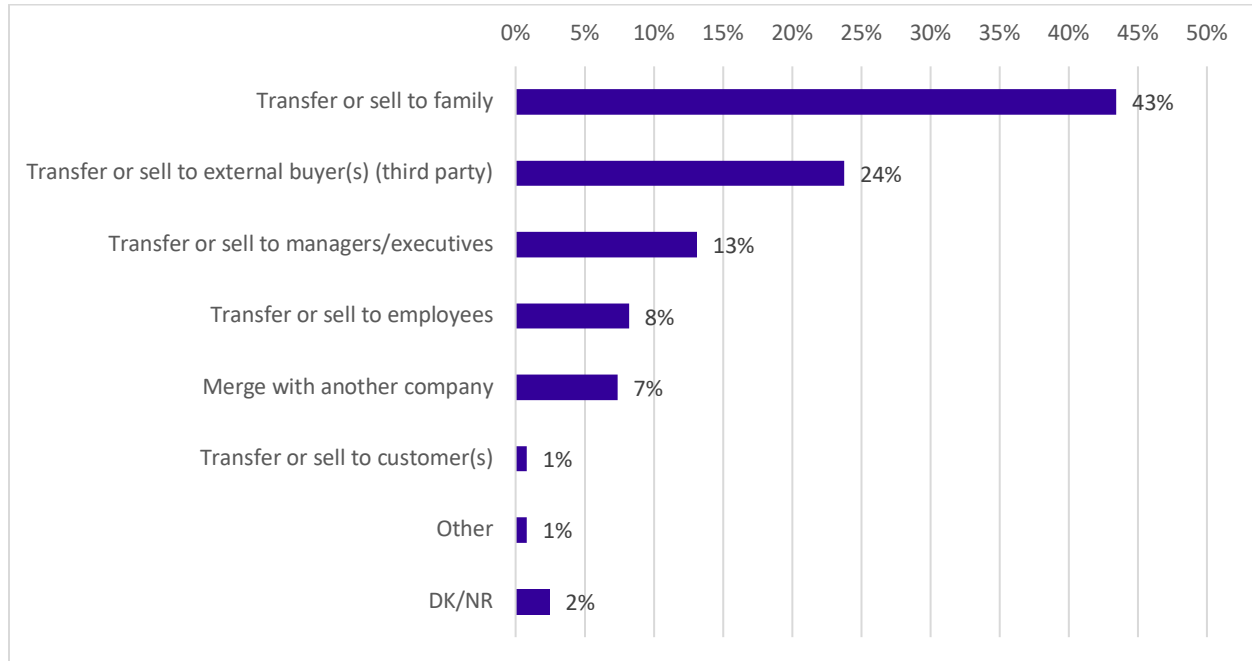


What we can understand from Figure 2 is that many of Canada's retirement-aged SME owners remain unprepared for succession. As our data suggests, few SME owners have moved beyond the discussion stage of succession planning to one where they are developing a long-term plan or attempted the transfer or sale of the business as part of retirement.

For the respondents who either identified to having considered selling or transferring the business or that have actually developed a formal succession plan in Figure 2, Figure 3 highlights what their plans are or will be. 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%).

[‡] Multiple answers allowed.

Figure 3: Current succession plans for those SMEs that have considered transferring ownership or selling the business (n=122)



As we can see from Figure 3, 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, arguably a lost succession opportunity.[§]

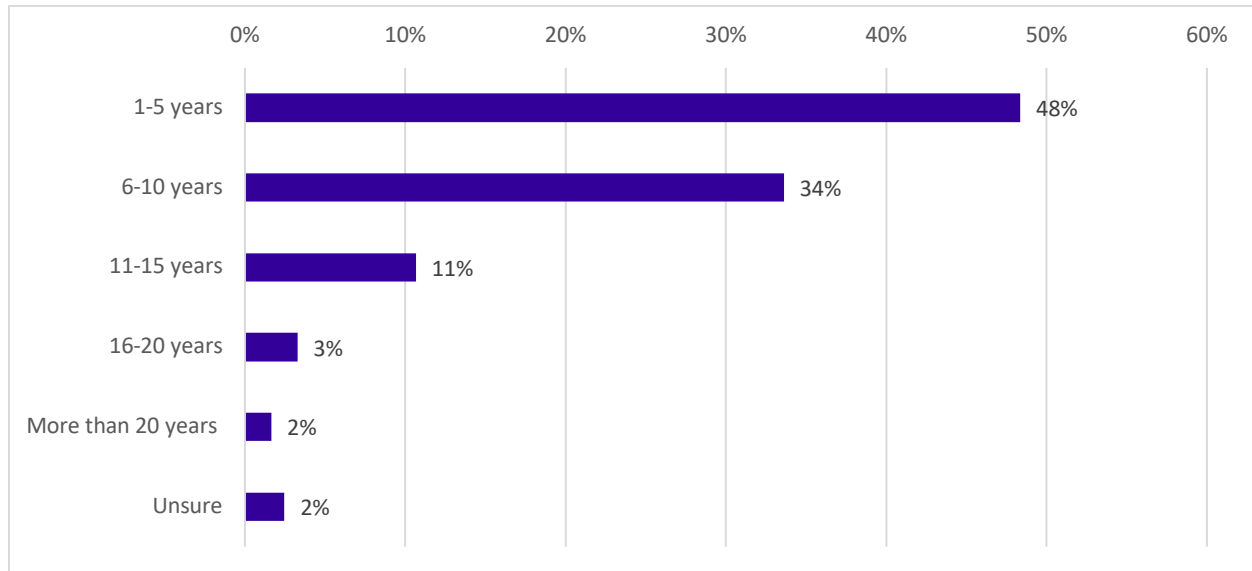
2.1.3 Timeframe for succession

Figure 4 shows that the vast majority of SME owners who have engaged in or thought about succession planning want to enact their plan within 10 years (82%), with almost half (48%) desiring to do so within five years. This timeframe is consistent with other business succession studies in Canada; for instance, according

[§] 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 (Family Business Institute, 2016). 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 firm is comparatively high (Ben-Ner, 1988; Vieta et al., 2017).

to the Business Development Bank of Canada, 54% of Canadian business owners nearing retirement planned on retiring within the next 4-5 years.³

Figure 4: Approximate timeframe for current succession plan or thinking about succession for the SME (n=122)



What Figure 4 tells us is the fundamental need for action and support around succession planning and execution given the desired timeframes of the respondents. If the transfer or sale of a business is going to happen in the next 1-5 years (48%) then the involved parties need to be ready, involved, and prepared.

2.1.4 Familiarity with succession

The following figures (Figures 5 and 6) present findings about familiarity and attitudes towards retirement and succession.

In Figure 5, 48% of SME owners claim to be fairly to very familiar with succession planning, 43% fairly to very familiar with selling a business, and 38% fairly to very familiar with mergers and acquisitions.

When asked about familiarity with the co-operative business model in relation to succession, the results were not as positive. 49% of SME owners claimed that they were *not familiar* with the co-op business model, while only 25% were fairly to very familiar with the model. Relatedly, this means that at least 75% of Canadian SME owners are

also not familiar with how the co-operative business model can be used for their succession plans.

Figure 5: Familiarity with broad themes related to succession (n=319)

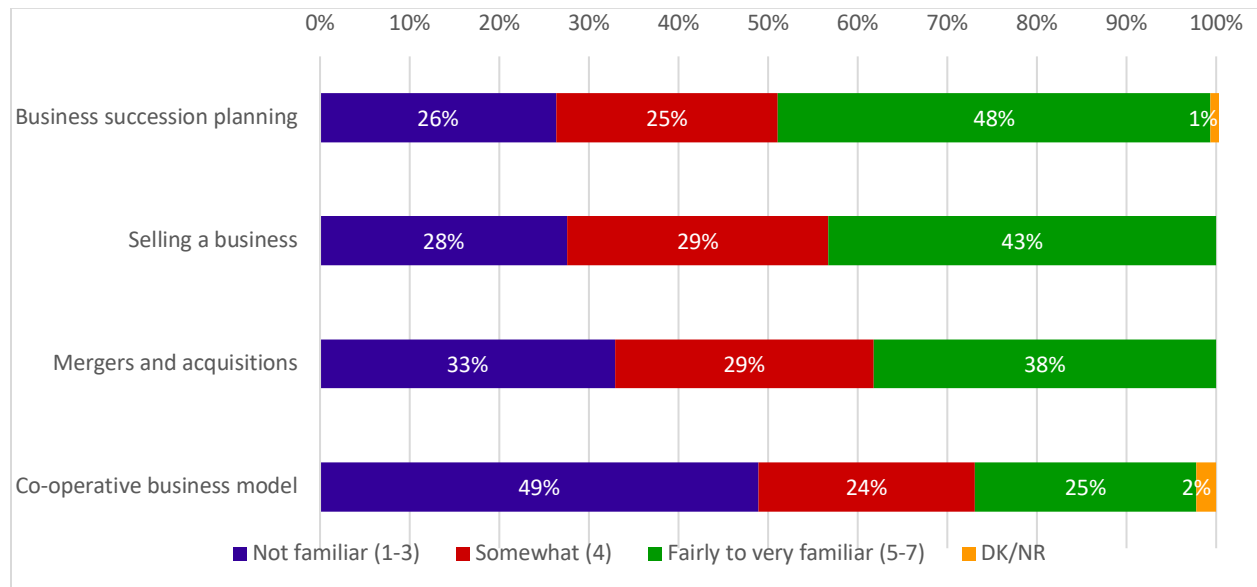
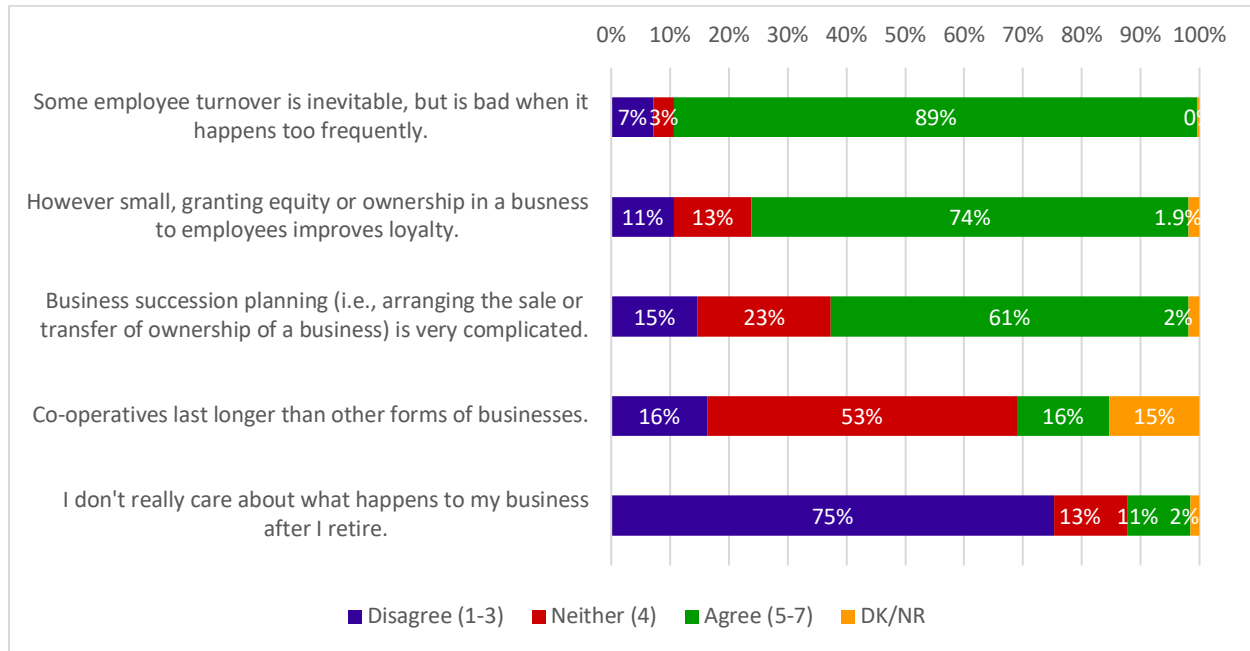


