

Action-Based Learning Independent Study
Identifying Key Metrics for Successful Conversions to Worker Cooperatives
3 Credits | Full-Semester Involvement

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Introduction

The worker cooperative sector is growing in the United States. The employee-owned, governance-based model benefits the worker, the company, and the local economy it operates in. At the same time, many business owners are retiring, a shift called the Silver Tsunami. Such a wave is resulting in more small businesses at risk of staying open. The growing cooperative sector can alleviate the potential economic risks of the Silver Tsunami by converting their businesses to a worker cooperative. However, there are many moving parts to be ready to convert to a worker cooperative, and the Cooperative Conversion Readiness Framework presents a guideline to execute a successful transition to the employees. The framework breaks down three components: General Business success, Supportive Ecosystem, Internal Change Preparedness, with a set of action steps to execute a successful conversion.

Worker Cooperative Overview

We begin with a general understanding of what a worker cooperative business is. A worker cooperative is a for-profit “firm where every worker-owner democratically participates in decision-making, or it may refer to one in which management is elected by every worker-owner whom each has one vote.”¹ Worker cooperatives still follow the same 7 Rochdale cooperative principles, including Open and Voluntary Membership, Democratic Member Control, Members' Economic Participation, and Autonomy and Independence.

Business Model

A worker cooperative aims to increase the bottom line just the same as traditional business models. However, a cooperative’s definition of performance is slightly different. According to Dickstein, a “consistent measure of return on investment for private sector firms is not necessarily a valid measure of cooperative performance... Cooperatives have a choice of distributing their surplus to their members as profits or as wages.”

¹ Wikipedia. “Worker Cooperatives.” wikipedia.org, 2021.

². This will be important to keep in mind as we break down the framework of a conversion and the reasons for converting.

Not an ESOP

It is worth noting that worker cooperatives are not the same as employee stock ownership plans (ESOPs). Worker cooperatives are by definition, democratically governed by the worker. In contrast, ESOPs have only minimal requirements for workers' voices (although they can be governed democratically), and worker cooperatives are largely unregulated. In contrast, federal law governs many aspects of how ESOPs are administered, including allocation, vesting, valuation, distribution, and more. One of the key differences from ESOPs is that members of worker cooperatives are more involved in the decision-making for the company. In contrast, ESOPs require less decision-making by the employees. ³

Governance Structure Difference

The critical difference between a traditional business and a worker cooperative is the governance model. Both strive for profits, but worker cooperatives prioritize the financial and general welfare of the worker-members. One of the main features of a worker-owned cooperative is a set of core democratic values that are part of practice on at least three levels: capital provision, surplus redistribution, and general management. In most worker cooperatives, democratic governance is institutionalized through core principles, by-laws, and statutes ⁴. The governance structure will come out in the conversion framework's internal change management and ecosystem components. Because governance is a critical differentiator in worker cooperatives, it will influence the required behaviors before conversion, during, and after.

Impact of Cooperatives on Society and Economy

Worker cooperatives are a business model that benefits workers, the company, and the local economy.

Zen Trenholm, Director of Employee Ownership Cities and Policy, sees the possibilities of cooperatives:

“Addressing today's challenges requires building toward future economic growth and stability; employee

² Carla Dickstein, “The Promise and Problems of Worker Cooperatives,” *Journal of Planning Literature* 6, no. 1 (August 1991): 16–33, <https://doi.org/10.1177/088541229100600102>.

³ Dorian Gregory et al., “THE LENDING OPPORTUNITY of a GENERATION FAQs and Case Studies for Investing in Businesses Converting to Worker Ownership,” 2016.

⁴ George Cheney et al., “Worker Cooperatives as an Organizational Alternative: Challenges, Achievements and Promise in Business Governance and Ownership,” *Organization* 21, no. 5 (September 2014): 591–603, <https://doi.org/10.1177/1350508414539784>.

ownership is increasingly being seen as a tool that can meet several needs at once”⁵. Some of the benefits worker cooperatives provide include benefit to the worker, to the company and to society or local economy.

Worker

As mentioned in the difference, worker cooperatives are more likely to retain jobs during a recession, stemming from cost reduction goals of minimizing training or recruitment costs. This is helpful for business owners because periods of low revenue or a recession are two of the toughest times for managers who wish to retain employees. The National Center for Employee Ownership reported that workers of cooperatives have lesser chances of being laid off.⁶

Company

Worker cooperatives often have broader goals than private businesses. Cooperatives have the traditional business goal of operating a viable enterprise. Still, if they are to operate truly as cooperative enterprises, they must also pursue democratic control and self-management goals.⁷ Furthermore, a standard message promoted by the cooperative sector is that employee ownership results in higher productivity levels and lower layoffs rates.

