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Worker Cooperatives: A Solution to Small Business Ownership Succession The Owner's Decision to Sell & The Employee's Decision to Buy

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Executive Summary

Small business is big business in New York State with nearly 90 percent of firms employing less than 20 persons. Headlines draw attention to the number of small business owners who are reaching or have reached retirement age with concerns raised over succession planning and the state of future ownership. Three-quarters of business owners are interested in selling their businesses in the next 10 years. These businesses are important in the local jobs, goods, and services they provide within the communities in which they are located. It is estimated that only one-fifth of the commercial businesses offered for sale are purchased. Owners, especially those connected with multi-generational, family-owned enterprises are hopeful that a family member will continue the business and its legacy within the community.

Short of ceasing operations, transitioning ownership to employees is an important option and worthy of consideration by an owner when a buyer or family member does not emerge. Trusts including Employee Stock Ownership Programs (ESOP), and Employee Ownership Trust (EOT) are one means to transfer ownership. Trusts tend to be expensive form and manage. ESOPs tend to be for firms with 100 or more employees. Ownership can transition through a manager buy-out when one or more managers purchase the business. Another option is to work with employees to form a worker cooperative. Worker cooperatives tend to be less expensive than trusts to form. A worker cooperative is owned and controlled by its members and operates for their benefit. Workers participate in the financial success of the business based on their labor contribution. Worker cooperatives are democratically controlled. They have representation on and vote for a board of directors adhering to the principle of one worker, one vote. All businesses need to be financially viable, and many are profit focused. Worker cooperatives prioritize meeting the needs of worker owners and subscribe to the triple bottom line, people, planet, and profit.

Worker cooperatives exist throughout the world but are lesser known in the U.S. The Democracy at Work Institute's (DAWI) 2021 State of the Sector Report identified 612 worker co-ops in the U.S. with nearly 6,000 workers. Total gross revenue was $283 million. The number of co-ops is up 30 percent over the number reported in the 2019 survey. The U.S. Federation of Worker Cooperatives estimates there are 900 to 1,000 such enterprises employing 10,000 workers. These firms average 6 workers but can be as large as the Cooperative Health Care Associates headquartered in the Bronx, NY with 2,000 worker owners.

Worker cooperatives are formed in 1 of 4 ways. A group of people come together and dedicate their labor to form a business adhering to cooperative principles. A second way is that employees seek out the owner and offer to purchase the business with the intention of forming a worker cooperative. A third way is that a cooperative development specialist provides outreach and expertise to a business considering worker ownership. The fourth way and the focus of this work is that an enterprise owner and employees decide to work together to transition ownership to a worker cooperative.

Such a transition cannot happen unless the owner is willing to sell the business to the employees and the employees express willingness to become worker owners. Cooperative development literature was reviewed to learn more about the process of forming a worker cooperative. Structured interviews were conducted to develop case studies that examined the motivation and experience of sellers and employees (now worker owners) when transitioning the business to a worker cooperative. The case studies describe the perspectives of the seller and worker owners and the role of technical experts along with the current status of the co-op since transition, what is viewed as success and difficulties encountered following transition.

Despite the differences in services or goods provided by the enterprise, methods used in transition, or motivation of business owner and employees, the case studies utilize the same basic pattern.

1. The idea of transitioning the business is discovered that results in the owner reaching out to a technical expert.
2. The technical expert provides guidance in developing governance documents, developing worker owner financial accounts, training in soft-skill development, formation of a buy-sell agreement for both the seller and the worker owners to transition ownership.
3. Owners finalize the decision to offer the business for sale to the employees.
4. Individual employees decide to become worker-owners and buy one share of membership stock in the business.
5. The business is officially incorporated as a worker cooperative.
6. Leadership and control transcend to worker owners.

Motivations for sellers to form a worker cooperative included age, desire to retire, legacy, and preserving culture of the business. Motivations by employees to become worker owners included ownership of their labor, ownership of a business, and control of the business. Both sellers and employees viewed worker cooperatives as an alternative business structure to balance power when operating in a capitalistic economy. Hurdles sellers encountered when selling the business included building their confidence that emerging worker owners had the ability to manage the business. Sellers tended to finance the buyout and several expressed that the purchase price was less than expected. Lack of confidence and continuing financial interest in the business resulted in the sellers serving as worker owners or advisors following the transition. Employees mentioned frustration with the length of time to form the cooperative and development of governance documents. Changing mindset was difficult. Early on, individual worker owners believed they had authority to make decisions without consulting other worker owners. Their view of the business had to change. As an employee the business was about the paycheck. As a worker owner they had to think about profit, strategy, and competition in the marketplace. Relationship with the former owner was mixed. For some, the owners abruptly left the business and for others they viewed the former owner as retaining too much control and influence. Appendix A identifies hurdles that sellers face and suggests pathways to success. Appendix B identifies hurdles that employees face in the transition process and suggestions to mitigate those challenges.

Introduction

Government agencies have a preponderance of data on the number of small businesses, number of employees, and payroll. The U.S. Census Bureau reports approximately 475,600 firms conduct business with the assistance of 7.5 million employees with an annual payroll of $618 billion. Eighty-seven percent of firms have less than 20 employees and 3 percent of firms have between 20 and 99 employees (County Business Patterns 2021).Across the U.S., approximately 14 percent of small, non-family employer firms are sole proprietorships and average 10 employees per firm while family-owned firms employed 8 persons per firm (US SBA Office of Advocacy FAQs 2021). It is estimated 1 in 5 private sector workers nationwide are employed by small businesses and put 3 times more money back into local communities than absentee-owned businesses and corporate chains (Small Business Closure Crisis 2023).

Numerous headlines report the cascade of business owners, those persons born between 1946 and 1964, often referred to as "baby boomers" and the impending change in ownership over the next 20. The U.S. Census Bureau surveyed 25,536 business owners. Table 1 shows that over 35 percent were between the ages of 55 and 64 and nearly 20 percent were 65 years old or older (U.S. Census Bureau, Annual Business Survey: Owner Characteristics 2021).

Table 1. Distribution of business owners by age

Age	Percentage
<25	0.4
25 to 34	4.9
35 to 44	17.7
45 to 54	21.5
55 to 64	36.3
65 & over	19.1

Source: U.S. Census Bureau. "Annual Business Survey: Owner Characteristics.

Owners sell their businesses for a variety of reasons, e.g., age, health concerns, or uncertainty of economic outlook. Other owners sell because a buyer has made a lucrative offer to purchase the business. Some businesses are not sold, the doors close and operations cease. No matter what the reason for terminating ownership, employees, and the communities in which these small businesses are located are impacted.

Survey results (N = 1,162 unique responses) reported in the Exit Planning Institute's 2023 National State of Owner Readiness Report examined enterprises with and without employees of which 68 percent were 100 percent family owned) shows that:

- 75 percent of business owners (with and without employees) would like to exit business within the next 10 years.
- Baby boomers own 51 percent of privately held businesses with the youngest members of this generation reaching 69 years of age by 2033, and the majority surpassing 78 years of age.

- 49 percent want to exit the business in 5 years and 75% want to exit business in 10 years.
- 70 percent of business owners prefer an internal transfer, up from 47% in 2013.
- 42 percent expected to be fully retired, 30 percent involved in philanthropy and civic engagement with 39 percent planning to invest, consult, or purchase another business.
- Business value is typically 80 percent of owner's total net worth.
- 70 percent of business owners need income from the business to support their lifestyle.

This indicates that a sizable number of businesses will change ownership and impact employees and the communities in which they operate.

Transitioning ownership has its challenges. The selling price can be lower than anticipated impacting expected lifestyle goals. They buyout may need to be structured to manage taxes that maybe owed. A business owner should not assume that there is a buyer for the business. One out of three business owners over the age of 50 have a tough time finding a buyer (Small Business Closure Crisis 2023). For owners of rural enterprises, finding potential owners willing to invest in small towns or villages characterized by low population density or remoteness can create an additional challenge. Only 20 percent of commercial listings sell (Butler 2021).

Selling the business to family members does not guarantee future success as about 30 percent of family-owned businesses survive transition to the second-generation family member and only 12 percent will remain viable into the third generation with only 3 percent of all family businesses operating at the fourth-generation level. More recent studies show that transfer to a first generation had decreased from more than 30 percent to closer to 20 percent as millennials prefer to not take over the family business or sell it and use the proceeds to start a different business (Rothwell and Prescott, Eds. 2022).

Legacy businesses are typically defined as a locally owned business that has operated for 20 years or more. They contribute to the history and identity of a community or neighborhood. When businesses close, people lose jobs, neighborhoods loose anchor establishments, and communities lose favorite enterprises. In lieu of a family member or buyer willing to purchase the business, selling the business to employees can be a solution to preserve the jobs and interests of the workers vested in the business. Employee or worker ownership tends to take one of four forms.

Forms of employee ownership

Employee Stock Ownership Plan (ESOP) is a qualified retirement plan, like a 401(k) or profit-sharing plan that can be used to transfer full or partial ownership to company employees. The company sets up an ESOP trust. The company contributes shares of stock to the trust. Such contributions by the owners can be tax reduction strategy. Employees receive an allocation of these shares based on several factors such as length of years worked in the enterprise and hours worked. When the workers retire or leave the company, or meet other criteria, they can start to receive distributions from their ESOP accounts. Distributions can be in the form of company stock or cash depending on the rules of the ESOP. ESOPs may cost as much or more than $100,000 to set up followed by annual costs of administering the trust. ESOPs work best for companies with over 20 employees (National Center for Employee Ownership 2022).

Employee Ownership Trust (EOT) is a form of a perpetual trust that wholly or partly owns a company. The shares in the trust are held as a group for the benefit of all employees. Part of the mission of an EOT is to operate in the employees' best interests. EOTs often require enterprise to maintain independence in perpetuity, i.e., they cannot be sold unless there are extenuating circumstances.

Management buy-out is another form of employee ownership. One manager or a team of senior-level managers offer to purchase the business from the owner. Management teams have leadership capabilities and key understanding of how the business operates. The new business owners will organize a new company via a limited liability company or partnership or corporation (S-corp or C-corp). How the business structure is constructed is informed by owner preferences, control rights, management requirements, liability protections, liability insurance obligations, tax benefits, and profit distribution.

Worker cooperatives are businesses where the enterprise is democratically owned and governed by paid worker-owners. Decision making is democratic adhering to the principle of "one worker, one vote." Worker-owners elect a board of directors who set policy for the organization. Management oversees the day-to-day operations. All businesses need to make some profit to survive and create capital for reinvestment and expansion. The same holds true for worker cooperatives, with one difference, preserving jobs and thriving wages are the primary goals of the enterprise. Profits are shared based on labor contributions. Compared to ESOPs, worker-cooperatives are less costly to formalize and manage. Table 2 summarizes the differences between worker cooperative and ESOP business structures.

Table 2. Differences between worker co-ops and ESOPs

	Worker Cooperatives	**ESOPs**
Ownership transfer	All at once	Transfer is often in stages
Regulation of ownership transfer	Not heavily regulated, relatively inexpensive	Transfer and maintenance are expensive and highly regulated
Ownership & governance	Democratic **and** governance	Employee ownership but **not** direct governance
Financial benefits for employees	Employees earn a wage and are allocated a share of annual profit	Stock appreciation at retirement
Appropriate business size	Typically, appropriate for companies with fewer than 100 employees	Typically, appropriate for companies with more than 50 employees due to the high set-up and maintenance costs
Rules for establishment	Co-op sets rules for membership, governance, and profit sharing	ESOP is a benefit program; law determines who is covered

Table source: NCRCRD 02-22-2022 ONLINE RESOURCES > Launch transition

A case for worker cooperative ownership

The formation of worker cooperatives can be a solution for an owner selling a business and opportunity for employees interested in purchasing a business. Some employees may have dreamt of such an opportunity but never believed it would happen. Worker cooperatives are defined as "an enterprise in which the worker-members have rights to both control of the firm and its profits. Membership in the cooperative should be broadly available to workers in the enterprise; as a group the worker-members should manage the affairs of the enterprise, ideally on the basis of one person-one vote; they own the equity in the firm either collectively or through individual capital accounts; and they divide the residual income of the firm in an equitable manner." (Olsen 2013, p.86).