Figure 5 underscores the great need for awareness building to help SME owners become more familiar with the opportunity of business conversion to co-operatives as part of their succession planning and assessment.

Figure 6 further nuances the points made in Figure 5 by inquiring about attitudes towards themes related to succession. Overwhelmingly, 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 6: Attitudes towards broad themes related to succession (n=319)



These results depict that the long-term viability of co-operatives 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 firm types,⁴ only 16% of survey respondents in Figure 6 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, underscored further by Figure 5.

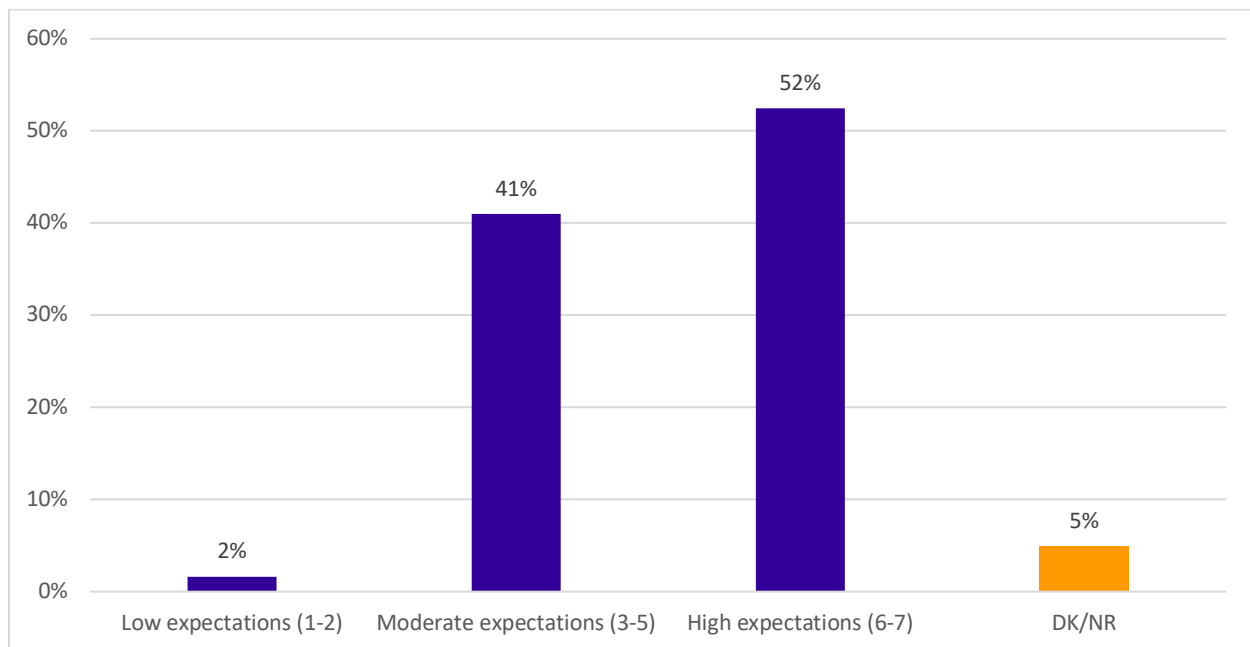
However, the themes in Figure 6 of desiring low employee turnover, granting more equity or ownership to employees, and continued interest in the business after retirement suggest most retirement-aged SME owners’ enduring attentiveness, if implicitly, to the business, to their employees, and to continuing 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.

2.2 What is Important for Succession Planning

2.2.1 SME owners' expectations for successfully achieving succession objectives

Paradoxically, while the majority of retirement-aged SME owners in Canada have modest levels of familiarity with succession planning and business transfer strategies (Figure 5), according to respondents who have engaged in or thought about succession planning, just over half have high expectations for achieving success in their plans (Figure 7). This is in tune with other recent findings that retirement-aged SME owners are “too optimistic” but underprepared for business succession.⁵

Figure 7: Expectations for achieving the objectives of current succession plan (n=122)

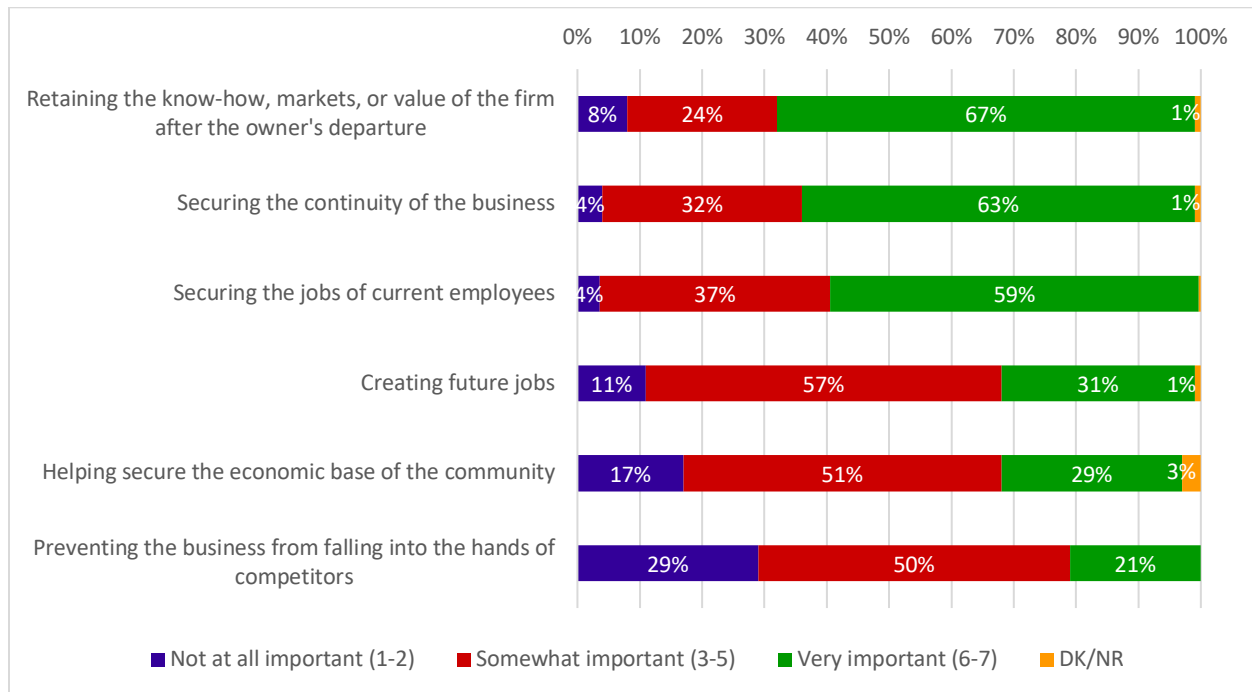


5.2.1 Important factors for successful succession plans according to SME owners

In Figure 8 we see the criteria perceived to be most important for a successful business succession plan for SME owners. Besides guaranteeing their retirement or work continuity plans, for SME owners a successful business succession plan includes: securing the future stability of the business via the retention of know-how, markets (i.e., market share, customers), and business value (67%); securing the continuity of the business (63%); and securing the jobs of current employees, including managers and waged-workers (59%).

Community impact and other social considerations are viewed as somewhat less important for successful business succession, with “creating future jobs” considered very important for only 31% of respondents, and “helping secure the economic base of the community” for only 29% of respondents.