Society

One community development activity that flows naturally from workplace democracy is workers’ political empowerment. Workers’ opportunity, experience, and expectation to participate in decision-making define worker-owned and managed enterprises. This experience promotes community development when workers transfer or generalize the participatory skills and expectations acquired at work to other contexts, particularly political ones.⁸ Worker cooperatives’ societal and economic benefits are fueled by the supportive ecosystem, one of the components to the Framework of Conversion Readiness. Bendick and Egan share details on some of the causes and effects of having worker cooperatives and supportive ecosystems:

⁵ Trenholm, Zen, Zen Trenholm Interview, Zoom, October 1, 2021.

⁶ Termaine Davis, “Strategies Worker-Owned Cooperatives Use to Remain Profitable During Economic Downturns” (Walden University, 2021).

⁷ Dickstein, “The Promise and Problems of Worker Cooperatives.”

⁸ Marc Bendick, Jr. and Mary Lou Egan, “Worker Ownership and Participation Enhances Economic Development in Low-Opportunity Communities,” *Journal of Community Practice* 2, no. 1 (July 11, 1995): 61–85, https://doi.org/10.1300/J125v02n01_04.

“[E]mployee owned businesses put economic control into the hands of the worker-owners who are from the local community. They create more stable employment since the owners give a higher priority to creating a long-term workforce and maintaining employment during economic downturns, foster the local retention of capital generated from inside and outside the community since local earnings are often spent locally, and are more likely to recognize the community as a constituent and share its concern for the environment, human resource development, and the quality of life.”⁹

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As more businesses witness the positive impact worker cooperatives have on the workers and their democratic participation, the company is more likely to experience retention and productivity of the workforce, therefore impacting society through commitment to the local economy. In order to continue achieving this, conversion to a worker cooperative is the next step to follow towards successful, positive change.

What is a Cooperative Conversion?

In “A Lending Opportunity for a Generation,” Gregory et al. define cooperative conversions by the following three steps:

1. Depending on the situation, converting the existing business or forming a new cooperative entity;
2. A sales transaction executed between the current owner(s) and the new worker cooperative to sell the existing business (or its shares or assets) to the worker coop and execute a Purchase & Sale Agreement. Each worker-owner “buys in” to the coop and receives a single voting equity share.
3. A transition of roles and culture among the new worker-owners to take on the ownership responsibility of the new entity and run it under democratic governance.¹¹

⁹ Bendick, Jr. and Egan.

¹⁰ Bendick, Jr. and Egan.

¹¹ Gregory et al., “THE LENDING OPPORTUNITY of a GENERATION FAQs and Case Studies for Investing in Businesses Converting to Worker Ownership.”

There are several organizations specializing in cooperative conversions, one example is Project Equity, which has the following steps:

(1) Education: Learn about benefits of employee ownership, (2) Exploration: Consider how employee ownership could meet the business' goals, (3) Feasibility: Determine if employee ownership is feasible for the business, (4) Transition: Design the new employee-owned entity and close the sale, (5) Thrive: Help the business, and its employee-owners flourish¹² Overall, such a process can take as little as six months to more than two years, depending on the business status before considering conversion and what factors need external and internal support.

Worker Cooperative Players

Although a mostly decentralized industry, the worker cooperative sector in the United States has some key players. The US Federation of Worker Cooperatives (USFWC) and Democracy at Work Institute (DaWI) both serve as a central source for collaboration among players in the worker cooperative space. Key players in the conversion space are ICA Group, Project Equity, CDI, and Working World, to name a few.

The US cooperative sector breakdown differs from other countries with more established cooperative sectors. Janice Nittoli explains that this difference is that the US “has established no cohesive national regulatory framework, no consolidated system of support.” Because of this regional organizations and state-level laws are what regulate the cooperative space; no explicit regulations on worker cooperatives exist, “leaving worker-cooperatives loosely governed under regulations designed for other types of cooperatives.”¹³ However, as the shift towards more conversions happens, cooperative players are collaborating in relevant policy updates.

Prominence of Conversions

83% of small business owners do not have a written succession plan or view it as a complex topic to approach.¹⁴ This number suggests an opportunity for small business owners to develop connections with networks that focus on succession planning and consider conversions as a succession planning route.

¹² Project Equity, “CREATING MORE EQUITABLE COMMUNITIES AND A MORE RESILIENT FUTURE THROUGH EMPLOYEE OWNERSHIP,” 2020, 20.

¹³ Janice Nittoli, “Reducing Economic Inequality through Democratic Worker-Ownership,” n.d., 51.