Trade associations and academia collect data on cooperatives. Worker co-ops are found throughout the world but to a lesser extent in the U.S. The first worker co-op was established in 1791. History shows three historical waves of worker co-op formation. Researchers suggest that between 1835 to 1934, 400 to 600 worker co-ops were formed with many founded by the Knights of Labor. These enterprises focused on manufacturing, particularly wood products, metal products, and textiles. The decline in the formation of worker co-ops at the time is somewhat attributed to the decline in the Knights of Labor organization. Federal funding supported the second wave of worker co-op formation of 225 to 250 "self-help" enterprises employing over 12,000 workers. These enterprises engaged in forestry, agricultural, fisheries, mining, and some manufacturing activities. Government support ended in 1938 and most of the businesses had ceased before the end of World War II. Between 750 and 1,000 worker co-ops were formed during the most recent wave in the 1970s with an average of 10 worker owners. These co-ops were formed by small groups of people seeking an alternative to capitalism. These workers pooled their individual resources and partially financed new start-ups through loans from other cooperatives.

Fast forward to the 21st century, the University of Wisconsin, Center for Cooperatives identified 223 worker co-ops with total employment of 2,380 persons (Deller 2009). Most recently The Democracy at Work Institute (DAWI) and the U.S. Federation of Worker Cooperatives (USFWC) 2021 State of the Sector reports 612 businesses with 5,966 workers, up more than 30 percent over a similar census conducted in 2019 (DAWI & USFWC). Further, DAWI and USFWC estimates there are between 900 to 1,000 of such enterprises with 10,000 workers in the U.S. Total gross revenue of the 612 businesses was $283.2 million with median firm revenue of $298,000. Top to bottom pay ratio is 2:1. The median number of workers was 6 per firm. Twelve percent of firms were the result of ownership transitions and 70 percent were the result of self-startups. The remainder are classified as developer-assisted startups.

The Covid pandemic challenged and tested the resiliency of all businesses. The 2021 State of the Sector reported the tenacity of worker co-ops to remain in business throughout the pandemic.

- 80 percent remained open for the majority of the pandemic.

- 50 percent kept operating hours level with pre-pandemic hours.
- 49 percent worked to avoid layoffs through reduced hours and furloughs.
- 35 percent increased capacity and hours to meet demand.

The most common challenges reported by worker cooperatives in the report include the following.

- Health insurance, nearly 60 percent provide health insurance.
- Other benefits, almost 55 percent provide other benefits.
- Between 45 and 50 percent mentioned administrative burdens and financing growth each (not additive)

Worker cooperatives are launched in one of four ways. A group of people jointly see a need for a business. They are interested in forming a new business that is democratically controlled and owned by the employees. Second, the business is already formed, and the employees drive the purchase the business to form the worker cooperative. Our focus is the fourth pathway, the owner launches the process to sell the business to employees resulting in the formation of a cooperative owned by the workers.

Owners' decision to sell to workers

The owner's willingness to sell the business to employees is predicated on the willingness to divest (or partially divest) control of the enterprise. Selling the business is emotional. The business is a manifestation of the owner's personality and leadership. Several reasons lead to the postponement of planning and selling the business. Owners "don't have time." They are entrepreneurs and absorbed in the day-to-day management of the business. They find it difficult to relinquish control or cede responsibilities to others. In fact, 75 percent of business owners "profoundly" regretted selling their businesses a year following the sale (ICA Group 2019).Selling the business raises issues of inevitable life changes, including mortality, relationships, self-value, and answering the question, "What will I do?"

The owner's personal identity and sense of self is deeply tied to the business. Self-worth comes into play as personal accomplishment can be measured through the success of the business. Society equates value with "what you do" not "who you are." Business ownership is an accomplishment in, and of itself. Owners can be community leaders. As such, opinions and ideas carry weight, prestige, and respect. Exiting the business creates feelings of insecurity and sadness especially in family-owned businesses. Owners have professional relationships laced with personal "friendships." Anxiety develops around such relationships when there is no longer "professional dependency (Clifford 2008).

Transitioning a business to a next generation family member can be both rewarding and challenging. Owners want to create a legacy to transfer ownership to the next generation, especially if the business has been owned for multiple generations. On the one hand, they take pride and find it rewarding to nurture the next generation who engages in the business and demonstrates enthusiasm to move the business forward. On the other hand, selling to family members leads to questions regarding who is entitled to receive how much, managing sibling rivalry, contributions to the business, or employment of spouses. Unfortunately, the owner may not have confidence that the next generation family member(s) have ability to run the business or determination to see it succeed. Some family members may be full owners or partial absentee owners, with only a financial interest in the enterprise. Others may have no interest in the business. Results of a survey conducted by Price, Waterhouse, Coopers reported that three-quarters of owners profoundly regretted selling their business one year following the sale (Exit Planning Institute 2023).

Business owners need to plan and implement a withdrawal plan. Technical and professional advisors are important when transitioning a business. It is estimated that 80 percent of all the owner’s wealth is tied up in the business (Exit Planning Institute 2023). Owners need to consider their goals and lifestyle once the business is sold. The longer planning is delayed, the greater the risk that the sale of the business will not be sufficient to meet the owner’s goals. The sale of the business may be forced, driven by the “Five Ds” divorce, death, disability, distress, and disagreements leading to a “fire sale” decreasing the sale value of the business and the owner having less control in the process and outcome. Owners can benefit in several ways when transitioning the business to a worker cooperative business structure.

Benefits to owners when selling to worker cooperative ownership

- The sale of the business can be partially funded by the seller and provides a future income stream to meet lifestyle expectations.
- Properly structured, the seller can reduce the taxes otherwise incurred by selling the business outright.
- A ready-trained workforce is in place. Workers are already familiar with business.
- Transitioning to a worker cooperative by an owner not ready to exit the business, provides an opportunity for the seller to continue working in the business as a worker-owner or advisor along with a defining a strategy and timeline to exit the business.
- Selling to workers provides a means to off-load and share management and ownership responsibilities.
- Selling to workers leaves something of value to employees who helped build the business and the community in which the business was located.
- Forming a worker-cooperative supports the legacy of the business in the community in the services and goods it provides and the jobs it saves.
- Selling to workers reduces the risk that the business would be closed and jobs lost if purchased by an outside buyer.
- Selling to employees retains control of the business to those who helped build it. As workers have familiarity with the enterprise there is a higher likelihood it will survive and thrive.

Employees' decision to form a worker cooperative

Employees may be attracted to the idea of becoming a business owner. Reasons are mixed. As an owner, they perceive that the owners determine the goals of the enterprise and make decisions to achieve those goals. Owners decide how profits from the business will be utilized for reinvestment or personal gain. Owners envision how the business might transcend generations and how they can become influential community leaders. Many people are committed to business ownership but do not have the resources to launch a business. Worker cooperatives provide a means to have ownership in a business. Being a part owner in an existing business has benefits as the business has ready-made client or customer base coupled with experienced workers and revenue stream.

Worker cooperatives are participatory, providing opportunities for worker owners to create and influence business policies and shape the future direction of the enterprise. Among other things, worker-owners elect a board of directors from their peers, serve on committees, vote on major policy changes, and make decisions on profit distributions. The organizational structure tends to be flat and less hierarchal. In worker co-ops, the average pay ratio between the highest and lowest paid worker is 1:1 or 2:1. In large corporations, the ratio is 300: 1 (Business Enterprise Institute & DAWI and Schlachter and Prushinskaya 2019).

The board of directors set policies for or govern the worker cooperative. A board of directors has fiduciary responsibilities to oversee the finances of the business and identify strategies to maintain and/or improve business viability. Governance policies are driven by concerns for democracy (one person, one vote) and fair income distribution based on work contribution. Policies work to protect workers and ensure equality. Committees may be formed to gain information from workers useful to the board.

Schlachter and Prushinskaya (2019) show that workers do feel a sense of ownership in the co-op business.

- 70 percent (N=1029) felt they have quite a bit of to a great deal of involvement or direct influence at the individual level.
- 57 percent (N=966) felt they have quite a bit to great deal of involvement or direct influence at the team level.
- 50 percent (N=975) felt they had a high level of overall autonomy and influence.
- A majority of worker owners indicated they had more control over their own schedule and more influence in workplace decision making in their current position.

Further, a sense of common purpose and shared goals strengthens relationships with supervisors. They shared that the quality of the professional development and training they received was somewhat better than that in previous employment leading them to pursue career goals.

Schlachter and Prushinskaya (2021) further reported that 52 percent (N=1072) indicated that working with a company with employee ownership was very to extremely important to them and near one-third noted that it is important to extremely important that their next job be with a company that is employee-owned. When asked about co-op compensation compared to compensation at their previous job. Slightly over half (52.4%) of respondents reported that it was somewhat to much better. Twenty percent of respondents indicated that it was about the same and almost 30 percent indicated that it was worse. Those reporting better wages, averaged $3.52 more per hour than their previous job. Almost 50 percent said benefits better met family needs and almost half said they were saving money. Level of wages is mixed. Employees making less than $30,000 in employee-owned businesses had 17 percent greater median household net worth and 22 percent higher median household income than non-owner peers (Schlachter and Prushinskaya 2021).

Business culture is important. Worker-owners find job security and enhanced security in the business they co-own. For example, Cooperative Home Care Associates located in the Bronx, NY retain workers 4 to 5 times longer than other businesses in a sector that struggles with high turnover and job quality (Butler, et al. 2021). Workers are less likely to be laid off, potentially stabilizing a community economy during an economic downturn.

Employees decision to become an owner and transition the enterprise to a worker-owned cooperative is predicated on the financial wherewithal of the employee to invest in the business and willingness to actively engage in a democratically run business. Worker ownership requires an investment in time and that time might be outside regular business hours. Employees must purchase one share of stock in the co-op to become a worker-owner. Employees must meet certain requirements to purchase stock. Such requirements likely include years or hours employed, worker classification, e.g., student intern, part-time or full-time employee, along with how the stock shall be purchased, e.g., upfront, lump sum or payroll deductions through time. The value of the member share will be influenced by the purchase price of the business agreed upon by the business seller and future worker owners. Costs are incurred when transition to worker ownership. Governance documents, i.e., articles of incorporation and bylaws will need to be created, adopted, and filed with the state, requiring legal expertise and compensation. An employee needs to ask, “Can I afford the investment?”

Worker owners can benefit from co-op owners. One of the tenets of cooperative-structured businesses is profit sharing in proportion to use (e.g., hours worked) and equity investment in the business. The board of directors, comprised of and elected by worker-owners, makes decisions on how the profits of the business will be distributed. Such distribution may be based on ownership status, in proportion to hours worked, or some other metric agreed upon by worker-owners.

A worker-owned enterprise operates in a capitalist economy with similar constraints and opportunities as other businesses. Day-to-day operations and the management of the business may remain mostly the same following the ownership change. Early on it can be difficult for people to distinguish between governance emanating from the board and management responsibilities, especially in co-ops with few worker-owners. In some cases, governance and management become intertwined.

Employees can benefit in several ways when transitioning the business to a worker cooperative business structure.

Benefits of worker-ownership

- Workers have agency or some control in how they do their work, how work is organized and managed. There are more opportunities to balance the needs of workers and generation of profits or efficiency gains, recognizing the constraints placed on the enterprise by the marketplace.
- Worker cooperatives provide stable employment as long as the co-op is financially viable and generates profits. When faced with a trade-off between generating additional profit versus maintaining jobs, co-ops tend to retain jobs.
- Worker cooperatives provide an opportunity to practice democracy and have influence about major decisions impacting the business, its growth and success, and impact on jobs.
- Worker cooperatives allow for opportunities for professional development, be it soft skills to lead the business forward or technical skills important for business growth.