Figure 8: Important perceived factors for a successful succession plan (n=319)



While retirement-aged SME owners might not be on the whole familiar with the nuts and bolts of business succession, they are, as Figure 8 shows, clear about what they need or desire for succession planning and the broad factors and criteria that, they feel, are vital for a successful business succession. The overall themes that emerge are the importance of future stability and continuity of the business, while of secondary importance is the community impact of their succession plans and creating future jobs.

Surprisingly, and needing further research, “letting the business fall into the hands of competitors” is of least importance to the majority of SME owners, reported to be “very important” to only 21% of respondents. This might suggest that Canadian SME owners are not averse to selling their businesses to competitors, which could include selling their business to an already existing co-operative or to employees or community stakeholders wishing to subsequently form a co-op via a BCC strategy.

2.3 Main Considerations and Challenges for Succession Planning

We dug deeper into what SME owners consider to be the most important factors for succession planning via open-ended questions. This qualitative dimension allowed us to unpack the important factors, challenges, and apprehensions of SME owners concerning succession planning.

Five factors stand out as important areas of concern when planning for succession^{**}: (1) financial aspects, (2) finding the appropriate buyer(s) of the business, (3) psychological and emotional aspects, (4) personal relationships (especially in family-to-family transfers), and (5) finding time to work on the succession plan and the appropriate related professional supports.

5 Important Factors in Succession Planning

1. Financial aspects
2. Finding appropriate buyer
3. Emotional aspects
4. Personal relationships
5. Finding time

2.3.1 Financial aspects

The financial aspects of succession plans appear to be the most common primary concerns for business owners, discussed at length by 11% of survey respondents. These concerns can be summarized into three categories: (1) macroeconomic factors, (2) the cost of succession, and (3) tax ramifications.

Macroeconomic factors

Broader macroeconomic factors of concern include the unknown future state of SME owners' business sector and the broader economy by the time they are ready to carry out the business succession. Owners are worried about economic downturns and not being able to eventually sell the business, or that they will be forced to sell at a lesser market value upon retirement.

2.3.1.2 Cost of succession

Another area of concern is how the costs of succession will or will not be able to be covered. A major concern articulated by several our respondents is whether or not the

^{**} These five self-reported factors are in addition to securing their future retirement and family wellbeing.

person/group who is keen to buy and take over the business will have enough access to capital to make the succession worthwhile for the retiring SME owner.

2.3.1.3 Tax ramifications

Finally, 11 SME owners were explicitly worried about the tax ramifications of the succession, as they believe that the sale of the business will be heavily taxed and that therefore it may not be financially worthwhile to sell. As one owner said: “Ensuring that taxation on the sale is minimized” and “retaining equity value for the vendor” is crucial.^{††}

2.3.2 Finding the appropriate buyer(s)

Closely tied to the financial aspects of the succession, SME owners’ second biggest worry around the process of succession is “finding an appropriate buyer,” mentioned by 10% of respondents. By “appropriate” many mean a buyer with *the financial ability* to purchase the company *at the right time*, while others mean those who can “preserve and advance *the values*” of the selling SME owner and their company.

For these owners, there are three key groups that they believe could most readily take over their business: (1) family members, (2) employees of the business, and (3) third parties.

2.3.2.1 Family members

Some owners would prefer to “sell” or “pass on” the business to the younger generation in their family. In this way they believe that they can best *preserve the legacy* of the company. That being said, many within this group note that either family members are not interested in taking on the business or that the new generation has a different “set of values” around work that they believe would jeopardize the business. As one owner told us: “The next generation have developed a *different values* set that can affect the work required to maintain or build a business.” Another told us they need “time to fill the void in knowledge of the next generation. They think very differently.”

^{††} This issue, however, is already partially dealt with in Canada via the small business capital gains exemption (Canada Revenue Agency, 2020).

2.3.2.2 Employees

While employees are seen by some SME owners as crucial potential candidates to take over the business, owners tend to worry whether employees of the business would be able to *financially afford* to purchase it and/or be *suitable administrators of the business* should they desire to run it by themselves. As one owner said of their employees: “No suitable candidates. No suitable *reliable* candidates.” Another respondent noted that if they were to purchase the business, employees need to be taught “the day to day *business skills* and getting them to think in the long term,” thus adding to the cost and effort of succession.##



The unease overall towards selling to employees due to the above-mentioned assumptions of SME owners could be barriers to the creation of future worker or multistakeholder co-operatives from BCC strategies. However, it could also point to the option of encouraging worker or multistakeholder co-op conversions to consider bringing in an additional person with relevant business background to take on the general management of the firm after conversion.

2.3.2.3 Third parties

While SME owners primarily consider or envision selling to third parties when thinking about non-family business succession – paralleling the general trend found in other business succession surveys in Canada⁶ – they worry about the timing and whether the purchaser(s) would be the right one(s). Specifically, owners who would consider selling

The flip side here, according to one Canadian co-operative developer who reviewed this report, is that some employees do not want to buy the business, do not have the money or the skills to run it, or do not want the added responsibility of being a business owner. This tension between saving jobs and controlling one’s workplace with co-owning and co-operatively administering a firm was also witnessed in empirical research with worker buyouts in Italy (Vieta et al., 2017) and with worker-led takeovers and conversions in Argentina (Vieta, 2020a).

are worried about the new owner(s) *maintaining the values and culture* of the original company and the retiring SME owner. As one owner said: "Finding the right buyer that will fit in with [the] style or culture of our business and possibly the right price [are crucial]."

2.3.3 Psychological/emotional aspects

A third and important component of the succession process is its psychological/emotional aspects. Specifically, 3% of surveyed owners noted that they may not be able sell their companies due to *emotional issues* and concerns about "letting go." Within this group, most are worried about *their reputation being tarnished* if the new owner(s) is (are) not aligned with their own *values*, especially if the company is a sole proprietorship or a family business. One member expressed this concern in a way that ties it up with the financial aspects of business succession:

"For many small businesses, the plan is to close up rather than pass on. I am aware of a number of small businesses who are officially defunct but where the [previous] owners carry on as a small sideline [in the business]. This is often because the sale of a business results in no benefit to the owner(s) and can easily ruin a personal reputation, especially in an eponymous business."



2.3.4 Personal relationships

Finally, it is evident that personal relationships are also key considerations or cause for concern for business owners around succession decisions. For instance, SME owners that have *business partners with whom they do not have a good relationship* are worried about decisions around succession. Similarly, *discord between siblings or with others in family businesses* is also a cause for concern. Moreover, how *relationships with business professionals* tasked with the details of the succession plan will unfold are also areas of concern for some. One previous owner who went through a family succession process summarized many of these interpersonal components while making linkages to its financial aspects in this way:

"[Because I wanted] to be financially fair during succession planning and transfer to other family members who are not involved in the business and to be fair to other family members who are currently working in the business and want to become owners but do not have the same sweat equity as other family members do ... succession planning was very costly..."

2.3.5 Finding time to work on succession plans and the right professional supports

Some respondents also emphasized concerns over the time it takes to prepare and carry out sound succession plans – time they do not feel they have – and, relatedly, finding the right professional supports such as lawyers, accountants, etc., to help with succession planning. One illustrative quote by a SME owner responding to our survey summarized these concerns:

"[Also, finding] succession planner specialists, accountants, lawyers, [and others were a concern] ... [and] the paperwork was immense... Taking the time out of our already overloaded work hours was very difficult ... government regulations and land transfer rules were a very grey area [and] the lawyer misunderstood which cost more, fees/costs to rectify... [O]verall, [the entire process was] very frustrating and we are still not completely happy with the outcome."

2.4 Summary

In this section we reviewed our survey's questions to retirement-aged SME owners concerning their plans, activities, and attitudes towards business succession and retirement. We learned that SME owners primarily first seek to transfer the business on to their family or children, or seek to transfer or sell to private-sector, third-party purchasers. We also learned that more than half of SME owners never plan to retire or fully retire, but those who do would like to do so within 5 years. Despite this, very few have moved beyond the discussion stage of succession planning, and fewer identified that they have developed a definitive succession plan or actually attempted to sell.

The main considerations and challenges for succession planning for Canada's SME owners include:

- The financial aspects of succession, including macroeconomic factors, succession costs, and tax ramifications.
- Finding appropriate buyer(s), including various perceived complications with passing off or selling businesses to family members, employees, and third parties.
- Emotional and psychological issues with "letting go" of the business and guaranteeing the owner's and business's future reputation.
- Interpersonal relationship issues.
- Finding time to work on succession plans and issues and finding appropriate professional supports.

While a conversion to a co-operative (BCC) solution could address some of these challenges, only a quarter of SME owners are familiar with co-operatives. However, SME owners seem to possess an implicit attentiveness to the long-term wellbeing of their businesses, employees, and to continuing to provide goods or services to the community. This suggests that Canada's SME owners could be more accepting of the co-operative model when thinking about succession if they were to know more about co-ops and their benefits in addressing employee loyalty, ownership stakes, and business continuity.

Canada's retirement-aged SME owners seem to be an untapped demographic for inspiring the creation of new co-operatives.

Co-operatives offer stable business models that survive crises well and provide good and stable jobs, providing sound SME succession options.

Canada's retirement-aged SME owners seem to be an untapped demographic for inspiring the creation of new co-operatives. Co-operatives offer stable business models that survive crises well and provide good and stable jobs.⁷ Since, as SME owners told us, future business continuity, stability, and guaranteeing the jobs of employees are all important factors for their succession intentions, as well as maintaining their legacy and business values, it should be in the interest of SME owners, employees, local communities, and policymakers to know more about the conversion-to-co-operative option for succession.