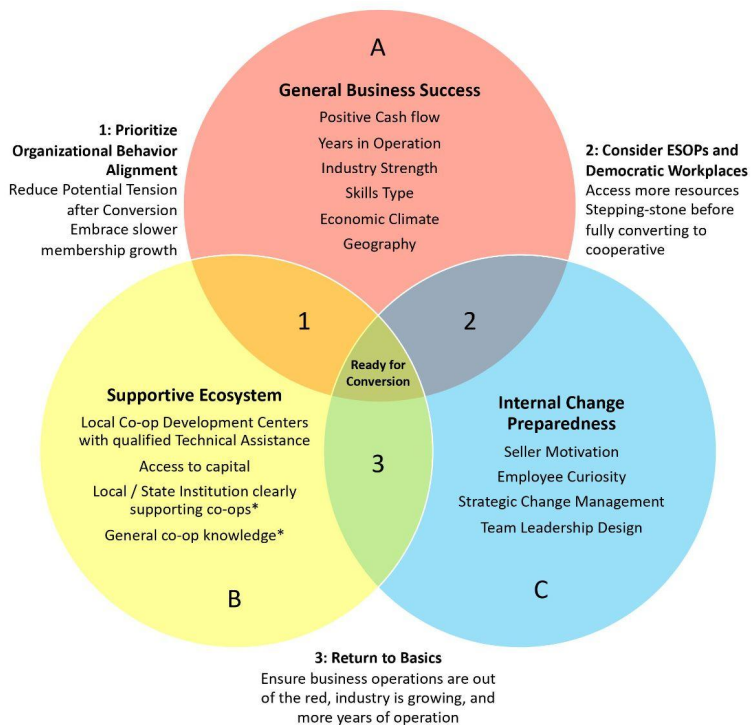
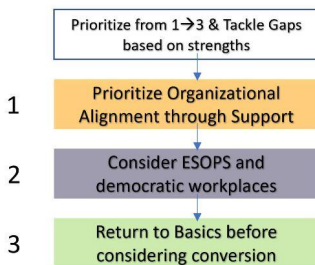
¹⁴ Alexis Butler et al., “Economic Recovery and Employee Ownership” (National League of Cities, Democracy at Work Institute, 2021).

Conversion Readiness Framework

After interviewing professionals in worker cooperatives, conversion practice, and tangential resources in the ecosystem, we concluded with the following framework to visualize the three main strengths needed for a business to convert. For a company to start to consider converting to a worker cooperative, it should ensure it has all three parts of the following framework: general business success, a supportive ecosystem, and internal change preparedness. Should it have two of the three parts, identified in the overlaps area (labeled 1,2,3), then the gaps provide paths to further make the business ready for conversion.

Conversion Readiness Framework

For a business to consider converting to a worker cooperative, it should ensure it has all 3 parts of the framework: General business success, a supportive ecosystem, and internal change preparedness. Should it have two of the three parts, identify the area of overlaps (labeled 1,2,3), and address accordingly. Once gaps are addressed, the business is ready for conversion.



General Business Success

The answer to saving a failing business is not selling it to the employees. The problem is only transferred from the seller to the employees without the proper operations and business decisions. Workers to Owners (W2O), a collaborative of organizations working on cooperative conversions, has a category named “The company situation,” where questions such as tenure of business, diversity of labor, and financial health are questions to be considered to gauge business success. However, from interviews with professionals in the field, additional operational factors have been identified as necessary. Some of these factors include positive cash flow, years in operation, industry strength, skills type, and economic climate.

Positive Cash Flow

One of the first factors for general business success in preparing for conversion is making sure the seller is not selling a failing business to employees to save it. Converting a poor-performing business is a recipe for financial failure because, during conversion, a lot of the change process prioritizes the organizational change management part. Trenholm discusses the topic: “what does it mean to sell? You know what does the owner expect to get versus what is realistic in terms of what's there to the right asset, potential.”¹⁵.

A positive cash flow allows conversions to be more prepared to be financed. Like financing any small business, financing options for worker co-op conversions include a combination of debt and equity—coming from worker-owners or outside investors. Most worker coop conversions have been primarily debt-financed.¹⁶ Gilda Haas from LA Coop Lab recommends that businesses not have lawsuits; have a robust financial planning and budgeting department in-house to compare with a second opinion for valuation. Given the average size of worker cooperatives that convert, a second opinion on financial status may be pricey but worth the investment for the seller and the employee buyers.¹⁷

Years in Operation

The age of the business is tied accurately to the value of the company for sale because historical cash flows are used for valuation of the business and allow for supporting organizations to make more critical decisions around valuation. The more years a business is running, the more infrastructure can be transferred to future worker-owners.

Industry Strength

The industry can determine potential success or challenge. Strategic frameworks like Porter’s 5 Forces can help evaluate the strengths and weaknesses of the industry. Depending on the sector, tangible and intangible assets to transfer to employees can be more accessible, and the company’s size impacts how much can be transferred. Olga Prushinskaya, Metrics and Impact Analyst at the Democracy at Work Initiative, shares observations on company size and restaurant industry: “A lot of micro-businesses that reach out to us are

¹⁵ Trenholm, Zen, Zen Trenholm Interview.

¹⁶ Gregory et al., “THE LENDING OPPORTUNITY of a GENERATION FAQs and Case Studies for Investing in Businesses Converting to Worker Ownership.”

¹⁷ Haas, Gilda. Gilda Haas Interview, Zoom. 2021

businesses with under three employees, but we can't really refer them up...we've also seen that those [restaurant] businesses are less likely to move forward in the pipeline to conversion".¹⁸

Despite those challenges, some of the "Popular" cooperative industries, according to BecomingEmployeeOwned.org (this includes ESOP), are Food and Beverage, Tech, Farming, Childcare, Construction, Manufacturing, Health, Cleaning, and Landscaping, to name a few.