As noted previously, worker cooperatives can form in one of three ways. Employees can lead the conversation with the business owner to transition to worker ownership. People can come together and decide to form a worker co-op to secure employment and provide needed goods or services. The third way, and our focus, is that the owner decides to sell the business to employees and the employees choose to form a worker cooperative. The succession of a business to a worker cooperative is dependent on the willingness of the enterprise owner to sell to the employees and the workers willingness seek out ownership via a cooperative structure. The research questions to be answered are, "What leads a business owner to engage in a process to form a cooperative to sell the enterprise to workers?" "What leads employees to engage in a process to acquire ownership via a worker-owned cooperative?" And "What are best practices in the decision-making process and what pitfalls need to be avoided?"

Case study methodology

Case studies of 4 worker cooperatives were developed from structured interviews of owners (the business seller) and employees (worker-owners. The case studies describe the decision-making process by owners and employees. Information from the case studies illustrates commonalities shared across the cases and identifies differences.

Case studies are used to explain and describe events in the everyday environment in which they occur. There are three types of case studies (Crowe 2011). The first being, a researcher will select and develop an intrinsic case study based on its merit or uniqueness. The second being an instrumental case study, which allows researchers to investigate cause and effect, e.g., change in government regulation on a specific business. The third, and our choice, was to use a collective case study approach. Such investigation calls for multiple case studies to allow for comparisons between individual cases. Such case studies allow for a detailed description of each case study developed in advance of the discussion of comparisons.

Data collection needs consistency to support the conclusions to be developed and with some flexible to discern the uniqueness of each case. Structured interview survey instruments were developed to build consistency in the data collection process. For owners, structured interviews collected information on brief history of the business, how the owner came to the decision to sell to workers, choosing and responsibilities of the transition team, finalizing the transaction, and current status of the business. For worker-owners the structured interview survey asked them about length of employment, roles and responsibilities pre- and post-transition, their decision to buy in, involvement in the transition, role of technical assistance, and present governance and management of the organization. (See Appendix C. Seller survey and Appendix D Worker Owner survey)

Extra care and sensitivity are important when gathering information. As noted by Priya (2021), survey participants should agree to informed consent, protected from harm, avoidance of any deception, protection of privacy, and confidentiality. Researchers completed online human participant research ethics and protocols. Surveys were reviewed with edits made per the Cornell University Institutional Review Board for Human Participant Research (IRB) office (IRB0148354).

Structured interviews were conducted through in-person, onsite visits and via Zoom meetings between May 2 to August 13, 2024. Confidentiality is provided as each case was identified as Cooperative Alpha, Cooperative Beta, Cooperative Charlie, and Cooperative Delta. All enterprises are in New York State due to funding and time constraints and consistency of each enterprise operating under NYS statutes. Subject cooperatives are diverse including a cocktail bar, hardware store, landscape services, and coffee roaster and retailer. Business sellers were interviewed separately from worker-owners. The seller of the coffee roaster and retailer was not available for interview. Quotes of interviewees are made throughout the case studies. Some quotes are paraphrased for ease of reading.

Cooperative Alpha

Owner/Seller Perspective

Cooperative Alpha is a cocktail bar and restaurant in a large metropolitan area. The business was established by the former owner in 2012 (with private investors) after a career as a bartender working in other establishments. After a successful run of eight years, the business initially closed in 2020 during the COVID-19 pandemic. The landlord who owned the building in which the business rented space decided to sell the location, terminating Alpha's lease. As a result, the former owner, to save a business he "believed in," brought together the former employees to discuss transitioning the business to a worker cooperative.

The former owner reported that he had been considering the possibility of turning Alpha into a worker cooperative for two years prior to making the actual transition. He noticed that "the dynamic of employee/owner created a structural tension." During an HR issue with an employee, he realized that the formal division between worker and owner meant that there was a division of interests between workers and management. As viewed by an employee, "any decision by management or ownership [is seen] to be at the disservice of the employee. There's like the knee jerk reaction by the employee to decisions made by the employer and management was, 'you're trying to extract more out of me.'" He also mentioned servers giving out free drinks in order to earn better tips as an example of how the interest of the business (lower costs) diverged from the interests of the employees (higher take home pay), and the difficulty of getting workers to internalize that long term business viability provided job security and thus their long-term, self-interests.

The former owner was "interested in alternative forms of incentives" and saw cooperatives as a way to align the incentives of the workers with the wellbeing of the company. This initial motivation coupled with an email solicitation from a local co-op development, non-profit led the former owner to consider worker cooperatives as a possibility for the future of his business. Despite his enthusiasm, he had misgivings, "Could they run the business?" He also noted, "I was deeply involved in the business on a day-to-day basis. In certain ways, he felt, "the business was very much a reflection of me." The former owner documented all policies, procedures, systems, recipes, creating a "business in a box." Such documentation provided information in not only "how" something was done but also in "why" it was done to improve the chances for future success.

Technical Expertise

With the economy and the business disrupted by COVID, and an influx of cash from The CARES Act, Paycheck Protection Program (PPP) loans, the former owner decided to pursue the possibility of passing the business on to the workers more seriously. He reached out to a local technical expert and "non-extractive lender" in 2022 to inquire further into transitioning the business to a worker cooperative. The technical expert responded and collaborated with the former owner to set up a meeting with the former employees of Co-op Alpha to discuss a potential transition to worker ownership. With guidance from the technical expert, five former employees decided to move forwards towards worker ownership. They utilized a decision-making matrix to develop to develop bylaws and other governance documents. It is standard practice of cooperative developers to guide new worker-owners through a process of creating bylaws, establishing governance structures, and define ownership rights based on the worker-owners' vision of the cooperative.

The technical expert assisted with the valuation of the business. The former owner reported a relatively low sale price, largely because there was no longer any physical space or infrastructure associated with the business. The transition to worker-cooperative was funded through a loan provided by the co-op development, non-profit and the former owner. According to the former owner, the presence of the PPP loans eased his concerns over "saddling [workers] with liability and debt," as the funds could still be used by the newly formed cooperative if it kept the former business' name. All participants interviewed reported that this infusion of cash was crucial to getting Co-op Alpha off the ground in a new space and under worker ownership.

The owner and workers cited the participation of the technical expert as being particularly important. They played a crucial role in educating all parties involved about how a cooperative works, in setting up the bylaws, in providing favorable financing, in offering continual guidance throughout the process of transition, and the operation of the business as a cooperative. Weekly meetings were held early on with considerable time devoted to the decision-making matrix. Some meetings focused specifically on building a business out, which became more granular. Others were more theme oriented, a meeting on finance, a meeting on operations or sub-groups, e.g., cooks or bartenders. Other meetings were considered general meetings with agenda items important to all, e.g., democratic processes separate from managerial day-to-day operations. It was noted by both the owner and the employees that the technical expert was not familiar with the food and beverage sector, which hindered some ability to provide guidance.

Worker-Owner Perspective

Full ownership then passed to the five former employees who decided to buy in and accept worker ownership. The career employees were excited about the potential for ownership and "to have ownership in anything was very interesting to us." "Empowering the workers with an equity share and a livable wage in this insane industry was very attractive. It made sense to me." The persons interested in worker ownership met weekly with the co-op developer with the approval of the owner. The worker-owner noted considerable time involved in both organizing the co-op coupled with finding a new location for the business and retrofitting the location. A worker-owner described significant input of time and effort to getting the business off the ground, beyond what they had experienced as a bartender/ employee. They described some difficulty in coordinating between all the worker-owners and ensuring that everyone put in the effort necessary to launch the business. The former owner corroborated the difficulty of getting new worker-owners to take on their new role as owners responsible for its success or failure. With the sale made, the former owner relinquished control rights, with an agreement to remain on in an advisory position in exchange for a percentage of Co-op Alpha's profits for a period of three years.

The worker-owner further described the difficulty of coming to understand everyone's new roles and the proper degree of "hierarchy" needed to run the business. They described situations early in the transition process in which chaos was sewn by the idea among members that "'I'm going to be an owner too, so I'm going to just start acting like an owner and making these kind of ad hoc decisions… so that was problematic.'" According to the worker-owner, a lack of clarity and clear delineation of duties or decision-making power led to multiple people taking multiple contradictory courses of action. The worker-owner, who now serves as general manager as well as on the board, stated that a hierarchy of management was necessary to ensure everyone did the job they were supposed to do, and to ensure the smooth operation of the business.

The worker owner described how his view of the business changed from his view as an employee. "If I'm at home, I'm thinking about it. I'm going to other places to see how they run their businesses, what they are serving, what are the trends. It's very much all consuming. Some of the employees are taking ownership for things and making cool suggestions, which is great but their kind of in the dark about all of the machinations behind the scenes to keep the lights on and keep the paycheck and things like that. And I don't want to burden them with that until they're ready."

After the initial transition, the original cooperative membership of five dwindled to two as worker-owners dropped out to pursue career changes, realized they did not want to be a part of the cooperative long-term, or otherwise left the business. The challenges of the food and beverage sector were not eliminated by the transition, for example, the co-op "lost people whose acting careers have taken off."

Current status

Co-op Alpha became worker-owned largely because the former owner became interested in the idea of worker cooperatives as a way to abolish the different and sometimes conflicting interests of workers and owners and align both parties' incentives with the success of the business. The former owner committed to the transition out of a desire to pursue the idea in practice. He was looking for a lifestyle change to move away from the city for family reasons while building a legacy, preserving a business that he started and "still believed in." The worker-owner saw Co-op Alpha as an alternative economic form and solution to their distaste for situations in which workers do" the labor" and owners "collect the benefit."

Co-op Alpha now has two worker-owners with nine employees on track to become worker-owners. They described the value of having ownership over their work. Despite their pay cut and increased work hours in their role as worker-owners (emphasis on new managerial labor required), they claimed that it "it's great to own something, right... and who knew that I could helm a bar in [a big city]? That's crazy." The business has also increased wages for employees, especially those in the "back of house" (cooks and dishwashers) compared to customer-facing, "front of the house" servers and bartenders (wages and tips). The worker-owner emphasized the pressures of surviving in the market as a limiting factor in increasing wages and benefits. For example, they noted that Co-op Alpha does not yet offer benefits in part because of a lack of funds to do so. They expressed both a need for more upfront capital, and for either a more favorable market in which revenues could provide benefits such as healthcare or change in government policy to support a publicly funded healthcare.

The worker-owner described their own ethic, and the cooperative culture as one which is both alternative and traditional. "I think the structure... the idea of like, one person making 100% of the profits, and then kind of feeding everyone else a little bit, I hate that... [but] I'm not a communist, people call me communist or socialist all the time. I'm like, listen, my parents escaped Cuba, I am 100% capitalist. We run with the idea of revenue, like it is a capitalistic approach to things, but [with] redistribution of wealth and equity in a good way." In this sense, they embraced the idea of capitalism as a worker-owner while also denouncing a situation of worker exploitation. They acknowledged the split between the fact that the cooperative is "still a business" and the tension to make it meet the needs of the workers, e.g., higher wages and maintain business viability, e.g., increased labor costs.

Despite loss of worker-owners early in the transition process, Co-op Alpha's status as a cooperative drew people to the business, and allowed for a unique, more targeted, more personal style of hiring. By requesting and selecting applications from people who expressed an interest in worker cooperatives and long-term membership in Co-op Alpha, the co-op has managed to hire employees who are on track to become worker-owners. The co-op currently requires one year of work as an employee and a contribution of $500 to become a worker-owner. The seller serves in advisory capacity to the board.

In deciding to transition to a worker cooperative, both worker-owner and former owner expressed ideals of achieving a more "equitable distribution of wealth" within the business. For both, the cooperative model offered a more just form of organization. Both the former owner and the worker-owner presented the transition as a positive move with a swift and clean transition despite the challenges they had to address.

Successes

Co-op Alpha noted its publicization of the transition and of the new location as something that was done particularly well. In an industry in which name recognition and visibility is particularly important, the cooperative succeeded in getting the word out by talking to news media and promoting through pop-up bars during the COVID shutdown. The businesses' newfound status as a worker cooperative attracted positive attention from the news media, the community, from customers, and from potential employees and future cooperators.