Overall, there is thus a fundamental need for action and support around succession planning and execution given the desired timeframes and success expectations of Canadian SME owners and, on the other hand, their overall lack of preparedness for succession. As we will address in the last section of this report, there are many possibilities for the co-operative movement's leaders, associations, federations, and local economic development agencies to also provide effective communications and educational initiatives clearly indicating the co-operative advantage for business succession.



Section 2 Notes

¹ BDC, 2018, p. 5.

² Ibid, p. 5.

³ Ibid, p. 8.

⁴ Co-operatives UK, 2019; Status of Co-operatives in Canada, 2012, p. 9; Vieta et al., 2017.

⁵ Ibid, pp. 12, 13. Also see: CFIB, 2018; Cruz, 2018.

⁶ BDC, 2018; CFIB, 2018; Cruz, 2018.

⁷ Birchall & Hammond Ketilson, 2009; Pérotin, 2014.

3

SME Owners' Attitudes Towards and Knowledge of Co-operatives and the BCC Solutions for Succession



In this section we review the familiarity with, knowledge of, and attitudes towards co-operatives and the BCC solution for succession among Canada's retirement-aged SME owners. We then review the perceived drawbacks of co-operatives among Canada's SME owners and finally the perceived advantages of co-operatives among a smaller group of SME owners that say they understand or know about co-ops and their possibilities for business succession.

3.1 Attitudes towards Co-operatives

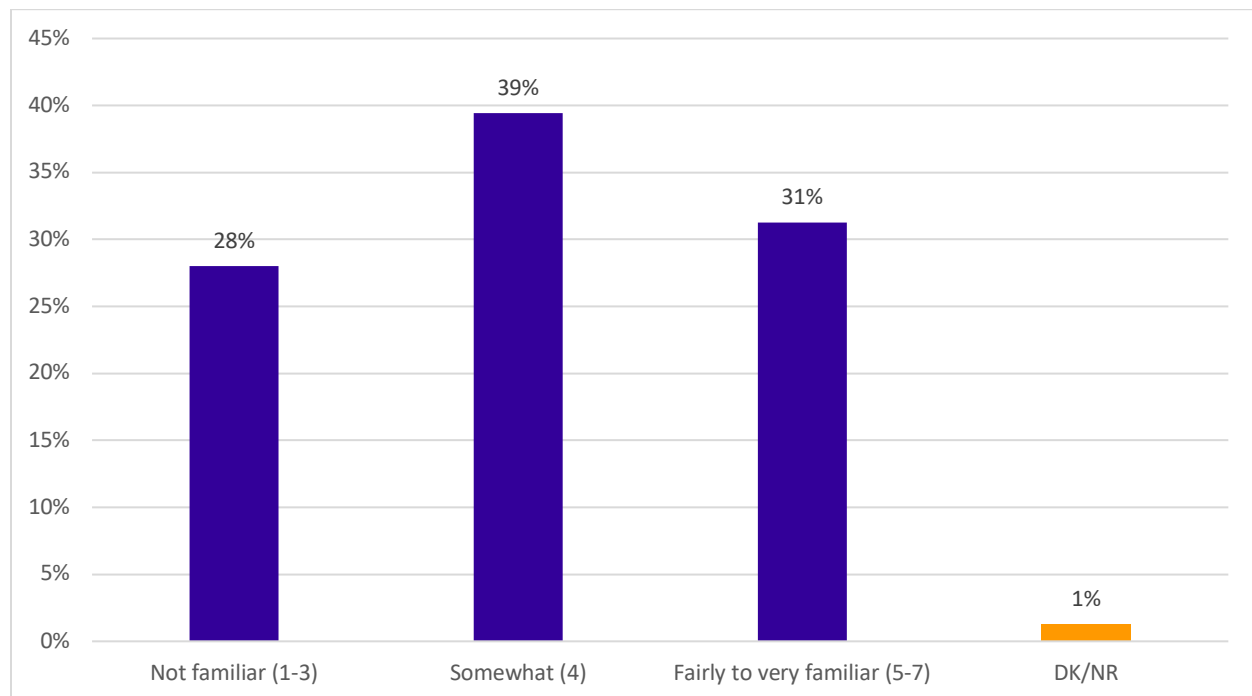
Overall, the long-term viability and the benefits of co-operatives do not resonate well with most of Canada's SME owners. However, acceptance of the viability of co-operatives increased slightly after we defined a co-operative for respondents towards the end of the survey.

acceptance of the viability of co-operatives increased after we defined a co-operative for respondents

3.1.1 Familiarity with co-operatives

Figure 9 presents SME owners' familiarity with the concept of a co-operative *after being provided with a definition*. When the co-op form was defined for respondents, 31% said they were fairly to very familiar with co-operatives, 39% said somewhat familiar, and 27% stated they were not familiar with co-operatives.

Figure 9: Familiarity with the concept of a co-operative after being provided a definition (n=307)



SME owners' familiarity with the co-operative model, even when provided with the definition, is fairly low (not familiar and somewhat familiar totalling 67%), thus suggesting that Canada's co-operative movement still has lots of work to do around

Canada's co-operative movement still has lots of work to do around education and awareness of the co-operative model and the BCC option for succession

education and awareness building of the co-operative model. Recall from Figure 5 that when we did not define the co-operative model earlier on in the survey, only 25% of respondents reported to be very to fairly familiar with the model, while 24% were somewhat familiar. When provided with the definition of a co-op (Figure 9), responses of fairly to very familiar rose to 31%, and somewhat familiar rose to 39%. This suggests that there is room for improving the positive attitude towards co-

operatives among SME owners if they are familiarized with or perhaps understand the co-operative model more fully.

3.1.2 Considered or considering converting to a co-operative as a succession plan

Given the low familiarity overall with the concept of co-operatives or the co-operative business model among Canada's SME owners, it is not surprising that very few – 7% – have actually considered converting their business to a co-op upon retirement or for succession (Figure 10).

Figure 10: Has the firm considered converting to a co-operative as a plan for succession? (n=307)

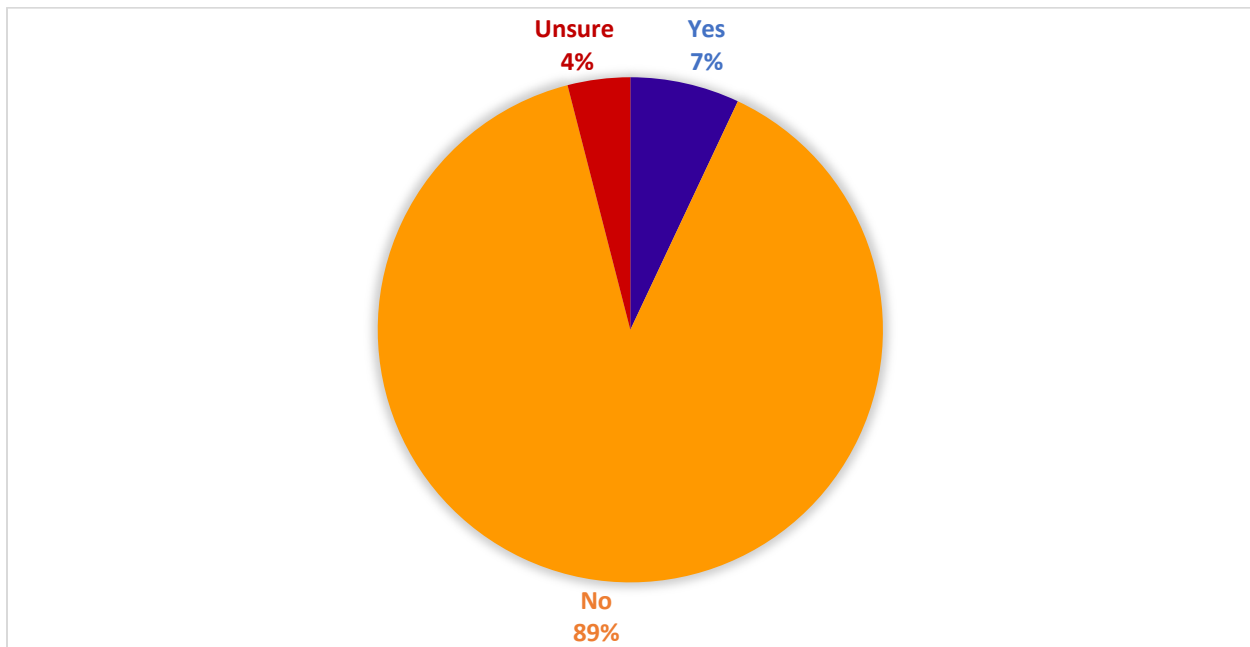
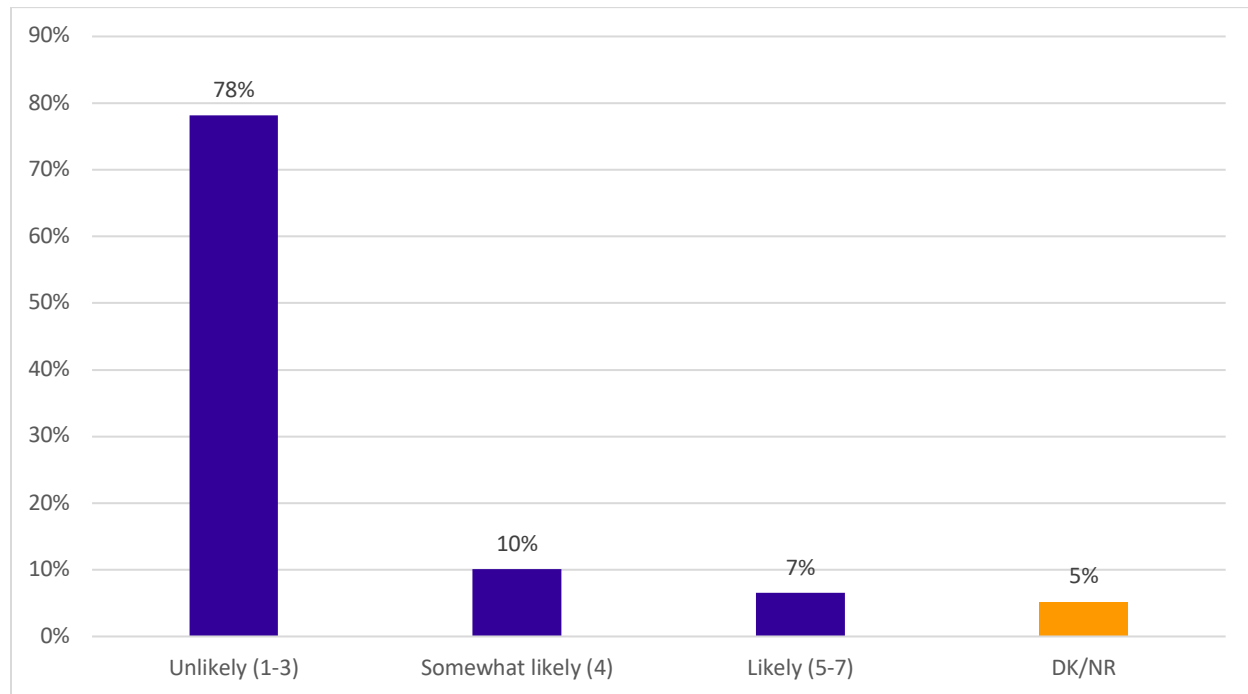