Local Flavor is a crucial case study that shows the popularity of an industry in the conversion space but a challenge in other factors, such as skills and livability of the area. Local Flavor, a catering business that converted to a cooperative in 2014, was challenged to maintain profitability without losing a strong customer base. The cooperative closed in 2015 for the following reasons: the commute for workers from East Bay to the city was expensive, seasonal changes of catering, day to day disruptions, worker-owners lacked the leadership skills necessary, industry tough to keep happy customers¹⁹. This highlights the strengths and challenges businesses may face due to the local economic and social conditions.

Skills Type

The shift of skills and connections is one of the most important factors to review when converting. The willingness to transfer skills, relationships, and intellectual property will take some cultural shift and trust in the conversion process. The types of skills transferred from the seller to employees and the skills employees offer within the workplace make a difference in motivations to convert. Trenholm shares on the matter: "Work is becoming more contingent. Contractors need structures to pool resources, reduce administrative costs, and increase protections and benefits (ex. Guilded coop)."

Generally, cooperatives tend to cluster in labor-intensive sectors with simple production technologies. New cooperatives should be wary in capital-intensive industries because they cannot amass large amounts of capital²⁰. In addition to skills, the owner needs to prepare the client relationships to be as transferable as possible. Zen: "one of the challenges lots of small business owners often have is that the sole managers often

¹⁸ Olga Prushinskaya, Olga Prushinskaya Interview, Zoom, October 6, 2021.

¹⁹ Alison Lingane and Shannon Rieger, "BUSINESS CONVERSIONS TO WORKER COOPERATIVES Insights and Readiness Factors for Owners and Employees," *Case Studies*, 2015, 74.

²⁰ Carla Dickstein, "The Promise and Problems of Worker Cooperatives," *Journal of Planning Literature* 6, no. 1 (August 1991): 16–33, <https://doi.org/10.1177/088541229100600102>.

hold the business relationships... so, the important thing to do when you're thinking about transitions is that you have to consider what the transfer of knowledge will be to the relationships, and will be to the worker-owners.”²¹

Timberworks, a carpentry company, was a converted business that was empowered by the in demand skills and mindset of the employees. Specific vocation-based industries, such as carpentry, bridges the skills employees developed with the desire to become their own bosses. The owner couldn't manage alone, and the sector incentivizes people to be their own boss once they have mastered the craft ²². Not all employees will be willing to convert to worker-members; therefore, backup labor recruitment should be considered alongside the conversion process.

Carla Dickstein, author of “The Promise and Problems of Worker Cooperatives,” poses the question: “Can a group of workers function as entrepreneurs?” The argument is that “workers do not behave like entrepreneurs; they know production, not markets.” This argument presents the reason why skill type is important in this component of conversion readiness, because the skills necessary to run a cooperative shift for the worker. Dickstein continues, “Training and experience often limit their sensitivity to markets and entrepreneurial opportunities. Managers can be problematic as they come from hierarchical firms” ²³. The challenges both managers and workers face in a traditional business model can also arise in the internal change preparedness analysis of a company. Depending on which skills, managerial or governance based, resources are available to meet the needs in both.

Economic Climate & Geography

Economic climate and geography also make the list of business considerations for conversions. The economic climate has become even more critical because of the pandemic. Suppliers, vendors, and consumer trends influence how the business may operate during and after the conversion for the next few years. Urban planning affects success factors for geography because of industry, location, labor access, and cooperative ecosystem, which will be expanded in the next section.

²¹ Trenholm, Zen, Zen Trenholm Interview, Zoom, October 1, 2021.

²² Lingane and Rieger, “BUSINESS CONVERSIONS TO WORKER COOPERATIVES Insights and Readiness Factors for Owners and Employees.”

²³ Dickstein, “The Promise and Problems of Worker Cooperatives.”

Supportive Ecosystem

One of the major findings of this paper is that the success of conversion is not internal but highly influenced by the institutional and political ecosystem available to train, support, and sustain cooperatives. Based on dozens of successful and unsuccessful conversion cases, all conversions involved some level of institutional or professional support. As a result, we call this a supportive ecosystem or external resources and policies that enable conversions. Below are some of the organization and institutional ecosystem elements and how they help. It is to be noted that local/state institutions supporting cooperative and general cooperative knowledge are not crucial but nice to have through independent efforts or cooperative development centers.

Local Cooperative Development Centers with Technical Assistance

As mentioned with cooperative players, local cooperative development centers that provide technical assistance are the essential building block for the supportive ecosystem. According to Hoover and Abell, some cooperative focused organizations should focus on the following:

Essential: Skills & Capacity, Financing, Technical Assistance, Cooperative Developers

Important: Business supports, connection to the market, policy, advocacy

Environmental elements: value drive businesses, attitudes, and culture, cooperative education.

