



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

Executive Summary

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

Executive Summary of
Co-opConvert Report, No.1



Projet de conversion
en coopératives

Conversion to
Co-operatives Project

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Executive Summary

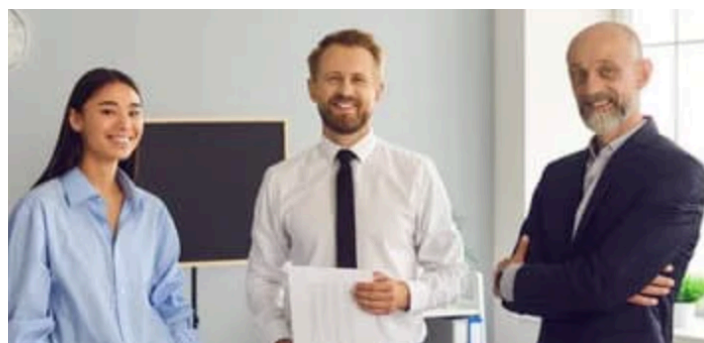
The Coming Business Succession Crunch

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.

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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 14% 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

14% 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.

Read the Full Report at

<https://www.coopconvert.ca/reports>



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The research for this report was developed collaboratively by the team of lead researchers of **The Conversion to Co-operatives Project** (Co-opConvert) (www.coopconvert.ca) and **Modus Research** in Toronto, Canada.



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