Co-op Alpha's relatively smooth transition was aided by the systematization and documentation of the businesses' practices by the former owner. "There was a lot of documentation of, policy, procedures, systems, recipes… everything was documented, you know. So it was, in a way, like a business in a box." Instead of relying entirely on the former owner to explain how a process worked, the new worker-owners were able to tap into documentation of the businesses' operational structure to learn how to run the system themselves. This likely aided the relatively swift departure of the former owner.

PPP loans were crucial in setting Co-op Alpha up for success. The loans allowed the cooperative to hit the ground running with pre-existing funding. While the PPP loans were highly particular to the situation of COVID, their usefulness to Co-op Alpha suggests the necessity of accessible sources of capital for starting a worker cooperative.

Difficulties

The former owner is a non-voting board member and serves as an advisor and consultant to the present worker-owners. In retrospect, he believes he should have been more involved in the transition and at the same time chose to minimize his involvement as a means to grow and instill workers' ownership culture to organize the co-op. He continues to document procedures and practices in his role as an advisor and is taking deliberate steps to back away from the business. He "absolutely encourages people to do it and explore it" but offers up that seller needs to "identify a leader to whom you would entrust the business to and impress upon them the seriousness of the transition." "People need leaders to achieve objectives, otherwise "everybody stands around waiting for someone to take charge."

The worker-owner noted the importance of the technical advisor to assist in the process including governance documents, a Rolodex of experts to call upon, and developing budgets and financial statements. He suggested that employees need to evaluate individually whether they are up to the challenge of being an owner and to "understand what that means, that it's not going to be very simple or easy." Further mentioned by workers was the slow transition, referring to the number of meetings and unpaid hours or free labor for startup. The length of time required by the structured process disincentivized employees who left to pursue other opportunities. It was noted that the purchase was partially funded via the technical assistance group, requiring sufficient documentation to secure financing. The technical advisor provided instructions on financial software to pay bills and develop financial statements. Despite the financial success of Co-op Alpha, the pressures of the market make it difficult to provide benefits. In part, this was attributed to a lack of capital at the time of re-opening. This lack of capital was attributed to lack of understanding of cooperatives from traditional commercial lenders, as well as a lack of understanding of the food and beverage industry from cooperative experts.

Further, clear delineation of roles and responsibilities and establishing a balance between the democratic ideals of the co-op business structure and managing day-to-day business operations was also reported as a challenge, though one that has largely found resolution through transparency in governance and hierarchy in management.

Cooperative Bravo

Owner/Seller Perspective

Cooperative Bravo is a hardware supply store in a small town in a rural area. The business was established by the former owner's family in 1963 and remained a local family-owned business for two generations until its sale to the employees in 2019. The former owner ran the business as a sole proprietorship in addition to a career as a teacher until, approaching retirement at age 65, he began looking for ways to sell the business in 2008. His goals were that the business would continue its operation and provide retirement income. The former owner reported that he had sought private buyers but hadn't been successful in finding anyone interested in continuing the business.

Seeing a for-sale sign in the business' window, a community member stopped in and suggested to the employees that the business convert to a worker cooperative. This person dropped off a computer disk and pamphlets to introduce and build knowledge of the worker co-op concept. The former owner was on vacation at the time. The general manager relayed the conversation to the owner upon his return. According to the owner, he had been introduced to the idea of employee ownership a few years prior but had ultimately decided against it due to, in his view, lack of leadership among the workers and ability of the employees to function as a team. Since that time, many of those workers had left the business and he viewed current full-time workers as future owners. This time, when the idea was reintroduced, he saw the general manager as a potential leader to carry the business forward and believed the current employees worked well together. An extended vacation by the owner helped him gain confidence that the employees were ready, marveling that "we were gone for two months, and when we came back, the store was still here."

The owner provided additional one-on-one training on the tasks he did to operate the store to prepare workers to assume ownership roles.

The owner reached out to a technical expert to explore the option further at the recommendation of the community member. He described his motivation as a desire to keep the business in the community. “I wanted to see the business continue from a personal point of view, I didn't want to close. It would have been a lot of work to post the stuff for sale and move it. I also felt that the community needed the hardware store and that the employees… I wanted them to have jobs to keep them going. So, yeah, that was part of it.” Part of it was emotional. He expressed a strong personal connection to the business and its importance to his sense of self, deepened by its connection to his family. This was also connected to a frustration with the broader economy turning away from local business and towards national and multi-national corporations.

A valuation of the business and its assets had been done by the owner five years before working through the process to transition the business to the owner. Workers reviewed the valuation along with the financials shared by the owner. Everyone agreed to the purchase price and buy-out plan. The value was significantly lower than book value but deemed realistic. The sale of the business was both owner and lender financed. Co-op Bravo has also expressed difficulty in securing capital. The former owner expressed a desire to work with a local bank and referenced the bank’s unfamiliarity with cooperatives as a limiting factor. He said, “We can't shop around for banks, because most banks require an individual to sign as a guarantor of a corporate note. As a cooperative, we don't have anybody who has the assets to be a signer except me, and the whole point of this is that I'm not burdened by debt.” Worker owners are making monthly installments over 15 years to the owner. The owner retained ownership of the real estate and collects rent payments from the co-op.

Technical expertise

The technical advisor provided by cooperative development non-profit organization was critical to the success of the transition. All employees of the business met to discuss the possibility of collectively buying the business and transitioning it into Co-op Bravo. For the owner, the advisor provided guidance on the legalities of transitioning the business to a cooperative including the articles of incorporation and the certificate filed with the State. The former owner mentioned, “I don’t think we could have done it without that help, or it would have taken us a couple of years.” The advisor also assisted in identifying funding sources for the transition. For the workers, he assisted them and the owner with the development of the bylaws and served as an advisor to the board of directors, in between and during board meetings, virtually and in-person. Worker-owners were concerned about developing bylaws, perceived to be “intimidating.” Creating the bylaws was deemed to have been done well, the worker-owner noting , “It was smoother than I thought it was going to go.”

Worker-Owner Perspective

The worker-owner interviewed had been working at the business, ten years before the transition. She started part time and five years later her responsibilities included sales and cashiering.

Following the transition she was named general manager. Since the transition she still works on the sales floor along with performing office work, and inventory purchases. She also completes other duties in order that the business operates smoothly and successfully. Presently and for several years she has lived above the store. She is invested in the community having lived in or near the area all her life and appreciates that she doesn't have to commute to work. When asked, what made you decide to become a worker-owner? She said, "I did it for the stability."

The transition team consisted of all full-time workers and the owner. Meetings were held monthly and after the store was closed for the day. Meetings were unpaid. The team had to approve all decisions. The owner could not unilaterally make decisions for the team. All worker-owners along with the former owner are board members, but not everyone is an officer. Official decisions are made by majority vote. Unofficially, discussion leads to everyone coming to agreement before an official vote is taken.

Both former owner and worker-owner said that adapting to a new culture of self-government was "difficult" and that the technical expert's guidance was indispensable in learning to navigate the cooperative's new social structure, particularly in how to hold meetings, discuss, deliberate, and come to decisions as a group while following their bylaws. Both agreed that there was a need for hierarchy and assigned leadership roles.

Current status

The formation of Cooperative Bravo allowed the former owner's goal for the business to continue was achieved. Compensation remains mostly the same, including wages and yearly raises. Dividends are paid by the co-op a percentage of the total profits distributed over hours worked. "Nobody wants to lessen their hours. We can't really when there's a small crew of us. We can't afford to lessen our hours anyway." Equity is revolved out at the end of three years. Employees must work for one year to be invited to become a worker-owner. The ownership share is $2,000, which can be paid through paycheck withdrawals, e.g., $20/week or more quickly. Two employees paid the total amount upfront. The co-op is not immune from competition as mentioned was a nearby chain store that sells products for home improvement, agriculture, lawn & garden maintenance, livestock, equine, and pet care.

Successes

Co-op Bravo appeared to have a smooth social and legal transition to cooperative ownership once the owner was confident in the employee leadership abilities. Governance documents were developed, and the co-op was launched in less than a year. Such a transition is based on mutual trust and respect between those involved. The cooperative maintained the business' position in the community, maintained the workers' livelihoods, and provided an exit path, albeit an extended one, for the former owner.

Despite the downturn of increased purchasing for home improvement projects during COVID-19, the co-op has managed to stay profitable and pay out dividends to workers that were described as meaningful. Otherwise, "everything all stayed the same. I mean, we do our yearly raises, but that doesn't have anything to do with the co-op. That's just what we do here, the benefits all stay the same, and I've worked 40 hours since forever."

Difficulties

Securing a loan to finance the transition was somewhat difficult from the loss of access to easy financing from local banks. Local banks require an individual to sign as a guarantor of a corporate note. There was no one who has the assets to be a signer except the owner. An owner preferred not to be burdened with debt. Commercial banks were not familiar with the cooperative business model and unsure how worker-owners could receive dividends. A Community Development Financial Institution (CDFI) administered by the U.S. Department of Treasury provided a loan as did the owner.

The former owner remains part of the business as a worker-owner working mostly on financials and providing administrative labor. Despite the former owner's desire to leave the business and retire, he has expressed no set departure date from the business. The tasks performed by the owner, early on, following the transition were particularly important to support the general manager. "I think it would have been a harder transition for me to completely take over like that." The co-op is in its fifth year of operation. The former owner has a significant financial stake as the co-op purchases the business from him. A worker-owner expressed concern over the lack of a concrete plan for the former owner's exit, including a lack of documentation of practices and procedures that would allow the cooperative board to take over full operation of the business. It will be useful for the former owner to train worker-owners to become proficient in the tasks he presently undertakes.

Increased proficiency by the workers would build confidence by the former owner that the co-op can function successfully without him. He and the worker owners need to come to agreement on a timeline and transfer of tasks that allows the seller to successfully exit from the enterprise. Co-op Bravo has made on-time, monthly payments to the owner for the past several years. Strategic planning and development of pro forma financial projections would be useful to both the seller and worker-owners. The seller can gain confidence that a plan is in place for the co-op to continue making the timely payments. For the cooperative, financial projections can lead to a plan to purchase the real estate.

The bylaws have been amended to allow the general manager to serve as the board president increasing the burden of ownership, leadership, and labor management. There is a need to delegate more responsibility to some of the other owners. Moving some of the decisions made during board meetings and implementing those decisions into management and day-to-day operations on the shop floor is challenging and results in additional frustration. A worker-owner described a disconnect between the board's decisions and the actions of the workers. Officially the board voted in the affirmative to act, but "Then it doesn't happen downstairs [on the shop floor]." Delegating responsibility and holding one another accountable could address this issue. Lack of such accountability could be driven by fear of conflict.

Worker-owners place value on their ownership of the cooperative. The worker-owner noted the feeling of community and belonging as a significant positive aspect of the transition to the cooperative. They also noted an added sense of security and stability being part-owner and holding control rights and rights to a portion of profits. “Ownership, we have a couple people here that throw it around, [saying] ‘well, I'm part owner of a hardware store.’ And I know that means something to somebody. I did it just because, I lived here my whole life… I did it for the stability.” The store has a sign in the front window signaling the business is worker-cooperative owned. New customers coming to the store mention, “You guys are a co-op, that’s cool.”

Cooperative Charlie

Owner/Seller Perspective

Cooperative Charlie is a collection coffee shops and bakery in a small city. The co-op consists of three sections: 1) the coffee shops with customer facing employees, i.e., baristas; 2) production with employees producing baked goods sold through the coffee shops; and 3) administration with employees focused on finance, human resources, and overall management of the enterprise. The business was established by the former owner in 2000 and was successfully expanded to multiple locations without taking on any debt. The former owner was not interviewed. His perspective is voiced through accounts in the media, a worker-owner, and a technical expert. The worker-owner reported that the former owner’s desire to move away from the area for family reasons prompted the sale. Once the transition was finalized, the owner ceased active involvement in the management of the co-op.