It is worth noting that one organization may not offer all the resources. Still, an ecosystem of organizations, service providers, and cooperative sector players can fill the above guidelines. According to Spicer, In more significant high-activity regions populated by more organizations, their efforts sometimes overlap.²⁴

More specifically, some of the technical assistance themes and resources helpful in conversions are listed below.²⁵ These will be highlighted in the website template as a further breakdown of the Conversion Readiness Framework.

Technical assistance

- Facilitator to guide the group through the early planning process
- Support drafting legal documents

²⁴ Jason S. Spicer, "Worker and Community Ownership as an Economic Development Strategy: Innovative Rebirth or Tired Retread of a Failed Idea?," *Economic Development Quarterly* 34, no. 4 (November 2020): 325–42, <https://doi.org/10.1177/0891242420941597>.

²⁵ Courtney Berner et al., "Successful Coop Ownership Transitions," 2014.

- Support for growing co-ops that are transitioning from a collective structure to a more complex management system
- Training in meeting facilitation and conflict resolution

Resources

- Clear conversion timeline with a list of steps
- Examples of governance and management systems used by other worker cooperatives
- Anything that can help to sell owners feel more comfortable letting go, and buying owners feel more comfortable taking the leap
- A deeper dive on valuation- why it is important and how you do it
- Regional directory of technical assistance and professional service providers
- Cooperative education and training materials in different languages and for a broader range of education and experience levels

A benefit of ecosystems is the potential for solidarity economy ecosystems, where support members as a whole in lower pay industries have a growing interest in alternative businesses and mutual aid among each other, according to Esther West. This cooperative organizer has worked with D@WI and the University of Wisconsin Center for Cooperatives.²⁶

Other players that may not be as directly involved in conversions but may have overlapping resources and technical assistance include cooperative start-up centers, grassroots community cooperatives, economic development nonprofits, Small Business Development Centers (SBDCs) & SBA, and collectives that disseminate cooperative education.

Access to Capital

Capital that allows cooperative conversions is essential. One of the most shared current challenges in financing cooperatives is banks' hesitation in having multiple signatories with the same voting power. Samantha, from Shared Capital, a national CDFI loan fund that connects co-ops and capital, shared a perspective on the challenge: "We usually discouraged coops from taking on any financing, be it through the SBA or a bank, where they'll have to take on a personal guarantee"... well currently under the SBA structure, they anybody who owns I believe more than 10% of the business has to provide a personal guarantee." This poses challenges for smaller firms with operations with thin margins.

However, the ecosystem is shifting to a more supportive channel for slightly larger businesses converting to cooperatives. "Lending Opportunity of a Generation" shares the optimism: "Financing Lenders can work with these organizations to access a market of vetted businesses, with business values ranging from

²⁶ West, Esther. Esther West Interview, Zoom, 2021.

under \$300,000 to over \$10 million that have support organizations vested in their continued success.”²⁷ Some examples of the growing capital resources include CIF, Community Capital Funds & Community investment fund.

In the last couple of years, federal-level initiatives are further enabling access to capital. One of the most recent examples is The State Small Business Credit Initiative (SSBCI), part of the American Rescue Plan Act (ARPA). According to Fifty by Fifty, “The SSBCI program was created to increase access to capital for small businesses, to benefit state economies. In a floor dialogue, Congress directed the Treasury to include employee ownership transitions in the program.” This would go through banks, credit unions, CDFIs, and eligible venture capital funds. “SSBCI funding offers states the opportunity to seed these investment funds, which CDFIs or other financing organizations can run. Municipalities could work with their state development finance agency to obtain allocations for their area. The result could be that the tidal wave of business closures known as the “silver tsunami” could be stemmed, and local economies could emerge more vibrant and just—with shared ownership at the heart of Main Street.”²⁸

Furthermore, Employee Ownership Organizations and Capital Institutions are partnering to make lending accessible during the conversion process. One example is Project Equity’s Accelerate Employee Ownership partnership with Shared Capital.²⁹ The partnership empowers the sellers to have financing options and the employee buyers to trust the payment options.

Local/State Institutions Supporting Cooperatives

State and local departments created by the public sector have proven to support conversion organizations and cooperative development in their regions. Such institutional support speeds up the development of conversions and gathers more data on the successes and opportunities of conversions. According to Nittoli, “Several American cities—such as New York City and Madison, Wisconsin—have recently established initiatives intended to grow their local worker-owned cooperative sectors... New York City launched

²⁷ Dorian Gregory et al., “THE LENDING OPPORTUNITY of a GENERATION FAQs and Case Studies for Investing in Businesses Converting to Worker Ownership,” 2016.

²⁸ Kelly, Marjorie and Khan, Karen. “New SSBCI Program Could Help Finance Employee Ownership Funds”, Fifty by Fifty, 2021, [Fiftybyfifty.org](https://fiftybyfifty.org).

²⁹ Project Equity. “Accelerate Employee Ownership”, [Project-Equity.org](https://project-equity.org), 2021.

the Worker Cooperative Business Development Initiative in 2014 and distributed \$1.2 million to ten partner organizations to support the development of new worker cooperatives”³⁰.