Figure 11 shows that a larger group – 17% – would somewhat likely (10%) or likely (7%) consider the BCC option; alternately, 78% of respondents are unlikely to ever consider converting to a co-op as part of succession planning.



Figure 11: Likelihood of firm considering conversion to a co-operative (n=307)



Providing a picture of the group of SME owners in Canada most amenable to the BCC option, in section 4 we profile the 7% of SME owners of firms that have considered converting to a co-operative (Figure 10), as well as the 17% of SME owners that are somewhat likely or likely to convert to a co-operative for their succession plan (Figure 11). This group of SME owners belong to the group of SMEs that we term *SMEs most amenable to BCCs*.

As a side note, it is notable that 24% of SME owner respondents of our survey were also interested in follow-up information. This is made up of almost all of the 17% who are somewhat likely or likely to consider a BCC as a succession planning option plus a few more respondents.

Nevertheless, the high percentage of SME owner respondents to our survey that stated that they are unlikely to consider a conversion to a co-operative (78%) is notable given our interest in BCCs as succession planning options. This high percentage of “unlikelys” does beg the following questions: Why do not more SME owners consider BCCs as a succession option in Canada? Is this low take-up of BCCs related to the general lack of knowledge of co-ops among SME owners and their overall misunderstandings of co-ops and their perceived drawbacks? To begin to answer these questions, we first address the latter point.

3.2 Perceived Drawbacks and Advantages of Converting SMEs into Co-operatives

We dug deeper into the perceptions, knowledge, and attitudes of the drawbacks and advantages of co-operatives for our survey respondents via two open-ended questions. We first highlight some of the perceived drawbacks of converting businesses to a co-operative in sub-section 3.2.1. In sub-section 3.2.2 we review some of the perceived advantages of conversion to a co-op.

3.2.1 Perceived drawbacks of conversion to a co-operative for succession

Given that the majority of respondents claim not to be very knowledgeable of co-operatives or aware of the BCC solution for succession, unsurprisingly 58% (n=186) – a majority of respondents – did not answer the question asking them to consider the “advantages...gained by converting your business into a co-operative.” For those who did answer the question (n=133), 29% simply stated “none.” At the same time, 44% of respondents (n=139) answered the question about “the drawbacks of converting your business into a co-operative.”

In this sub-section we specifically report on the main themes that emerged from SME owners’ perceived drawbacks of converting to a co-operative.

The perceived drawbacks, itemized next, are akin to the mostly erroneous critiques often leveled at co-operatives. Empirical evidence counters these perceptions as uniform characterizations of all co-ops. Indeed, the wide assortment of business sectors where co-ops are present worldwide and their widespread reach and multi-billion-dollar contributions to the world-economy compellingly contest these perceptions.¹ These findings again suggest the need for further education and knowledge mobilization regards the co-operative business advantage, which we address explicitly in section 5 of this report.

the wide assortment of business sectors where **co-ops** are present worldwide and their widespread reach and **multi-billion-dollar contributions to the world-economy** compellingly contest misperceptions of co-ops

3.2.1.1 Perceived inefficiencies of co-operatives due to their democratic governance

responses to questions about co-ops by Canadian SME owners underscore their overall lack of understanding of the co-op model

Among the most popular response concerning the drawbacks of converting to a co-operative is the *perceived inefficiency of co-operative governance* (n=25). These respondents think that democratic co-operative decision-making processes are “slow,” “stringent,” “diffuse,” “carry the risk of disagreement and instability,” “inefficient,” “uninformed,” and “too disseminated.”^{§§}

Respondents particularly expressed in a number of ways the idea that, in co-ops, there are “too many cooks in the kitchen.” Overall, they believe that *enterprises need strong leadership*, whereas co-operative leadership is seen by this group to be “fractured,” “not strong,” or not “independent” enough. One respondent, expressing their apprehension and lack of understanding of co-operative governance most explicitly, directly asked: “Who would be the leader?”

These responses again underscore the lack of understanding of the co-op model among Canada’s SME owners, and of the collective and servant/steward leadership necessary to co-manage them.²



^{§§} As one co-operative developer reviewer of this report reminded us, while democratic decision making does take more time compared to a single entrepreneur making all the decisions, the day-to-day operations of a co-operative, however, can be more streamlined because worker owners take more responsibility and might not need as much management.

3.2.1.2 Perceptions that co-operatives are not compatible with the business sector or reduce competitiveness

Another perceived drawback of the co-operative model is that either the business itself or the industry within which the business operates are not compatible with the co-operative model.^{***} Here are some examples of those who offered this viewpoint:

- “Shareholders [in our business] wouldn’t agree.”
- “We are a single-majority owner high-tech company. I am unsure that a co-operative would have strong enough leadership in the high-tech environment.”
- “A traditional co-operative is not a business form that could be used in a legal partnership.”

A key consideration within this group was the current scale of their business, considered either “too big” or “too small” for a conversion into a co-operative.

Relatedly, a handful of respondents also argued that a conversion into a co-operative would reduce their competitiveness against conventional businesses in the market, here again specifically due to governance-related issues:

“Our competition in our industry are all privately owned [firms] and can make advancements and changes on the fly if needed and can react to market changes very quickly. The co-operative business layout cannot react quick enough to change in the marketplace.”

3.2.1.2 Ideologically opposed to co-operatives or the perception that the co-operative form is not a viable business model

Finally, 14 respondents noted that they are either ideologically opposed to co-operatives or do not consider co-ops as a viable business model at all. Two extreme views from this group associated them with “socialism” or even as a tool of the “mob and left-wing social justice warrior attacks against Christian values.” Some in this group argued that the business “would not be a business anymore, it just wouldn’t work,” or

^{***} One co-operative developer who reviewed this report offered this comment to the perceived drawbacks here: “The level of unfamiliarity with or bias against co-ops [in Canada] is also...apparent with many business advisors, lawyers, accountants, and public servants.”

that they simply “don’t believe in co-ops.” One respondent noted that “individuals who enter a co-operative don’t co-operate and don’t continue to strive for excellence.” Another said that “the business needs to react and even lead the market to thrive. Co-ops by their nature won’t do that.”

All of these perceptions of co-ops are erroneous, unfounded by streams of research evidence to the contrary: Co-ops can be and mostly are, indeed, solid and competitive businesses, and people that become co-op members do indeed co-operate effectively. Moreover, co-op members belong to the broad range of political preferences and identities and there is no evidence to suggest that co-ops are mainly socialist organizations.³

Co-ops are solid and competitive businesses and co-op members co-operate effectively

3.2.2 Perceived advantages of conversion to a co-operative for succession

Of course, not all SME owners view co-operatives negatively. 44% of respondents to our survey (n=139) responded to the following question: “What, if any, advantages would be gained by converting your business into a co-operative?” Of these respondents, a core group, 32%, view co-operatives favourably and saw various advantages to converting to a co-operative. This section focuses on the main perceived advantages of co-operatives and conversion to a co-operative for succession among this core group of SME owners.

3.2.2.1 Retaining employment

A handful of SME owners see co-operatives as the preferred method of succession. Three owners identified conversion into a co-op as good for retaining and securing employment opportunities. One stated that BCCs are important for “Keeping the jobs/profits in the community.” Another commented that BCCs would be ideal for “Continuity of employment, brand image protection.”

3.2.2.2 A viable model (if all else fails)

Some in this small group who see advantages to BCCs still view it as a last resort rather than the first possibility they would consider for business succession. While one SME owner viewed the BCC model as “a more viable and less problematic succession process,” two other owners considered co-operatives a viable option for succession “if

| Attitudes Towards and Knowledge of Co-operatives and BCCs

all else fails.” Thus, even in the group of SME owners currently amenable to BCCs, there are those that view the BCC option as a viable one if other potential buyers are limited:



“[BCCs] are a viable way to sell the business and extract value from it. If you suspect your business would have limited suitors.”

“[BCCs could guarantee] business survival if other succession strategies [are] unsuccessful.”