Local news reported that the former owner chose the worker co-op model as a way to ensure his values around fair trade and sustainable coffee sourcing were continued, and that the business wouldn’t lose its character under outside ownership. The baristas sought to organize a labor union to increase wages, formalize a wage structure, and abolish tipping, which created income disparity between the businesses’ multiple locations. Workers voted to unionize in 2017 and ratified its first contract with management in 2018. Tensions arose around management’s unwillingness to meet union demands on wage increases proposed in the union’s second contract in late 2019. The onset of COVID-19 compounded these factors, including the layoff of a sizable portion of the union barista staff. The union was able to negotiate a Memorandum of Agreement with management outlining how those baristas laid off by the Covid pandemic would be called back to work. Workers became disenchanted with the labor union. The former owner reached out to a technical expert to discuss the potential to transition the business to worker co-op ownership. This technical expert was affiliated with a lending institution that could provide financing for the transition. Turnover in staff, loss of original union organizers, and proposed transition to a worker cooperative resulted in members decertifying the union. The lending institution backed out of the deal when the baristas voted to decertify the union in 2021. The technical expert cited the lending institution’s unwillingness to support tactics that may have been perceived or used by management to disempower workers and engage in union busting. Such a conclusion cannot be substantiated. Two years later the labor union was re-certified.

Technical assistance

Shortly thereafter the owner reached out to a second technical expert and contacted a former employee about the transition to worker ownership. This technical expert met several times with the employees to provide information about the worker cooperative business structure, diffuse some of the social issues confronting the employees, answer questions, and gauge the interest of workers in moving forward. Workers had diverse needs, and it was important for each to understand the others needs to identify overlapping goals and solutions to allow the transition to continue. Some workers were more focused on the co-op as a business and "What does it really mean for me to buy in?" "What is patronage?" Early on a committee of 5 to 7 persons was formed to develop bylaws. Two senior level employees were involved because of their management experience with additional representatives of each of the 3 sections. The expert also provided information on persons who could further assist with the process, among other things, legal counsel and sources of capital.

Worker-Owner Perspective

The worker-owner interviewed chose to become a member of the co-op largely out of personal view of capitalism. "For me, it was pretty obvious that cooperation is better than....competition we have in our economy, which only creates losers and winners, and then usually the winners don't give nothing back to the losers. That accounts for a lot of stranded people." Confidence and trust in the persons leading the transition was also important. When asked, what might have prevented them from becoming a worker owner, they shared, "...[The] only thing that really comes to mind, if say, the leadership wouldn't have been as great as it is, you know, because in terms of our two CEOs, they are fantastic."

The worker-owner interviewed reported that "there were simultaneous meetings among the various employee groups, i.e., café staff, production staff, and management, "discussing thoughts with each other." Employees had diverse perspectives and unrealistic expectations of the business. For example, one group of employees was mostly college students, they believed they should receive $22/hour plus tips. The long-term, worker-owner had been in with the business for 17 years and was only making $18/hour. In their view, these workers didn't care about the business. A unifying factor driving decision making and transition to worker ownership was the influence of COVID-19. "We almost had to close... we were down from 80 people to I think it was 18."

Financing can be challenging. The owner provided some financing with the remainder of the deal financed by a Cooperative Development Financial Institution. The CARES Act Paycheck Protection Program administered by the U.S. Small Business Administration was pivotal for the new cooperative: "it was really hard to build back up after the first year of COVID, and it probably wouldn't have happened without government support." Roughly half of the workforce took up ownership at the time of transition. Membership requires one year of employment, or a total of 1,040 hours worked in one year, and a $1,300 buy-in, payable in cash or through $25 paycheck deductions. The cooperative has since grown to well over 30 members. The former owner continues to own the real estate associated with the enterprise and receives rental income from the co-op.

A worker owner reported that more production-oriented staff joined the co-op than the baristas and workers at the retail outlets. They cited the "transience" of the baristas and their potential distrust of management as possible reasons for their low rates of membership. These comments pointed towards a divided workforce, some who were somewhat unengaged with the governance of the cooperative as a whole, if not outright mistrustful of management, while others were highly engaged and positive towards the cooperative.

Current Status

The impetus for Co-op Charlie's transition cannot be fully reconstructed. As stated above, statements made to the news media paint a picture of a transition made either in order to move past division and empower workers while allowing the owner to step away from a contentious situation and move to be with family or a sale made to disempower transient workers while solidifying power with management and long-term workers. A worker-owner also reported that the former owner had been considering converting the business to a worker cooperative as a withdrawal plan "long before the union" was under consideration.

The sale of Cooperative Charlie from the former owner to the workers introduced debt to the business for the first time. The former owner provided 30 percent of the capital to finance the transition with the remaining 70 percent funded through a Community Development Financial Institution. Between facilities rental, debt payments, and recovery from COVID, the cooperative has yet to turn a profit and distribute patronage to members. The worker-owner interviewed did report receiving a raise following the transition to cooperative ownership.

The management team stayed largely the same before and after the transition, with the same overall powers and duties. The same was true of the worker-owner we interviewed. This led some workers to express frustration that more had not changed. The worker owner reported that management and the board are making efforts to reach out to more members and employees for engagement but still struggles to engage worker-owners and increase membership.

Cooperative Charlie currently has a 6-person board elected by membership with each member holding one vote. Decisions are made by majority vote with each board member holding one vote. The management team is hired by the CEO, who is in turn approved by the board. The membership gathers annually for a budgeting meeting where the budget and strategic plan for the coming year is presented, and questions are answered. Employees with the job title "Barista" are eligible for union membership. Governance documents contain language regarding management negotiating with labor unions. Under the unique union co-op model, management then bargains with the union on wages and working conditions to come to a collective bargaining agreement binding workers and management. Both worker-owners and non-member employees may be part of the union and the management team.

Successes

The worker-owner suggests that the co-op business model complements their sourcing model to obtain specialty grade coffee certified through the Fair-Trade International Production and Trade standard, preserving the values important to the former owner. The co-op is also certified as a living wage employer via Living Wage for Us. The co-op behaves differently as, “we put the bottom line on the top and the bottom…We put the bottom line on the top and then we make everything else fit that top.” Cooperative Charlie had relative success continuing operations under the new ownership structure, largely due to the influx of capital from PPP loans and continuity of management before and after the transition. Most workers received an increase in wages at the time of conversion and the co-op provides 50 percent cost share for health insurance and extra paid vacation days.

Difficulties

The mistrust fostered by the disputes between the owner, management, and workers around unionization was a serious barrier to a smooth transition. The high emotional and social tension at the time challenged the pre-transition distribution of power and income within the firm. The timing of the cooperative transition around labor disputes and the prominent role played by management in the transition cast suspicion on the motivation for the transition among workers.

Co-op Charlie has faced difficulty obtaining capital and has faced serious challenges to profitability. Infusions of capital in the form of PPP loans were reported as crucial to the co-op’s success. Expectations of some worker-owners were unrealistic (especially newer hires) at the time of transition as they expected significant wage increases, without considering the impact on long-term workers and the impact on cost of doing business. The worker owner said, “Look at what you are honestly contributing to the success of the company, not just what do you want. […] There’s got to be give and take, without it, it doesn't work.”

The length of time to work through the process was seen as difficult. The worker-owner said, “It was a bummer to see how everything dragged out, like an endless rubber band. It was hard to hang in there until things got done…then like a year later…unbelievable, we’re still becoming a co-op.”

Cooperative Delta

Owner/Seller Perspective

Cooperative Delta is a landscaping design and contractor company in a rural area specializing in design-build landscaping projects and gardening. The business was established by the former owner as a sole proprietorship in 2001 and transitioned to a worker cooperative in 2015 with a total of five employees. The former owner reported that she originally sought to transition the business to a worker cooperative to lessen the burden of ownership on herself by sharing management with employees, as well as to pursue a more democratic and equitable organizational structure.

Early on, organizational meetings were held offsite and attended by all 8 to 9 employees. The owner said, “I have this idea, do you guys want to do it?” She explained the concept of a worker-owned cooperative. She chose to be inclusive of all workers. During the transition process, several bad actors emerged. Poor attitude and job performance resulted in their termination over the following year. The remaining employees interested in co-op, attended monthly and then twice monthly meetings as the deadline to officially launch the worker-owned cooperative approached. Decisions needed to be made throughout the process. When it was time to decide, everyone would present their views. A vote was taken with each person writing their vote on a paper ballot. This process was anonymous to reduce the perceived pressure or power of one person influencing another person and allow each person to have equal voice. The group formed sub-committees to work on various aspects of the plan. This allowed people to build leadership skills and sense of ownership. It also expedited the transition process.

The transition took about one year to complete. Early on the owner led the process as she had more knowledge about worker cooperatives and the process. She described her personality as "in charge by nature," still, in her view, she tried to give as much power as people wanted to take on. This slowed the transition process and her recognition that "people have to get to a place where they are comfortable enough to take [that power]." Of particular importance to her was that all workers understood and agreed to the language of the bylaws. In her opinion, she worked to both empower the workers to take ownership and educate the workers to build confidence as future owners of the business. She mentored the employees and described herself as a landscape designer, life coach, teacher, and boss. "I spent a lot of time handing off and helping people to become competent to do the work."

The process required the business to be valued, and purchase price agreed upon. Initially the former owner did not intend to sell the business, but rather intended to simply transform the business into the cooperative by welcoming workers into ownership and shared management. The technical expert advised the owner to place a value on the business and sell it to the workers, not out-right transfer the business to the worker co-op. This was particularly challenging as the highest valued asset was the skills and experience of the owner. A price was agreed upon. The owner signed a non-compete agreement to eliminate potential competition with the emerging worker cooperative. The transaction plan called for her to remain as an advisor to and assist with the management of the business for five years.

Tension arose between the seller and the worker-owners. The former owner described her desire to form a democratic, non-hierarchical organization, which they could all be part of but found it difficult to trust workers in practical decision-making, especially in her view, when they lacked business judgement. She mentioned having to coax the worker owners into buying a new facility as the business expanded, saying, "nobody wanted to rent the office because they were afraid to spend the money and it was a very hard moment for me, because I was just like 'this is crazy,' you have to spend money to make money, and we have to have more room for people to work."

She left at the end of four years but was still bound by the non-compete agreement for the remaining year. The agreement precluded her from contact with former employees and clients with whom she had developed both professional relationships and friendships over the years. Even though she was no longer associated with the enterprise, she felt "owned by the co-op."

Technical assistance

The owner identified a technical expert after considerable time and investigation to assist with the transition. The advisor provided guidance to the worker-owners to development the governance documents with assistance by an attorney. The attorney represented both the seller's interests and the worker owners' interests. Like many worker-cooperatives, traditional lenders do not make loans to the business as there was no collateral available from the workers to secure the loan. The technical expert connected them to the Cooperative Bank of New England, a Community Development Funding Institution (CDFI). The technical expert also attended meetings of the group during the transition process and for the first two years following the transition. As the co-op has grown, the expert was called in to assist with developing a position description to hire a person with human resource expertise in the context of a worker cooperative.

Worker-Owner Perspective

An employee perspective of the business is different from a worker-owner perspective of the business. Before the transition, "None of us had to worry about the money. That wasn't our job. My paycheck kept coming." Once employees became worker-owners they became more financially minded.

Employees embraced the concept of the worker-cooperative business structure. They were attracted to "the possibility of having ownership of my labor, having a say." Once the concept was understood, he mentioned, "…once I was sold, I was sold." "The fact that anyone could apply for ownership and that the door is open to anyone that works here, even or starts as a garden tech still feels revolutionary to me." For persons new to the worker co-op business structure, ownership can imply that now "I'm a boss" which is not necessarily true as "people are cooperating in the management of the business." While the concept of a worker-cooperative is over 100 years old, "it is a different way of doing business and there are a lot of misconceptions." A worker-owner and board member said, "I'm building something that will last….I'm on the ground level of something that I can pass up to someone that came from a similar background that I did, someone who may not have had a lot of privileged."

The co-op has undergone two transitions of worker ownership and leadership. The first was when the owner transitioned ownership to the workers. At the time, the worker-owner who was interviewed was an early-entry employee. As the business was being valued and the sale arranged, the workers at the time met regularly along with the technical expert and the former owner to establish bylaws. The owner focused more on the management of the business at the time and the employees were tasked with developing the bylaws and other governance documents. The initial bylaws provided for a six-person board. At the time, this encompassed all workers and the former owner.