Some notable examples include the Colorado Employee Ownership Commission, which has its dedicated website for the general Colorado state to access information and resources for employee ownership, complementary to the Rocky Mountain Employee Ownership Center. New York City’s dedicated Owners to Owners Business Transition Hotline is an excellent complement to an already robust cooperative ecosystem in the city. The calls were received to give a sense of what types of businesses are interested in the transition.

Regulations & Policies

Most traditional businesses have support from players like the SBA, tax policies, and general business laws deemed standard in American entrepreneurship. For a cooperative to thrive, cooperative-minded policies need to be in place to regulate and enable cooperative development.

Policies & Laws

One of the most prominent cooperative related taxation authorities is Subchapter T, which “applies to specific types of cooperatives, and provides federal income tax exemption for “benevolent life insurance associations of a purely local character; mutual ditch or irrigation companies; mutual or cooperative telephone companies, mutual or cooperative electric companies; and ‘like organizations.’”³¹. In conversation with Haas, we learn that tax benefits depend on the business situation (capital gains, C corporation), which may be a motivating factor for selling a company to the employees.

Additional policies that are supportive of the cooperative conversion ecosystem are as follow:

1. Main Street Employee Act
2. Capital for Cooperatives Act
3. California Worker Cooperative Act (AB 816)

The updates to policies and legal authority need to be executed by professionals, which are the next factor for the framework.

³⁰ Janice Nittoli, “Reducing Economic Inequality through Democratic Worker-Ownership,” n.d., 51.

³¹ Nittoli.

Professional Services & Academia

In most of the conversion cases recorded, the converting companies leveraged lawyers and accountants with extensive knowledge of worker cooperatives. Such a pattern shows the importance of how the policies, laws, and tax codes are helpful when executed by professionals. However, there are limited professional services to meet the demand for conversions. Therefore, higher education is an increasingly vital institution to allow cooperative development to flourish through education of the model, partnerships with law schools and business schools, and potentially recruiting future worker-members to join cooperatives.

Some existing higher education institutions with employee ownership or cooperative academics and professionals that may be strong starting points for this are the University of Wisconsin, Madison Southeast Center for Cooperative Development, and Rutgers University. Specific programs incorporating cooperative education to supply professional services include MBAs, law schools, public politics, accounting programs, and public policy.

General Worker Cooperative Knowledge

It is never too early to start marketing to retiring business owners. Conversion is a long process if done sustainably. Some of the most successful conversions started with employee-minded millennial/Gen X business owners. “Worker ownership is a strategy, people need to hear multiple times, this is a quick fix thing that is planting seeds and may not even grow until five, seven years later, when the owner says, you know what I heard about that thing if I should explore it,” says Trenholm.

A starting point to understand where to begin cooperative education for companies is to work backward on a timeline. Conversions take up to 2 years to convert; depending on the company’s size, employees convert to owners (part-time employees in the process). The multiple points of execution could add more time.

The supportive ecosystem consists of local development centers, local/state institutions, policies and laws, and professional services. Next, in what order should this ecosystem develop? The Democracy Collaborative published a report in 2020, “Opportunity Knocking,” ordering the investment ecosystem of taking employee ownership to scale: 1. Foundations provide philanthropic dollars to seed new employee ownership funds. 2. Family offices, foundations, high net worth individuals enter the space with catalytic capital. 3. Larger institutional investors choose employee ownership. 4. State and local governments invest in marketing and

technical assistance. 5. Economic development financial authorities create financing mechanisms. 6. Federal government provides credit enhancements 7. Employee ownership becomes a normal part of the investment landscape.³²

With a supportive ecosystem, the company interested in converting needs to move forward with internal change preparedness alongside leveraging its supportive ecosystem with a supportive ecosystem.

Internal Change Preparedness

Lastly, but just as important, is the positioning of the company to embrace organizational and behavioral change. Understand why there is a willingness to convert and how patient and committed all stakeholders are to the process. The reason this is last is that some of this change may already be in progress before consideration of conversion, or this section could be addressed during the conversion process. For this motivation to materialize into successful conversion, internal change preparedness requires seller motivation, employee engagement, strategic change management, and team leadership design.

Seller Motivation

The behaviors and preparation of the retiring business owner and the employees determine the possibilities of a smooth conversion. American worker-buyouts have been motivated by the following reasons: to recognize the employees as an important stakeholder group as a component of the business; to provide an exit strategy for an owner, third, to create wealth-building opportunities for employees, especially in low-wage sectors or depressed local economies; and fourth, as a good business plan, given employee-owned businesses' demonstrated capacity to weather economic storms. 168³³.

Other general motivations unrelated to conversions include accessibility to lower-income owners, shared start-up costs and risks, employee buy-in and responsibility, working capital for seasonal business, owner accounts "loan" capital for improvements and equipment, direct benefit from personal labor, reinvestment in local economies, and professional growth and development.

Sellers can be retiring business owners or existing owners with other motivations. For the retiring business owner willing to sell, the considerations include understanding of their founding of the business and if

³² Kelly, Marjorie and Rose, Jessica. "Opportunity Knocking: Impact capital as the transformative agent to take employee ownership to scale", Fifty by Fifty, 2020, Fiftybyfifty.org.