3.2.2.3 Saving jobs and assisting the local community

In line with our quantitative data, the qualitative data also suggest that there is a subgroup of SME owners who do view succession via the BCC model as a way of saving jobs and for assisting the local community. This group corresponds with the respondents in Figure 8 who answered that saving their employees’ jobs and helping secure the economic base of the community were important when considering their succession strategies. Here are some examples of the responses from this group of owners about the advantages of succession into a co-op:



“Keeping the jobs/profit in the community as many of our locations are in rural Alberta.”

“J’aimerais redonner à la communauté.”^{†††}

“A co-operative would strengthen the business environment and ensure provincial standards for community services.”

“Maintaining its presence in and value to the community as an independent business.”

^{†††} “As a way of giving back to the community.”

| Attitudes Towards and Knowledge of Co-operatives and BCCs

3.2.2.4 Tapping into the necessary skills and knowledge of employees for business continuity

Some SME owners believe that employee buy-out BCCs would mean immediate access to necessary skills and knowledge for the new business, that this would thus be very conducive to business continuity, and that the business would grow even further after they exit the firm. Examples of these types of answers include the following:



"Retaining employees means] more specialized skills under one roof."

"Multiple ownership, larger knowledge base."

"It would have new people [with] new ideas and new energy which would help to grow the business."

3.2.2.5 Worker ownership taps into staff empowerment and loyalty, leading to greater business tenacity and efficiency

Furthermore, some respondents believe that transferring the business to direct employee ownership, which is guaranteed in a conversion creating a worker co-operative, would enhance "staff empowerment and loyalty," which could also help grow the business further through "greater tenacity" and "increased efficiency" on the part of worker-owners. Answers here included:



"More buy-in by the workers if they had a share in the company."

"Level of employee satisfaction, security and loyalty would be heightened."

"Possible employee loyalty. Broaden acquisition of employee skills and experience."

"Collaborative effort and investment."

3.2.2.6 The advancement of socio-economic justice

For three of the SME-owner respondents, conversion into a co-operative would also mean the advancement of social-economic justice:



“Tackling income inequality by re-balancing employee/executive compensation and altering the current decision-making tree to put the interests of employees and the community ahead of external shareholders whose primary concerns are dividends.”

“Economic security for members, no exploitation of others’ labour.”

“Étant déjà bien préparés et habilités pour assurer la gouvernance, il est évident que chaque coopérant(e) pourrait bénéficier davantage des retombées économiques générées par l'entreprise, en pouvant se payer de très importants bonis.”^{‡‡‡}

3.2.2.7 Other advantages

Various other potential advantages to converting to a co-operative as a succession strategy were listed by SME owners currently amenable to BCCs. These include: “risk sharing,” “client retention,” and the “virtuous signaling” offered by co-ops “to clients, suppliers, and [the] community.” Along these lines, one respondent further highlighted “[the] ability to work with like-minded organizations” as a potential advantage to conversion into a co-op.

CO-OP ADVANTAGES

- risk sharing
- client retention
- virtuous signaling
- work with like-minded organizations

^{‡‡‡} “Being already well prepared and empowered to ensure governance, each co-operative member would gain more from the economic benefits generated by the company, by being able to receive very significant bonuses.”

3.3 Summary

This section reviewed the familiarity with, knowledge of, and attitudes towards co-operatives and the BCC solution for succession among Canada's SME owners, including perceived drawbacks to and advantages of the co-operative model.

Canada's SME owners' attitudes towards co-operatives and the BCC solution are underscored by their general lack of knowledge and overall misconceived or flawed ideas of co-operatives. Misunderstandings of co-ops among Canada's SME owners include: perceptions of inefficiency due to their democratic governance; co-operative's incompatibility with their business sector or lack of competitiveness; and general ideological differences with a model seen to be, overall, too radical. Decades of research into the co-operative model's advantages and strengths shows that these perceptions are misguided. We believe that these findings suggest that *a dedicated and sustained education and promotional campaign needs to unfold to better educate SME owners to the co-operative advantage.*

a dedicated and sustained education and promotional campaign needs to unfold to better educate SME owners to the co-operative advantage

positive attitudes towards co-operatives among SME owners can substantially rise if they are familiarized with or understand the co-operative model more fully

Canada's co-operative movement, in short, has work to do to educate SME owners, workers, policymakers, and the general public towards the goal of building a broader awareness of the co-operative model. However, the path is not as uphill as it seems for SME owners. When provided with the definition of a co-operative, respondents' self-reported familiarity with the co-op model rose, suggesting that positive attitudes towards co-operatives among SME owners can substantially rise if they are familiarized with or understand the co-operative model more fully. This bodes well for encouraging the broader uptake of the BCC model for succession in Canada.

We also found that a small group of SME owners are already amenable to the BCC model in Canada.

The advantages to BCCs and co-ops this group emphasized include:

- Retaining and securing employment opportunities.

- A viable business model (especially when other options fail).

- Saving jobs and assisting the local community.

- Tapping into the necessary skills and knowledge of employees for business continuity.

- Worker ownership taps into staff empowerment and loyalty, leading to greater business tenacity and efficiency.

- The advancement of socio-economic justice.

- Other advantages, such as risk sharing, client retention, and virtuous signaling.

Section 3 Notes

¹ For compelling and evidentiary counter arguments to the perceptions of co-operatives in this subsection, see: Euricse, 2019; Michie et al., 2017; Novkovic & Webb, 2014; Vieta, 2020a, 2020b.

² Horn, 2020; Mohamad & Abdul Majid, 2014; Novkovic & Webb, 2014; Sherwood, 2011.

³ See, for instance: Michie et al., 2017; Novkovic & Webb, 2014.

4

The Propensity of SME Owners to Engage in Business Conversions to Co-operatives for Succession



It should be clear by now that most of Canada's retirement-aged SME owners are not considering the BCC option for their succession plans. As we have also underscored, *given the current low knowledge levels concerning co-operatives and the BCC succession option in Canada*, the vast majority of retirement-aged SME owners today will not opt for converting their firms to co-operatives as a succession strategy. However, *a minority group of SME owners existing today would at least consider the BCC option*. There thus seems to be a partially hidden population of SME owners that would consider the BCC option, and a somewhat larger group that could be interested in the BCC model were they to know more about co-ops and BCCs.

Our survey data provide clues that help us build a *profile of the group of SME owners and SMEs currently most amenable to take up the BCC model* as a succession option and to address other business risks. We detail this profile in sub-section 4.1. Sub-

co-op conversion
is a potential
solution
to closing firms
due to the pandemic

section 4.2 then reviews two additional “entry points” that could stimulate *the potential further uptake of the BCC model*. Sub-section 4.3 finally looks at the likelihood of SME owners to consider the BCC solution as a possible way of addressing the rising risk of closing businesses due to the outbreak of the COVID-19 pandemic. These further entry points and the possibility of co-op conversion as a potential solution to closing firms due to the pandemic offer inroads for further education initiatives and messaging campaigns that could increase the likelihood for more SME owners to consider the BCC option.

4.1 Profiling SMEs and SME Owners Currently Amenable to BCCs for Succession

Overall, SME owners *not amenable* to the BCC option for succession tend to be those that place economic or family-related decisions above all else. For them, the main importance in succession planning is placed in selling to the highest bidder or ceding the firm to their family heirs.

On the other hand, SME owners *most amenable* to the BCC option for succession tend to be those that possess other values and hopes for their businesses after succession beyond just, but not necessarily excluding, the economic. From our survey data, we are also able to trace a *profile of the group of SMEs currently most amenable to the BCC model in Canada*.

4.1.1 Considered converting to a co-operative as a succession plan

We first provide the main characteristics of the SMEs and their owners that have *actually considered converting to a co-operative*. This is the profile of the 7% of respondents that answered “yes” to the following question illustrated in Figure 10: “Has your company ever considered converting to a co-operative?”^{§§§}

^{§§§} 21 out of 307 respondents that answered this question positively.

the main characteristics of the SMEs and their owners that would be more likely than others to consider converting to a co-operative.

- *Years in operation:* 48% were in operation for over 20 years; 19% between 10-20 years; 24% between 5-9 years, and 10% between 0-4 years.
- *Business sector:* 67% of firms were in the services sector (2 in information, 3 in finance and insurance, 6 in professional services, and 3 in other services), and 29% were in other industries (2 in construction, 1 in manufacturing, 1 in wholesale, 1 in transportation, and 1 in education).
- *Size of firm by employees:* 71% are firms with 0-49 employees (57% are under 10 employees); 29% are firms with 50-500+ employees (with only 1 over 500 employees).
- *History of firm:* 67% are firms where the owner is a founder; 24% were acquired from non-family entities; 5% were acquired from a merger; and 5% have other histories.
- *Type of SME:* 76% are private businesses; 20% are social enterprises or co-operatives; and the rest are non-profits or charitable organizations.
- *Retirement desires/situation of owners:* 52% do not want to stop working (i.e., semi-retire or keep on working); 14% would like to retire in comfort; 14% would like to maintain lifestyle upon retirement; 10% would like to retire ASAP.

4.1.2 Likely or somewhat likely to consider converting to a co-operative as a succession plan

Second, we provide the main characteristics of the SMEs and their owners that would be *more likely than others to consider converting to a co-operative*. This is the profile of the 17% of respondents that answered “somewhat likely” or “likely” to the following question illustrated in Figure 11: “How likely is it that the ownership of your company would consider converting to a co-operative as part of its succession planning?” ****

**** 31 out of 307 respondents (10%) answered “somewhat likely” to this question, while 20 (7%) answered “likely” to “very likely,” totalling 51 respondents.