The former owner and worker-owners described a socially turbulent transition process. "When the founder was the president of the board, management and governance were intertwined in such a way where she was the boss of everything, and there was no feedback process, no real voting process. It was her telling us what to do, and honestly us just listening because we didn't really believe [in ourselves]." Part of this lack of confidence was driven by "doing something that felt like an alternative way of doing business. […] I felt like what I did was dive really deep into the current system." Workers viewed the former owner as having difficulty relinquishing control of the business and training employees to take on more responsibility. Both the former owner and worker owners referred to this inability to let go as “founder syndrome.” Eventually, the worker-owners asked the former owner to leave the cooperative. Both the former owner and worker-owners planed an exit after five years, but the workers advocated for a “rip the band-aid” at the end of the fourth year.

The second generation of leadership of the worker-ownership began once the former owner left the business. The six-member board stepped in to lead the business. They described difficulty learning the ropes of fiscal management of the business, and tension between those who wanted to focus on the social, non-hierarchical aspect of the business versus those who were more concerned with the practical and financial matters. “It’s still a business,” as one worker-owner said. Despite challenges, the business found success and grew.

As new employees were hired and subsequently became members, the original board of directors found themselves in a position similar to the former owner. “We got Founder’s syndrome,” one worker-owner reported. It was difficult for them to accept newer and inexperienced voices into the decision-making and management roles, especially as they felt they had put so much of their own labor and energy into making the co-op what it was. They reflected on a feeling a lack of trust for newer members ability to manage or govern, and a feeling that they deserved to hold onto more power given their longer history with the business and labor contributions. “It’s difficult to have founders involved” (even if those founders are worker-owners) on the basis that “mentorship, leadership, ownership can be extractive” through the power imbalance they create. One longtime board member said, “I had to have a lot of tough conversations had with me, you know, I had a lot of power taken away from me, and being told, this is the time you guys step aside… [but] as much as I kicked and screamed about it, I'm sure I sometimes still do, I'm better for it, I feel more rested and less responsible.”

Current status

The decision of the former owner to transition the business to worker ownership was driven by the need to reduce ownership and management responsibilities of a thriving and growing business by transferring some of those tasks to employees. She also expressed a desire for a more community-focused, egalitarian, and alternative form of enterprise than what a traditional sole proprietor or investor-owned firm could offer. Workers desire to have ownership over their labor and active participation in decisions made by the co-op attracted them to form the co-op.

Worker-owners described a process of consciously working to “horizontalize” the governance structure and fight against “founder’s syndrome.” The board was intentionally divided from management by encouraging non-managing members onto the board and actively incorporate less experienced members in decision-making. A policy was adopted in which proposals could be introduced to the board by anyone within the company, though the board maintained power to vote on it. Suggestion boxes were also set up around the co-op’s facilities to enable anonymous engagement with governance. Policy changes were documented and incorporated into handbooks and a publicly accessible decision log to ensure that processes and policies are transparent, documented and not held solely in the hands of a few managers. They also established a policy of "publicizing everything, making everything as transparent as possible, e.g. developing and posting a public pay scale."

In the process of pursuing more "horizontal" self-governance, worker-owners described getting "better at arguing democratically," and described building "trust" within the cooperative, bolstered by activities like "group outings together [and] organizing trainings with each other." They describe open discussion and report that though the board operates on majority vote, they have never had a non-unanimous decision. A worker-owner described their most recent push towards "horizontality," "autonomy and accountability." "Basically, right now, we have our management side, we have our governance side, and then we have this body in the middle that is comprised of members from both sides that hold that space and sort out when the lines blur." This organization structure was established to limit the unofficial power built by a few individuals in management and/or governance, allowing a more open and democratic culture.

Management at work sites remains hierarchical. Like many other co-ops, Co-op Delta had to find a balance between democracy and hierarchy. They settled on a system of "horizontal governance" and "hierarchical operations." Worker-owners described an operational hierarchy with designers at the top of the chain of command, followed by site managers, crew leaders, their second in command, and finally garden techs. This structure allows the co-op to complete projects in the field according to designs and clients wishes, without having to deliberate democratically on every step. This was presented as especially important where heavy machinery or other dangerous operations are involved. The physical division between the cooperative's properties and facilities—primarily the scene of governance activities—and the field sites—primarily the scene of operation activities—may have assisted in clarifying this division.

In complement to the defined roles and responsibilities in the field and on job sites, the environment in the co-op's grounds is more open for autonomy and experimentation. The board oversees various issues by breaking into committees with voluntary membership. Worker-owners and employees are encouraged to take initiative and propose new innovations, projects, or ideas and develop them. One worker-owner expressed the belief that their commitment to "autonomy" alongside "horizontality" and "accountability" led to a more effective, engaged, and innovative cooperative.

Successes

Co-op Delta's commitment to establishing a democratic organization in the cooperative appears to have paid off. The various avenues for participation and constant attention to where power calcified within the organization have led to a highly democratic, dynamic, and effective cooperative organization. The co-op's commitment to sustainable ecological principles in its work has remained particularly strong across the transition and establishment of the co-op.

The cooperative has also achieved a large degree of financial success and growth with approximately 20 persons working at the firm. Entry level wages have increased from $12 to $20 per hour, partially driven by the minimum wage regulations, market conditions, and inflation. Patronage is also paid out to members on the basis of hours devoted to governance. Co-op Delta also assigns patronage to non-owner employees, which it retains as equity within the business, to be claimed if the employee becomes a member, and usable in the meantime by the co-op as capital. This structure is unusual among the cooperatives surveyed and may be useful in both accumulating a source of equity and encouraging employees to become members.

Difficulties

Finding technical expertise was mixed. The former owner reported having serious difficulty contacting an expert organization, reaching out to multiple organizations before finding a technical expert to provide guidance and assistance with the transition process. Legal expertise was important in finalizing governance documents. The former owner concluded that "there was a lawyer that represented both the cooperative and me, and I don't think that was a good thing. I think I should have had my own lawyer." The non-compete agreement caused resentment and tension during the first several years following the transition. Both the worker-owners and former owner described the relationship as repaired. Despite their departure from the cooperative, the former owner is still occasionally involved with the business in a consulting role.

Understanding the financing of the enterprise was challenging. The owner said, "I would have had multiple people working on the finance part because the guy that did it, didn't seem to understand. It was just lacking and that was an important piece." The worker-owner said, "I feel the way the financial side of the cooperative was sort of explained to us as new owners. It could have been more robust. And that's not the fault of the expert, you know, it's just like, it's a bit de-emphasized."

Founders' syndrome is real and creates conflict. Despite best intentions to transition the business, the former-owner's identity is tied to and emotionally attached to the enterprise. Owners need to provide workers "visibility" to those invisible decisions informed by previous experience, habits, and repetition. Further, owners have to train the workers in the tasks that they perform. Training not only benefits the workers but builds the owners' assuredness and trust that workers are capable and confident to lead a growing and thriving business. Founders' syndrome is not limited to the original owner and emerging worker owners. Long-term board members can be resistant to change and associated risk, which can impede future success. Conflict emerged between the original board of directors and new worker-owners. The co-op hired a consultant who conducted a series of workshops including one that focused on personality profiles to provide insights into how people think and why they act the way they do.

Processes or the pathways to decisions can be as important as the decision itself. Decisions at Delta Co-op are made based on a majority vote. Straw votes are taken in advance of the official vote using a scale to understand where people are on the continuum of being in favor or against a particular proposal. Issues are further discussed until consensus is reached and the final vote taken.

Worker-owners also expressed their inability to control the "market at large" as a challenge for the cooperative, and a challenge to worker cooperative's ability to transform the economy. The necessity to perform in the market, though not necessarily to compete with other firms, was presented as a major factor in decision-making, and one that keeps the cooperative from offering the benefits and retirement plan it might otherwise like to. As one worker-owner said, “You have to understand, a cooperative is not a retirement plan, at least we don’t have one yet… we don't have 401K, we don't have, like, these investments.”

Lessons learned from case studies – Former owner/seller decision to sell to a worker-cooperative

Some of the drivers of owners to transition the business to a worker cooperative are shared. Personal values of the sellers influenced the decision to sell to a worker cooperative. Each seller viewed their business as a legacy in the community, not only in the goods or services provided (Co-op Alpha and Co-op Bravo), but also the values that guided their respective businesses (Co-op Charlie and Co-op Delta. Co-op Charlie continues to sell fair trade and sustainably produced coffee and Co-op Delta continues to design and plant landscapes by nature-inspired aesthetics. Sellers saw worker cooperatives as a tool to balance the benefits of ownership and employment. This sense of legacy, community, sustainability, and equality aligns with the cooperative business model that balances the triple bottom line, people, planet, and profit.

Emotions run deep for former owners engaged in the worker cooperative as they relinquish control of the business post transition. These emotions are tied to personal identity (who am I, now that I’m no longer a business owner), trust (Can I trust them to make good decisions?), and confidence (Will I receive payment for the portion of the sale that I financed?).

The drivers of owners to transition the business to a worker cooperative are also mixed. Sellers of businesses that became Co-op Alpha and Co-op Delta were seeking to engage their employees to build alignment of ownership and employee goals through worker ownership. More specifically, the seller to Co-op Alpha mentioned the divergent interest of ownership, e.g., managing costs and employee interest, e.g., giving away free drinks to increase tips. The seller to Co-op Delta recognized that the business was growing larger than what she could manage and desired to share those responsibilities through ownership with the employees. Withdrawal plans on the part of the former owners is mixed. The seller to Co-op Alpha left the business early, developing the business in the box while remaining in an advisory capacity. The seller to Co-op Charlie left immediately to relocate a significant distance away from the business and because of the confidence he had placed in those who would lead the co-op forward. The seller to Co-op Bravo desired to retire but remains part of the business with an end date that has yet to be determined. The seller to Co-op Delta appears to have planned to continue as a worker-owner but conflict and the non-compete agreement forced her to abruptly leave the co-op. Occasionally she assists in an advisory capacity.

The transition of the enterprise by the seller to the worker-cooperative requires the seller and workers to agree to terms in the buy/sell agreement along with securing the financing necessary to support the buy-out. We did not review these documents, nor have specifics of the agreement. Overall, the sellers viewed the purchase price as low. Sellers to Co-op Alpha and Co-op

Delta had little in the value of bricks and mortar and inventory. Rather, the most significant asset of the enterprise was the intelligence and business acumen of the owner. Sellers to Bravo and Charlie co-ops had inventory to sell. These sellers continue to own the property and receive rental income from locations where the co-op conducts business.

Securing financing from traditional commercial banks was impossible. Lending requirements call for collateral to secure the loan. Technically as worker owners, the only collateral they have is their labor, which does not meet the definition of collateral. Technical experts brought in Community Development Financial Institutions (CDFIs) to finance a portion of the buyout. The sellers financed a portion of the transaction with payments made to them by the co-op over several years into the future. Co-ops Bravo and Charlie rent the current sites of operations from their respective sellers. Co-ops Alpha and Charlie transitioned to worker ownership during the COVID pandemic. They valued the financial assistance afforded through the Payroll Protection Program established by the CARES Act and implemented by the Small Business Administration. Co-ops Bravo and Delta transitioned to worker ownership prior to the pandemic.

Lessons learned from case studies – Former employee decision to become a worker owner

As mentioned previously, worker cooperatives are formed in 1 of 4 ways. Our focus is on the business owner's choice to sell the business to employees interested in forming a worker cooperative. The transition is dependent on the employees' willingness to become worker owners. The business owner introduced the concept of worker ownership to employees in 3 of the 4 case studies. A community member introduced the concept of worker ownership to the employees of Co-op Bravo in advance of the owner seeking out more information from a cooperative development technical expert. Technical experts were important across all case studies to build knowledge and instill confidence of employees when deciding to become worker owners.