³³ Nittoli.

there is any ownership by family members, as these unique characteristics could influence the strategic change plan.

On the other hand, some of the motivations for non-retiring sellers, according to “Becoming Employee Owned,” are wanting positive impacts built into the business, connection to the community, reinforcing a culture of high-quality work, and shared responsibility that improves productivity and the bottom line. Another reason is I want to receive a fair value from the sale of the business and feel the employees might value the company as much, or more, than an outside buyer. (Becoming Employee Owned)

Prushinskaya elaborates on the multiple party motivation for the conversion transaction: “two people really come to conversion because it aligns with the values that they want to pass on with their business, is it more that they want to keep it in the community.” Selling, however, is not necessarily relinquishing all power. Nunez from Sustainable Economies Law Center shared in an interview that sometimes owners want to sell but keep a board position.

Employee Engagement

As much as the owner wants to sell their business for the employees to run as a cooperative, the employees need to be willing to buy it and take on the shift needed to run the business as a worker cooperative. To achieve employee engagement, employees need member commitment, clear Decision making a sound business plan with demonstrated market need, Internal and external resources (skills, labor, social capital, cash), and ongoing member education.

A common theme with interviews is that employees need to understand they are purchasing the business and taking on the knowledge such as management responsibilities and information to operate the business after conversion. Trenholm shares, “it's like transferring knowledge also making sure that they understand how to do management and what that means what's important there” Additionally, there are external factors employees should consider when engaging in potentially purchasing the business to run as a worker cooperative. According to Chris Miller, from NC3, conversion is From NC3 Interview: Matter of infrastructure around the company, and the culture piece (social unrest, political, financial).³⁴ More generally, employees of younger generations are more selective about their work, and view the quality of life as a priority.

³⁴Miller, Chris, Chris Miller NC3 Interview, Zoom, 2021.

A way to gauge the potential commitment employees may have in the conversion process, “Cooperatives for Sustainable Communities” compiled a set of questions to enable more robust employee engagement in the conversion process.³⁵

- Does it measure the things that matter to me?
- Does it help me make sense of my membership?
- Does it empower me to have a say and make a difference?

Reflection and understanding of the process are vital to moving forward to the next step. Once both the seller and the employee buyers are on board, change management comes to play through strategic change management.

Strategic Change Management

There are two parties in the change management strategy. There are owner & worker relationships: LA Coop Lab’s Haas states, “Owner and worker relationships are like qualities of a good parent. How are you going to be there for them? How open are you in a transfer of knowledge to the workers? Can the new owners perform at the same level (operationally)? What are holes that are held by the owners? Is there an assurance that owners will not leave with the customers? What is the level of intentionality to bring workers into management roles? Will the owners be around after?” The questions allow understanding of a starting point in the conversion process, which can look different internally for different businesses.

A relevant change Management tool for this step is Kotter’s 8 Step Change Model’s Step 2: Form a Powerful Coalition.³⁶ An owner should Identify employees with leadership qualities in the company, as well as key stakeholders. The next part is to ask for an emotional commitment from these key people, work on team building within the change coalition, check the team for weak areas, and ensure a good mix of people from different skill sets and levels. In building key leaders through coalitions, employees can engage in preparation for conversion.

³⁵ Leslie Brown et al., *Cooperatives for Sustainable Communities* (Centre for the Study of Co-operatives, University of Saskatchewan, 2015).

³⁶ Kotter, Dr. John P. “The 8 Step Process for Leading Change”, kotterinc.com, 2021.

Team Leadership Design

When designing the teams, consider a culture of transparency, high participation levels, and communicating a vision. A culture of transparency and participation is key to the development of an effective, well-functioning cooperative. The transition plan should include a cultural roadmap for this step, with the owner and key employees guiding the conversation through open internal communication about the internal process.³⁷ A culture of transparency allows for psychological safety to bring questions that may need to be addressed earlier in the process.

Unlike other organizational designs, worker cooperatives have some of the highest levels of participation from employees because all employees contribute both labor and capital. Workers' stake and involvement take two primary forms in a worker cooperative: shared equity, including individual accounts and dividends, and participation in decision making and even policymaking.³⁸ As a result of this, team leadership design should incorporate Kotter's Step 4: Communicate Vision. This is a step to ensure the ability to work with conflict through the early stages of the transition process. In complement to the culture of transparency point, communicating the vision should include the following:

1. Talk often about changing vision.
2. Address peoples' concerns and anxieties openly and honestly.
3. Apply your vision to all aspects of operations; Tie everything back to the vision.
4. Lead by example.

All three parts bring characteristics necessary for conversion. If a company only performs well in one of the categories, it should utilize the framework by approaching the sections from A to C. When a company is strong in two parts, the section below will highlight the next steps to take to achieve "ready for conversion" status.

Tackling Gaps in the Framework

What happens when a company has parts for readiness for conversion but lacks one component? The following recommendations represent overlaps between the three circles and how to shift readiness to the center.