- *Years in operation:* 43% were in operation for over 20 years; 29% between 10-20 years; 16% between 5-9 years; and 12% between 0-4 years.
- *Business sector:* 56% of firms were in the services sector (4 in information, 3 in finance and insurance, 14 in professional services, 2 in administrative, and 6 in other services), and 44% were in other industries (7 in construction, 6 in manufacturing, 1 in wholesale, 3 in transport, 1 in education, 1 in accommodation, 1 in public administration, and 1 in the non-profit sector).
- *Size of firm by employees:* 86% are firms with 0-49 employees (63% are under 10 employees); 14% are firms with 50-500+ employees (with only 1 over 500 employees).
- *History of firm:* 75% are firms where the owner is a founder; 14% were acquired from non-family entities; 2% were acquired from family members; 4% were acquired from a merger; and the rest have other histories.
- *Type of SME:* 82% are private businesses; 4% are non-profits or charitable organizations; 8% are social enterprises or co-operatives; and 6% are other organization types.
- *Retirement desires/situation of owners:* 65% do not want to stop working (i.e., semi-retire or keep on working); 8% would like to retire in comfort; 16% would like to maintain lifestyle upon retirement; 8% would like to retire ASAP; and the rest are unsure.

4.1.3 Already discussed selling or transferring the business to employees

Finally, we provide the main characteristics of the SMEs and their owners that *had already discussed selling or transferring the business to employees*. This is the profile of the 15% of respondents that ticked off “Discussed about transferring to employees” for succession activities in Figure 2 to the question of what succession activities they had engaged in over the past 5 years.^{†††}

**15% of
respondents**
ticked off “Discussed
about transferring to
employees”

^{†††} 47 out of 307 respondents ticked off this answer.

- *Years in operation:* 51% were in operation for over 20 years; 34% between 10-20 years; 6% between 5-9 years; and 8% between 0-4 years.
- *Business sector:* 64% of firms were in the services sector (2 in information, 6 in finance and insurance, 2 in real estate, 14 in professional services, 1 in co-management, 2 in administrative, and 6 in other services), and 35% were in other industries (5 in construction, 3 in manufacturing, 2 in retail, 2 in transportation, 1 in education, 2 in health, 2 in accommodation, and 1 in the non-profit sector).
- *Size of firm by employees:* 81% are firms with 0-49 employees (38% are under 10 employees); 19% are firms with 50-500+ employees (with 2 over 500 employees).
- *History of firm:* 57% are firms where the owner is a founder; 32% were acquired from non-family entities; 4% were acquired from family members; 2% were acquired from a merger; and the rest have other histories.
- *Type of SME:* 87% are private businesses; 4% are social enterprises or co-operatives; and 9% are other organization types.
- *Retirement desires/situation of owners:* 43% do not want to stop working (semi-retire or keep on working); 23% would like to retire in comfort; 21% would like to maintain lifestyle upon retirement; 9% would like to retire ASAP; and the rest are unsure.

4.1.4 Additional factors increasing the likelihood of being amenable to a BCC

From our qualitative questions, we found several other suggestive characteristics among SME owners currently amenable to BCCs:

Respondents that have strong stakes in the community and hold strong community values are more likely to consider a co-operative conversion for succession.

Respondents who think that creating future jobs and helping secure the economic base of the community are important factors in creating a successful business succession plan are more likely to consider converting to a co-operative.

If a business owner currently has no succession plan or has had trouble creating one, they might be more likely to consider a co-op conversion in the future.

4.1.5 Profile of SMEs and SME owners most amenable to the BCC option

From our survey data, we are able to trace *an overall profile of the group of SMEs most amenable to the BCC model in Canada*. Derived from seven key findings, we offer the following composite profile of Canada's SMEs most amenable to converting to a co-operative.

Have SME owners that do not want to retire or stop working.

This is a group we had already introduced earlier, making up 53% of survey respondents (Figure 1), including those that plan to "semi-retire" (30% of respondents) and those that would like to "keep working" (23% of respondents). For this group, converting to a co-op could be a way of continuing their business legacy while permitting them to continue working, after succession as a member of the co-operative.

SMEs that have already considered or discussed selling to their employees and SMEs that have at least discussed converting to a co-operative in the past.

Already knowing about or discussing the possibilities of converting to a co-operative could make it more likely for the firm to ultimately convert to a co-op.

Smaller firms of less-than 50 employees, and especially those with 10 employees or less, and older firms over 10 years old, and especially over 20 years old.

Here our data coincides with recent research into worker buyouts in Italy and worker-recuperated firms in Argentina.¹ From this research, one can deduce that older SMEs have had a longer time to establish meaningful legacies and are firmly entrenched in local communities and so there is more at stake for employees, owners, and the community should the business close. In turn, smaller firms are made up of groups of employees, managers, and owners that are more likely to know each other personally and thus tighter bonds of solidarity exist between them, again raising the stakes for the organizations'

members if the firm were to close permanently. In short, most BCCs are made up of older and smaller firms.

SMEs from the services sector, and to a lesser extent in the construction sector.

This also tends to follow patterns in previous research with WBOs in Italy²: firms that are less capital intensive and that are anchor organizations in their communities are more amenable to conversion to a co-operative, with higher or more specialized skill sets required from staff in less capital-intensive businesses, such as those in the services and construction trades sectors.³

SMEs that emerged from founders, rather than from mergers or acquisitions or from family inheritance.

Founders of businesses have a deep commitment to their vision and legacy and might thus be more amenable to converting to a co-operative to see their legacy continue. Moreover, founders have vested interests in not seeing their businesses fall into the hands of competitors and might understand better that employees possess deep knowledge of the business, making the BCC solution more attractive for them.⁴

4.2 Two Further Entry Points Suggesting the Possibility of Greater Uptake of the BCC Model by More SME

Our survey data also provide suggestions for what we call additional “entry points” for further promoting the broader uptake of the BCC model if SME owners understood co-operatives better. These two entry points, illustrated in Figure 6, particularly stand out: the broad belief among SME owner respondents that *equity ownership in a business improves employee loyalty* (74% of respondents agreed) and the implicit desire for *less employee turnover* (89% agreed).

Co-operatives tackle well the issues of more employee loyalty and less employee turnover, both important to Canada’s SME owners.

Given that co-operatives tackle well these two issues,⁵ we suggest that communicating how co-ops address them and mentioning these entry points directly in educational and promotional materials concerning the BCC option for succession could encourage more SME owners to consider conversion to co-operatives for their succession plans.

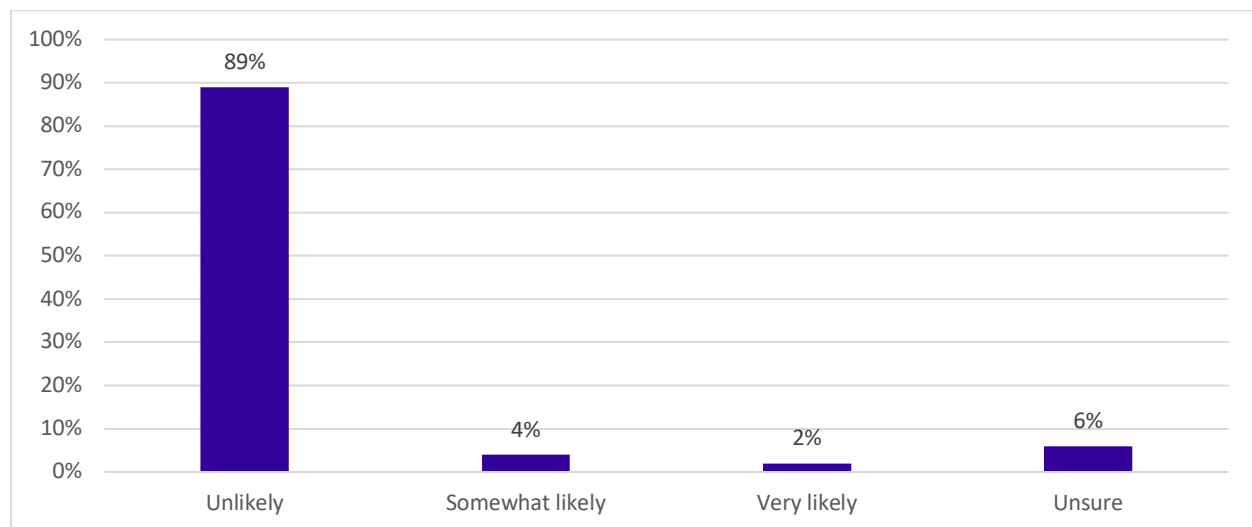
4.3 BCCs as Possible Solutions to SMEs in Crisis after the Outbreak of the COVID-19 Pandemic

In a second survey we carried out to SME owners in October 2020 (n=965), we discovered that conversions to co-operatives could be considered as solutions to the risks of business closure due to the COVID-19 pandemic. That is, there is, at minimum and, under current low knowledge levels of the BCC solution, a small minority of SME owners willing to consider the BCC solution for saving their businesses during the pandemic.

Co-operatives could be considered as solutions to the risks of business closure due to the COVID-19 pandemic.

As Figure 14 shows, when we asked how likely it was that the SME owner would consider a conversion to a co-operative to help mitigate the risk that the COVID-19 pandemic poses to their business, 4% (n=33) answered "somewhat likely" and 2% (n=16) answered "very likely."

Figure 12: Likelihood of considering conversion to a co-operative to mitigate the risk of the COVID-19 pandemic on their business (n=818)



4.4 Summary

A small but core group of SMEs and SME owners currently exist in Canada that are most amenable to the BCC option as a succession solution. To conclude this section, we recap the *profile of currently existing SMEs most amenable to converting to a co-operative in Canada.*

*profile of
currently
existing
SMEs most
amenable to
converting
to a
co-operative
in Canada.*

- SMEs with owners that do not want to retire or stop working.
- SMEs that have already considered or discussed selling to their employees.
- SMEs that have at least discussed converting to a co-operative in the past.
- Smaller firms of fewer than 50 employees, and especially those with 10 employees or less.
- Older firms over 10 years old, and especially over 20 years old.
- SMEs in the services sector, and to a lesser extent in the construction sector.
- SMEs that emerged from founders, rather than from mergers or acquisitions or from family inheritance.