Reasons for becoming a worker owner are mixed. Co-ops Alpha, Bravo, and Delta workers were attracted to having ownership in a business and feelings of empowerment and prestige that ownership instills. They were enticed by the idea that they had ownership of their labor. Co-op Bravo mentioned the sense of community and stability that the business provided. All mentioned co-ops as an alternative means to compete in a capitalistic economy, which in their view creates "winners and losers", and focus on profitability versus the democracy of the co-op and importance of the Triple Bottom Line, people, planet, and profit.

The transition called for the employees to shift their mindsets. Prior to the transition, employees thought of the business in terms of the paycheck they received. As owners, it is no longer about the paycheck. Impact on wages following the transition were mixed. Co-op Alpha wages were slightly lower. Co-op Bravo received similar wage increases as before the transition and dividends as well. Co-op Charlie wages increased but no dividends, in the form of patronage. had been paid. Co-op Delta had received an increase in wages, this was driven more by prevailing wage rates in the industry and area, not by action taken by the business. None of the worker owners interviewed mentioned the cost to purchase their ownership share as an impediment. Several workers paid upfront. Most had small payroll deductions taken from their paychecks. Co-op Delta placed a value on the labor of workers. That value credited towards their membership share.

Early on worker owners grappled with what it meant to be an owner and relation to work. Worker owners experienced longer hours as they assumed both owner and labor responsibilities. They became more attentive to the competition and the implications of the overall economy impacting the business They built understanding that this is the price paid of being an owner, privileges that ownership entails, and optimism for future benefits. Co-ops Alpha and Delta mentioned that early in the transition, worker owners viewed themselves as "the boss" (making ad hoc decisions), which wasn't the case. They had to work through the confusion and tension between democratic control and hierarchy to complete day-to-day operations. The relationship between worker ownership and human resources regulations is complex. Both Co-ops Alpha and Charlie mentioned privacy issues when confronting worker or employee performance. Co-op Bravo valued the time that the worker owners come together to discuss and make decisions and the downside of more paperwork and how the decisions made during the board meeting may not be implemented on the sales floor.

Those interviewed were also asked about what would dissuade them from becoming worker owners. In reflection, they seemed sold on the concept. "Once I was in, I was in." "Nothing really." When reflecting on the transition process itself, they mentioned the time invested in doing the work to launch the co-op, especially development of the bylaws. Important was having confidence and trust in the people leading the process.

When asked, what advice would you give employees considering worker ownership, the worker owner of Co-op Alpha said, "Evaluate whether or not you're up to the challenge of being an owner, understand what that means, understand that it's not going to be very simple or easy." Co-op Delta shared a similar view. "Understand what you are stepping into. This co-op movement is over 100 years old, but it feels like a fairly different way of doing business." The Co-op Charlie worker owner suggested honesty was important, "Looking at what you are honestly contributing to the business, not just what do you want."

Lessons learned from case studies – Role of technical experts and advisors

Each of the case studies mentioned the importance of technical experts and the assistance they provided in moving the process forward. Technical experts and advisors importantly offer needed information and education for both business sellers and employees transitioning to worker ownership. Early on they answered important questions. "What is a worker cooperative?" "What are the roles and responsibilities of worker owners?" "How are they governed, managed, financed?" "How are they lead?" "What will be different once the business is transitioned to worker ownership?" Technical experts can provide guidance on how the sale price is derived. During the transition process the expert utilizes a network of attorneys and accountants familiar with governance documents and cooperative finance and accounts. Such support is provided during the transition, estimated to be 12 to 18 months long. Further support may be provided to the board of directors during the first one to two years after the transition. Technical assistance can include but not limited to assisting leadership when developing meeting agendas, navigating co-op board dynamics, putting governance documents to use, developing worker owner relations and engagement, and understanding financial statements.

Technical advisors can introduce the seller and worker owners to lenders with capacity to finance the sale of the business. Two of the case studies mentioned the importance of the CARES Act Payroll Protection Program and the financial benefits it provided to the co-op. They have awareness of Community Development Funding Institutions (CDFIs) with representatives knowledgeable in worker co-op financing to provide capital to complete the transaction. Of added benefit is that they can introduce sellers to accountants that have knowledge of Internal Revenue Code (IRC) Section 1042 Capital Gains Rollover. Put simply, business owners create a C-corp with all shares owned by the seller prior to transition to co-op. Business owners sell at minimum 30% of the shares to a worker-owned cooperative. Proceeds from the sale can be rolled into qualified replacement securities and defer payment on any capital gains taxes indefinitely.

Conclusion:

Worker cooperatives are a means to transition ownership of a business to employees interested in forming a democratically governed business. Worker co-ops can be a solution to owners who do not have a family member or buyer willing to take ownership and can preserve businesses and jobs within a local community. Business transition is complex for both the seller and owner. The identity of the seller is tied to the business and developing new interests and relationships outside of the enterprise can be challenging. Employees can be equally challenged as they learn new responsibilities and transition their identity from that of an employee receiving a paycheck to ownership decision making responsibilities. The case studies show that sellers need to develop the skillsets of employees to be successful worker owners and worker owners need to be understand the obligations of ownership to build the confidence of both the seller and their own capabilities. Unlike commercial banks, CDFIs will provide capital to finance the transition, and technical experts are a significant resource for both the seller and the worker owners.

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Appendix A. Pathways to success for business sellers

Hurdles to overcome	Pathways to success
Begin with the end in mind, envision life after the sale	• Acknowledge the emotions of the sale, sense of loss, sense of identity, exhilaration. These emotions will impact relationships with employees, friends, and family members during the transition process and following the sale. • Understand that change is difficult, and this is a personal reinvention process, seek support and talk to others who have gone through a similar change. • Recognize that formal and informal relationships with family, friends, former business associates will change. • Avoid making too many personal changes all at once, use the first year as a time for self-exploration and reflection. • Develop a plan for the first 6 months identifying 3 to 5 simple goals. • Identify the action steps to achieve these goals. Use action steps to structure daily life. • Join a community group, non-profit organization to share your skills, learn new skills, develop new interests, meet new people. • Get curious, consider new possibilities.
Leading the process through the transition is difficult	• Evaluate & assess present and future business viability to increase likelihood that enterprise will remain successful following the transition. • Develop your transition team – attorney to represent your interests, accountant to understand tax implications, lender to understand loan repayment obligations, financial advisor to determine sources of income to fund lifestyle & goals after the sale. • Identify technical expert to provide information and education to both seller and employees on the worker cooperative business structure and transition process. • Hold meetings with employees to gauge interests and build knowledge of the concept. Acknowledge that some employees may choose not become worker-owners. • Business valuation can be difficult. Value tends to be tied to bricks and mortar and inventory, not the business acumen and owner's leadership in building the business. Negotiate purchase price and develop sales agreement. • Determine how the purchase will be financed and identify a lender willing to make a loan. • Determine that portion of the purchase price that will be seller-financed along with terms for repayment. • Recognize leadership and ownership potential of all employees and the critical skills of a few to lead the process forward. Answer the question, "Who will spearhead efforts to move the process forward?" • Train and mentor future worker owners on formal and informal management and ownership responsibilities and decision making.

Financing the buy-out can be challenging.	• Commercial lenders require collateral to make loans or personal guarantees by owners. Workers do not make loans or personal guarantees. • Sellers may finance a portion of the sale with the co-op making monthly principal and interest payments. • Commercial lenders are hesitant to make loans to cooperatives. Community Development Financial Institutions (CDFIs) can be a source of funds for worker cooperatives. • The Small Business Administration may be aware of funding sources to assist with the buyout.
It can be difficult to trust and have confidence in the ability of worker owners to lead the business and make good decisions to ensure business viability.	• Provide guidance and mentor worker owners to build and master skills to build trust and confidence that the business is in good hands. • Identify the metrics, measurements, and task employees need to master and achieve that build the owner's assuredness of success into the future. • Create the "business in the box" with contents that include the tasks and associated timelines normally performed by the owner. Include financial statements, contact lists, contracts, policies, business plan, strategic plan, etc. • Help worker owners gain expertise on financial management of the business, cash flow, concept of risk, risk management, strategy, and budgets. • Transition ownership tasks to worker owners.
Founder's Syndrome is real and giving up control is difficult. Determine the role you will play following the formation of the worker cooperative.	• Answer the question, "Can I give up control of the business?" • Answer the question, "How long do I want to be part of the business?" • Ask the question to worker-owners, "How long do they want the seller to be part of the business?" • Decide the role you will play. Consultant or advisor? Will you be paid or is this pro bono to protect your monetary interests? Examine conflict of interest. Decide how long will you serve in this capacity? Develop a withdrawal plan with timeline and share with worker owners. • Recognize that the business will change from what you envision as more people have influence on the future direction of the cooperative.
Becoming a worker-owner may be challenging	• Decide if being a worker owner is the right role for you. • Recognize that as a worker-owner, the seller has no more or less power than other worker owners. • Recognize that the business will change including hierarchy of decision making. • Decide if you will be a board member and preference for holding a leadership position on the board of directors. • Consider and evaluate and build transparency on how interests as a board member conflict with role as a seller providing financing. How does that impact board deliberations and decision making? • If a board member, limit the time you will serve on the board, impart knowledge useful in decision making, and withdrawal plan.

Appendix B. Pathways to success – for future worker owners

Hurdles to overcome	Pathways to success
Dealing with change creates uncertainty during transition.	• Recognize and acknowledge emotions connected with transition. • Relationships between employees and respected, trusted business owner evolve during transition. • Hierarchy relationships between owner, managers, and staff impacted during transition. • Recognize inferred relationships between the power holders, informal influencers, trusted confidents, etc. change during transition. • Create a safe space to work through these emotions and meet people where they are.
Transition to worker cooperative ownership is complicated.	• Gain knowledge about worker cooperatives as a business structure from a cooperative development specialist or technical advisor or visiting other co-ops. • Utilize the knowledge of attorneys, accountants, and lenders. • Attend meetings convened by owner, experts, and transition team. • Be ready to ask questions. • Purchasing one member share may be perceived as costly. Small payroll deductions can be made to finance purchase of the ownership share.
Engagement by employees is mixed.	• Invite employees to meetings and events where transition plans are discussed. • Respect the level of engagement will be different between employees driven by interest for ownership, confidence (or lack thereof) in being a worker-owner and personal circumstances, e.g., do I have the time, can I afford to join? • Transition is complete, worker owners must develop a business ownership philosophy, it's no longer just about the paycheck.
Employees become frustrated by length of time to transition to worker ownership.	• Recognize that it will take 12 to 18 months to complete. • Develop a transition plan with timeline to show progress made towards transition. • Utilize committees and small group work, e.g., finance, bylaws committee to explore purchase and finance options and develop governance documents. • Collaborate with technical expert and guidance documents to develop bylaws; acknowledge there is no such thing as 'perfect' bylaws.
"I'm an owner, now I'm a boss!!" attitudes emerge.	• Collaborate with technical expert to build understanding that worker ownership does not allow for unilateral, ad hoc decision making. • Work with technical expert to clarify roles and responsibilities of worker owners, board members, management, employees. • Work with technical expert to build understanding of governance and decision making vested in board of directors and worker owners. • Depending on size of business, recognize that organizational hierarchy remains needed for decision making for efficient day-to-day operations.