³⁷ Lingane and Rieger, "BUSINESS CONVERSIONS TO WORKER COOPERATIVES Insights and Readiness Factors for Owners and Employees."

³⁸ George Cheney et al., "Worker Cooperatives as an Organizational Alternative: Challenges, Achievements and Promise in Business Governance and Ownership," *Organization* 21, no. 5 (September 2014): 591–603, <https://doi.org/10.1177/1350508414539784>.

The overlaps in order of most important to least are Prioritizing Organizational Alignment through technical support, considering the ESOP or democratic workplace model first, or returning to operational basics.

Prioritize Organizational alignment through Support

This gap stands between business success and a supportive ecosystem, and the gap is achieving internal change preparedness. To fill the gap, leverage the cooperative ecosystem to help. Organizations like USFWC and Project Equity provide technical assistance for organizational design and behavior strategies.

Consider ESOPs or Democratic Workplaces

If internal change preparedness and general business succeed, a lack of a supportive ecosystem would consider ESOPs or democratic workplaces. In this case, the road to converting to a worker cooperative may be gradual, and the next step could be a slightly less involved step. Addressing with democratic workplaces prioritize employee participation but are not employee-owned. Leverage knowledge from ESOPs and introduce stock options as a step towards ownership. Some broad-based employee-ownership include stock options and similar individual equity plans; Employee Stock Purchase Plans; pension plans, including 401(k)s; and ESOPs.³⁹

If the lack of a supportive cooperative ecosystem is a barrier, the ESOP sector's growth in the past several decades and into the mainstream can expose a company to resources worker cooperatives may not access. Furthermore, after receiving legal recognition and favorable tax treatment, the ESOP sector's expansion illustrates the potential for similar employee-ownership legislation around worker-cooperatives to generate a comparable scale of growth in the worker cooperative sector.⁴⁰

It is worth noting that companies with fewer than 50 employees may be too small for an ESOP, although there are many exceptions. On the other hand, worker cooperatives typically have much lower transaction and ongoing administration costs and are appropriate for companies of all sizes.⁴¹

Return to Basics

The last gap exists when a company has access to a supportive, cooperative ecosystem and internal change preparedness but lacks the general company success. All in all, a worker cooperative is still a business,

³⁹ Nittoli, "Reducing Economic Inequality through Democratic Worker-Ownership."

⁴⁰ Nittoli.

⁴¹ Gregory et al., "THE LENDING OPPORTUNITY of a GENERATION FAQs and Case Studies for Investing in Businesses Converting to Worker Ownership."

and the bottom line needs to be achieved. Therefore, the company should focus first on ensuring a profitable operation. Leverage the supportive ecosystem by reaching out to the local small business development center. Additionally, consider the competitive landscape, and quality of the product or service offered.

Expanding on the Framework

The conversion readiness framework is a general preliminary approach to incorporating internal and external factors critical to a worker-cooperative conversion and reducing future roadblocks in the middle of the process. As employee ownership organizations publish more case studies for conversions, more data points and trends may shift some of the details of the framework. The framework is not standard because the components are interdependent, and the priorities of the elements can depend on each case.

Quantifying the Impact

Based on feedback throughout the creation of the framework, two critical considerations for future detailing are a scoreboard system and a financial feasibility tool. As more metrics are identified, and financial details are made available to the cooperative sector public, we can track the cause and effects of the details to tie potential storylines together so conversion support organizations can leverage them. A beginning point is financial feasibility, as the bottom line is the first priority in considering a conversion.

Conversion Maintenance

Lastly, when the conversion is complete, maintenance is just as important in the process. Lingane and Rieger recommend continual advising, training, and support for owners through external advising from employee ownership experts⁽⁴²⁾. This includes existing successful worker cooperatives, which can offer support as an accessible part of the ecosystem, and organizational development consultants. As organization management tools become more mainstream, converted cooperatives should leverage decision-making tools such as Loomio or use crowdfunding for financing should it be needed during the first years after conversion. Using technology can shave off some of the time used for meetings that are known to take time out of worker cooperatives' operations.

⁴² Lingane and Rieger, "BUSINESS CONVERSIONS TO WORKER COOPERATIVES Insights and Readiness Factors for Owners and Employees."

Lastly, leverage Kotter's 8th step, anchoring the changes. As a team, talk about progress at every possible chance, through success stories of the change process, and include the change of ideals and values when hiring and training potential new worker-owners. Create plans to replace key leaders of change as they move on. This will help ensure their legacy is not lost or forgotten.

Conclusion

As small business owners find ways to keep their legacies alive, honor the employees' contribution in growing the company, and find an accessible succession plan, converting to worker cooperatives is an increasingly promising option. To achieve this, the Conversion Readiness Framework presents a three-pronged approach to preparing a company for successful conversion: general business success, supportive ecosystem, and internal change preparedness, with a breakdown on how to address gaps in any of the three components. It is possible to leverage external support during and after the conversion process to maintain a business that values what worker cooperatives can offer to the business, the workers, and the economy.