Based on our sample, we suggest this profile of SMEs and SME owners offers the most ready and receptive target audience of businesses and SME owners for focused messaging and education campaigns to further promote the BCC model for succession.

We also highlighted two additional BCC entry points suggesting the possibility of *further uptake of the BCC model* should more SME owners know about the model and the co-operative advantage. These entry points already latently exist with a larger population of SME



owners, our data suggests, given that the vast majority of our respondents agreed to two notions that co-operatives address very well: *equity ownership in a business improves employee loyalty and a reduction of employee turnover* (see Figure 6).

Finally, there is suggestive minority of SME owners that would or have already considered conversions to co-operatives as solutions to the risks of business closure due to the COVID-19 pandemic.



Section 4 Notes

¹ Vieta 2020a; Vieta et al., 2017.

² Vieta et al., 2017.

³ Vieta, 2020b; Vieta et al., 2017.

⁴ CECOP-CICOPA, 2013.

⁵ Anzilotti et al., 2018; Cote, 1997; Mazarol et al., 2019.

5



Conclusions and Recommendations

As has been proven by worker buyouts and other forms of business conversions to co-operatives (BCCs) in other jurisdictions around the world,¹ and also by the approximately 200 BCCs that already exist in Canada, BCCs are indeed *viable options for business succession and for rescuing businesses in trouble*. But why are they not being considered by more SME owners as a succession strategy in Canada?

5.1 Conclusions

From the evidence provided in this report, the answer has to do with the fact that Canada's SME owners have an overall lack of knowledge of and generally misunderstand co-operatives and their advantages.

For those in Canada's co-operative movement who would like to see more BCCs, both as a way of creating new co-ops and as a way of becoming more relevant to the broader business community, the current lack of familiarity with co-operatives among SME owners is not good news. However, it is also clear from the evidence presented in this report that many SME owners that currently lack knowledge of co-operatives or the BCC model could consider the option if they knew more about the benefits of the co-operative business model for business continuity.

many **SME owners** that currently lack knowledge of co-operatives or the BCC model **could consider the option if they knew more about the benefits of the co-operative business model** for business continuity.

For instance, there is overwhelming agreement with SME owners from across Canada with the notion that high employee turnover is problematic and should be reduced and that employee equity leads to improved employee loyalty. These responses can be considered compelling entry points for reaching SME owners currently averse to or with little knowledge of co-operatives. They suggest a hidden likelihood for more SME owners to consider the BCC solution if they understood the co-op model better. Co-operatives, research shows, tend to be strong on both lower staff turnover² and high employee loyalty³ when employees are also co-op members. If SME owners knew more about the positive relation between the co-operative business model and these two factors, it is conceivable that more of Canada's SMEs would consider the BCC solution in their succession plans.

Moreover, there is a small group of SME owners that say that they do indeed understand or know about co-operatives and their possibilities for business succession. Within this group, there is a sub-group of SME owners who told us they are likely to consider the BCC solution for their succession plans. We term this group *SMEs and SME owners most amenable to BCCs*, the group likely to be most readily receptive to messaging and communications initiatives promoting the BCC model.

**the BCC option can
save local
businesses and jobs**

It is clear from the empirical evidence that the BCC option can save local businesses and jobs.⁴ How, then, can the BCC option become better known in Canada? What possibilities exist from the current population of retiring SME owners for expanding the propensity for turning to the BCC option when making succession decisions? And what should Canada's co-operative

sector and economic and business development policymakers do to increase knowledge of BCCs among SME owners, workers, and other community stakeholders?

We believe that *more SME owners would consider the BCC option for succession planning or for business rescue if more of them understood better the advantages of the co-operative business model and of converting their businesses to a co-operative.*

5.2 Educate and Communicate on the Benefits of Converting to a Co-operative, on the BCC process, and on the Strengths of the Co-operative Business Model

In closing, we provide several suggestions for new educational and communications initiatives that could increase the uptake of the BCC model for succession and business rescue in Canada.

Education & Communication

increase the uptake of the BCC model

5.2.1 Make the empirical evidence on co-operative businesses more readily available

Overall, provincial co-operative associations, Canada's co-operative federations and other apex organizations, academics, local development initiatives, and business and economic development policymakers need to make the empirical evidence and growing literature on co-operative values, principles, and business advantages more readily available and accessible to SME owners, workers, unions, and other community stakeholders.

5.2.2 Create more partnerships between the co-op sector and post-secondary institutions, governments, and organizations providing business succession advice

**create MORE
PARTNERSHIPS**

More partnerships between the co-op sector's major apex organizations and post-secondary institutions, and deeper engagement with already existing partnerships, need to occur. Such educational-co-operative initiatives that already exist in Canada could

be emulated further across the country. These include: the University of Toronto's Centre for Learning, Social Economy & Work (CLSEW),⁵ the Université de Sherbrooke's Institut de recherche et d'éducation pour les coopératives et les mutuelles (IRECUS),⁶

the University of Saskatchewan's Canadian Centre for the Study of Co-operatives,⁷ the University of Winnipeg's Business Chair in Co-operative Enterprises,⁸ the Chaire de coopération Guy-Bernier at the Université du Québec à Montréal,⁹ the Chaire de leadership en enseignement sur l'engagement social at the Université Laval,¹⁰ Institut international des coopératives Alphonse-et-Dorimène-Desjardins at HEC Montréal,¹¹ and Saint Mary's University's International Centre for Co-operative Management.¹²

Moreover, the co-operative sector, via its myriad federations and apex organizations, needs to further nurture partnerships with provincial and federal governments and their various business and economic development initiatives, and with organizations providing business succession advice (accounting and legal firms, business family institutes, and so on). All of these organizations and initiatives need to be engaged with, lobbied, and encouraged to create partnerships to help foster educational and knowledge mobilization initiatives with SME owners, unions, and other local economic leaders and stakeholders.

5.2.3 Counter the misconceptions of the co-operative business model

The wide assortment of business sectors where co-ops are present worldwide and their widespread reach and multi-billion-dollar contributions to the world-economy should be emphasized in communication campaigns, webinars, conferences, and other educational initiatives. A concerted public education effort needs to be made to compellingly counter the misconceptions and negative perceptions by some of Canada's business leaders concerning the co-operative model.

co-ops' multi-billion-dollar contributions to the world-economy should be emphasized

5.2.4 Focus on the business advantages of co-ops first, then on the community benefits

When Canada's SME owners consider succession, community impact and social considerations, such as creating future jobs, are viewed as somewhat less important compared to more business-focused and economic considerations. Thus, the co-operative sector's and policymakers' education and communication initiatives should first focus on the business and economic advantages of co-operatives when discussing and promoting the BCC succession model. Focusing in on the business advantages of co-ops in communications and education initiatives to SME owners would be a better

entry point for guaranteeing initial SME owner interest, while the social and community advantages of BCCs and co-operatives can be presented once initial attention is achieved.

5.2.5 Provide better and more accessible succession and co-op conversion resources

Succession takes planning and time. Proper business transfers, it is estimated, take between 3-5 years.¹³ Provincial co-operative associations, Canada's co-operative federations and other apex organizations, academics, local development initiatives, and business and economic development policymakers need to provide better and more accessible succession guides and how-to documents to the SME sector. These materials should be offered in various formats, such as through videos, webinars, and other accessible online tools, and need to be designed for and offered to various related succession audiences including owners, employees, business advisors, lawyers, and accountants. These materials should include the steps and intricacies of converting to a co-operative as a succession option.



5.2.6 Ramp up educational resources on starting and running a co-op and the benefits of employee ownership

job-task delegations and managerial structures of co-operatives are often similar or compatible to how management happens in non-co-operative firms.

Moreover, there is much need for better educational resources concerning the actual realities and benefits of co-operative governance or the benefits and advantages of employee ownership, participation, and management. Few SME owners seem to know about the actual job-task delegations and managerial structures of co-operatives that are often similar or identical to how management happens in non-co-operative firms. For instance, some worker or multistakeholder co-operatives

hire people as managers (who are often but not always members), and most consumer and financial co-operatives operate and are managed in similar ways to non-co-ops, with the membership board and president or executive director taking on similar roles to shareholder boards and CEOs in conventional firms. Communicating these co-op governance realities more clearly would go a long way to dispelling some of the myths that SME owners in Canada have concerning the co-operative business model.

5.2.7 Develop accessible real-world conversion case studies

Finally, real-world conversion to co-op case studies, best practices infographics and guides, literature reviews and literature resources, how-to guides, decision-making diagnostic tools, and so on, need to be more readily accessible on provincial co-operative association websites and in the communications plans of other Canadian co-operative apex organizations.



Section 5 Notes

¹ Vieta, 2020a, 2020b.

² Anzilotti et al., 2018.

³ Mazarol et al, 2019.

⁴ CECOP-CICOPA Europe, 2013; Vieta et al., 2017; Vieta, 2020a, 2020b; Zevi et al., 2011

⁵ <https://www.oise.utoronto.ca/clsew/Home/index.html>

⁶ <https://www.irecus.org/>

⁷ <https://usaskstudies.coop/>

⁸ <https://www.uwinnipeg.ca/chair-in-cooperative-enterprises/index.html>

⁹ <https://chaire-ccgb.uqam.ca/>

¹⁰ <https://www4.fsa.ulaval.ca/la-recherche/chaire-de-leadership-en-enseignement/chaire-de-leadership-en-enseignement-sur-lengagement-social/>

¹¹ <https://institutcoop.hec.ca/>

¹² <https://www.smu.ca/academics/sobey/sobey-international-centre-co-op-management.html>

¹³ BDC, 2018; Demers, 2002.



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