Anticipate confusion	• The business will change because more people are providing input to make decisions. Develop vision, mission, and values statements to frame decisions. • Develop a cooperative culture. • Provide feedback mechanisms and develop pathways for workers and employees, and co-op leadership to make suggestions. • Communicate, communicate, communicate.
Founder's Syndrome is real.	• Sellers may remain as worker owners, advisors, or financiers. Exiting the business can be difficult. Build their confidence. • Learn about and become proficient in completing tasks of the former owner. Perform those tasks to a level of satisfaction that ensures confidence by the former owner. • Visit other cooperatives

Appendix C. Useful resources

On Being Worker Owned

- Center for Community Based Enterprise
- Becoming Employee Owned – New York
- NJ/NY Center for Employee Ownership at Rutgers University, New Brunswick, NJ

Cooperative Development Centers

- Adirondack North Country Association
- Cooperation Buffalo
- Cooperative Development Institute, The Northeast Center for Cooperative Business, Northampton, MA
- Democracy at Work, Becoming Employee Owned, San Francisco, CA
- Project Equity, Oakland, CA with team members located throughout the U.S.
- ICA Group
- Westchester Cooperative Network
- U.S. Federation of Worker Cooperatives – Service Providers, New York State

Community Development Financial Institutions

- Cooperative Development Fund of the Northeast
- Capital Impact Partners
- The Working World, New York City

Toolkits

- Conversion Resources for Worker Cooperatives by Democracy at Work Institute
- Worker Cooperative Toolbox by Northcountry Cooperative Foundation
- A Union Toolkit for Cooperative Solutions by CUNY, School of Labor and Urban Studies, Community and Worker Ownership Project

Appendix D. OWNER SURVEY

Cornell University, S.C. Johnson College of Business
Charles H. Dyson School of Applied Economics & Management
Cooperative Enterprise Program
451Warren Hall, 137 Reservoir Rd.
Ithaca, NY 14853

Business Ownership Transition to Worker Cooperative Ownership
Owner
Building economic and social equality through employee-owned enterprises

It is estimated that nearly 30,000 businesses employing over 750,000 workers will change hands in the next 10 years in NYS. Transitioning businesses to worker cooperatives presents one model that retains businesses in local communities, preserves jobs, and builds wealth for the newfound worker-owners and the community at large. The business structure is well-known throughout the world, but less known in the United States. Informed decision making is critical to both the owners and employees who will assume responsibility in the future. The challenge is to identify the key decisions and the reasoning used to make those decisions. Researchers affiliated with the Cornell Cooperative Enterprise Program (CEP) seek to understand the motivations and decisions made by owners and future worker-owners involved in leading the transition process. The goal of the project is that the information gathered through structured interviews will be useful to persons interested in business succession planning and implementation leading to the formation of worker cooperatives in the future.

Case studies are a means to build understanding of complex issues from stakeholders. Structured interviews of business owners, worker-owners, and employees will be conducted to develop four case studies. Input from owners, worker owners, employees or non-worker owners and technical advisors is critical to the accuracy of the findings and success of the project. Parallel interviews will be conducted with worker-owners, non-worker owners, and technical advisors. Structured interviews include questions about the transition to worker ownership and changes in the business following transition to worker ownership. Information collected through the structured interviews will be compiled into publications shared with business owners and employees, economic development professionals, cooperative development specialists, government leaders, non-profit organizations, and academia.

Your Involvement
If you agree to take part in this study, we invite you to participate in an interview with the researcher about the transition process from your viewpoint. Such an interview will take between 1 and 2 hours. We do not anticipate any risks to you in participating in this study other than those entered in day-to-day life. Taking part in this study is voluntary and there are no benefits or compensation for participation in the study.

Your answers will be confidential. Resulting publications will be summarized to maintain confidentiality. The records of this study will be kept private and any report made public will not include any information that will make it possible to identify you. Please know that you can skip any questions that you do not wish to answer. If you decide to not take part or to skip some of the questions, it will not affect your current or future relationship with Cornell University or Cornell Cooperative Extension. If you decide to take part, you are free to withdraw at any time.

The researchers conducting this study are Professor Todd M. Schmit and Extension Associate Roberta M. Severson in collaboration with graduate student Own "Gus" Dunn-Hindle. If you have any questions now, please ask the interviewer. If you have any questions later, you may contact Roberta M. Severson at email rmh27@cornell.edu, phone 607.255.1987. If you have questions or concerns regarding your rights as a subject in this study, you may contact the Institutional Review Board (IRB) at 607.255.5138 or access their website at https://researchservices.cornell.edu/offices/IRB

I have read the above information and have received answers to my questions that I asked. I consent to take part in the study.

My signature____ Date ____________________

My name (printed)____

The consent form and survey will be kept by the researcher for at least three years beyond the end of the study.

OWNER PRIOR TO TRANSITION TO WORKER-OWNERSHIP

BUSINESS DESCRIPTION PRIOR TO TRANSITIONING TO WORKER OWNERSHIP

1. Please share a bit about the history of the business:
2. What was the business structure prior to the transition to worker ownership?

HOW DOES OWNER DECIDE TO SELL TO WORKERS?

1. When did you first seriously think about selling the business, and why?
2. As a business owner, what if, anything, concerned you about transitioning to the worker co-op business structure?
3. How were those concerns addressed?
4. When and how did you decide to talk to workers about forming a worker-cooperative?

HOW DOES AN OWNER DECIDE WHO TO SELL TO? (Select group? All employees?)

1. Did you view all employees as potential worker-owners? YES NO
   a. If YES, what were the attributes that of the employees that led you to believe they would be worker owners?
   b. If NO, how did you decide who to include?
2. How were employees involved in the transition process, e.g. leadership, meetings, etc.?

TRANSITION TEAM

1. Who were the members of the transition team/committee that you selected?
2. Why were these members chosen?
3. Were employees invited to nominate or elect persons to the transition team/committee? YES NO
   a. If yes, how many were elected? Why do you believe these individuals were chosen by employees?
4. How often did the transition team meet? During or outside of hours? On or off site?
5. As the owner, what powers did you have or retain through the transition process?
6. What powers did the transition committee have?
7. Please describe the development of the governance documents (articles of incorporation, bylaws). What went well? What were the stumbling blocks? What might have been done differently?
8. How were likely worker-owners identified?
9. What are the requirements or pathway to ownership?

TRANSACTION FINALIZED

1. How did you go about valuing the business?
2. What language should be included in the buy-sell agreement to protect the seller?
3. How is the buy-out financially structured?
4. What went well in transitioning ownership? What would you have done differently?
5. As the seller, how do you prepare employees to assume ownership and leadership of the business?

TRANSITIONING OWNER - PRESENT BUSINESS STATUS

1. What is your present role (board member, advisor, other) and responsibilities when assisting the worker-leadership team in making decisions?
2. How are decisions made? (Consensus, majority vote, unilateral decision, sociocracy, etc.)?

3. How do you see your role changing through time? What strategies do you use to allow worker-owners to take on more leadership and decision-making responsibility?
4. How do you reconcile decisions made in the best interests of you as the seller, the business enterprise, and the worker-owners?
5. What advice would you give to other owners contemplating selling the business to workers?

ROLE OF TECHNICAL ASSISTANCE ADVISORS

1. Who provided you with technical assistance?
2. What role did technical advisors play in the transition process?
3. How did they provide technical assistance – meetings, conversations, frequency?
4. What information was particularly useful to you as the owner?
5. What role might government leaders, chamber of commerce, economic development specialists play in assisting business owners to learn about and transition to worker-ownership?

ANYTHING ELSE YOU WOULD LIKE TO ADD?

THANK YOU!

Appendix E. WORKER SURVEY

Dyson
Cornell
SC Johnson College of Business

Cornell University, S.C. Johnson College of Business
Charles H. Dyson School of Applied Economics & Management
Cooperative Enterprise Program
451Warren Hall, 137 Reservoir Rd.
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Business Ownership Transition to Worker Cooperative Ownership
Worker-Owner
Building economic and social equality through employee-owned enterprises

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My signature____ Date _____________________

My name (printed)____

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WORKER-OWNER

INTRODUCTION

- How long have you been working there?
- When did you become a worker-owner?
- What was your role and responsibilities before the transition to worker ownership? What is your current roles and responsibilities at [NAME OF BUSINESS HERE]?
- How would you describe the culture of the business before and after the transition to worker ownership?

HOW DO WORKER-OWNERS DECIDE TO BUY IN?

1. How were you first introduced to the idea of transitioning the business to worker ownership?
2. What made you decide to become a worker-owner?
3. What, if anything, would have prevented you from becoming a worker-owner?
4. What role and responsibilities did the owner have during the transition? Present day? How did those roles and responsibilities impact your decision to be a worker-owner?

HOW WAS A WORKER-OWNER INVOLVED IN THE OWNERSHIP TRANSITION?

1. Please describe how you were involved in the transition process?
2. What was done well, e.g. information sharing, frequency and time of meetings, etc.?
3. What might have been done differently, e.g. challenges to overcome?
4. What would you advise employees of other enterprises when working through or involved in the ownership transition process?
5. What would you advise business owners when intersecting with employees when working through the ownership transition process?

WHAT IS THE ROLE OF TECHNICAL ASSISTANCE IN WORKER-OWNER DECISIONS?

1. What information and assistance did the technical expert provide to you as a future worker-owner?
2. How helpful was the information? What else might have been helpful?

HOW IS THE WORKER COOPERATIVE ORGANIZED?

Worker cooperatives may have two leadership bodies, those persons who serve on the board of directors who focus on strategy and the goals of the business and those persons who manage the day-to-day operations. Some people are members of both leadership bodies. This is commonly known as the duality of worker cooperative leadership.

Regarding the board of directors:

1. Please describe the organization of the board (number, officers, committees, etc.)
2. How are decisions made by the board of directors, e.g. consensus, majority vote, unilateral decision, sociocracy? Who is involved in the decision-making process?
3. How are decisions made by the board shared with members? With the management team?
4. Please describe how members make their concerns known to the board.

Regarding the management team:

1. Please describe the organization of the management team (who reports to whom, who tells who what to do?)
2. How are concerns of worker owners relayed to management and/or the board of directors?

3. How are concerns of employees, non-worker owners relayed to management?
4. Did roles and responsibilities of management change after the board of directors was established? YES NO If YES, how so?

HOW ARE OR DID WORKER-OWNERS ADJUST TO A CULTURE OF WORKER-OWNERSHIP?

1. What difficulties, if any, were encountered in establishing worker-owner governance?
2. What new roles, responsibilities, challenges, etc. have come with worker ownership?
3. How has the transition changed your relationship to your work, if at all?

HOW DID WORKING AT THE BUSINESS CHANGE AFTER THE TRANSITION?

1. How did your experience as a worker before the transition to worker-owner after the transition change?
    a. Compensation Changes?
    b. Working Hour Changes?
    c. Benefits Changes?
2. What powers and responsibilities do you hold now that you did not before and vice-versa?
3. In the context of this business, do you prefer being an employee of a traditional business or a worker-owner? Why?

WHAT IS THE ROLE OF COMPETITION IN EFFECTING THE COOPERATIVE'S ORGANIZATION?

1. What internal pressures does the Business face?
2. How do you make decisions about the operation of the business based on outside market/social/political/personal/etc. factors?
    a. Does this differ from the way the traditional ownership behaved?

ANYTHING ELSE YOU WOULD LIKE TO ADD?

THANK YOU!

OTHER A.E.M. EXTENSION BULLETINS

EB No	Title	Fee (if applicable)	Author(s)
2024-08	Worker Cooperatives: A Solution to Small Business Ownership Succession The Owner's Decisions to Sell & The Employee's Decision to Buy		Severson, R.M., Dunn-Hindle, O.G., Schmit, T.M.
2024-07	Six Year Trend Analysis 2023, New York State Dairy Farms		Karszes, J.
2024-06	Evaluating the Economic Impacts of Taste NY: A Case Study of the Southern Tier Welcome Center Taste NY Store		Schmit, T.M., Park, K.S., Clausen, Jr., J., and Gomez, M.I.
2024-05	Progress of the Dairy Farm Report: Selected Financial and Production Factors, New York, 2023		Karszes, J.
2024-04	New York Organic Dairy Cost of Production: 2023 Benchmarks and Financial Performance		MacKenzie, M.K. and Karszes, J.
2024-03	2024 New York Land Value Trends		Guay, R., Harrington, P., McDowell, K., Sweeney, S., Stone, R., and Zhang, W.
2024-02	Foreign Ownership and Leasehold of Agricultural Land in New York		Wang, F. and Zhang, W.
2024-01	Dairy Manufacturing Capacity and Milk Production: Results from Discussions and Interviews		Wolf, C.
2023-12	Six Year Trend Analysis 2022 New York State Dairy Farms Selected Financial and Production Factors		Karszes, J. and Augello, L.
2023-11	On the Use of Whole-Farm Revenue Protection by Specialty Crop Producers in New York State		Astill, G., Higgins, E., Raszap Skorbiansky, S., and Rickard, B.

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