



Submission concerning the potential of worker co-operatives to meet the major challenges posed by the economic development of Canadian communities
Submission of the CWCF/FCCT

Part I: The potential of worker co-operatives

Presentation by Alain Bridault, President of the FCCT¹

Thank you for welcoming us into this forum. We should like to remind you first that the UN recently proclaimed 2012 to be the International Year of Co-operatives. The UN accordingly recognizes the importance of co-operatives as a major player in economic and social development in all countries of the world. In this connection, I should like to thank the federal government for the support it has given to this proclamation.

This allows us to highlight the importance of co-operatives in the social and economic development of Canada. Thus the Canada of today cannot be understood unless we take into account the enormous contribution made by agricultural co-operatives and credit unions to the building of this country.

However, the world of co-operatives is not limited to these two large families. Modern Canada has also been built with the support of other co-operatives. And we are going to talk to you today about the potential of one of these co-operative families to meet the social and economic challenges facing the Canada of today and tomorrow. We shall talk about worker co-operatives.

Since the time that you have graciously allowed us is fairly short, my presentation is small, lasting only about 5 minutes, and will be divided into three parts:

¹ Mr. Bridault, from Quebec City, holds a doctoral degree in sociology and two Master's degrees (one in sociology and one in the co-operative movement).

He has been involved for 25 years in local and co-operative development in Quebec and in Francophone communities in Canada. He has taught university courses on the subject of the establishment and management of collective enterprises (the University of Sherbrooke, and Laurentian University in Sudbury). He has also directed various research projects on, among other subjects, the transfer of companies, the entrepreneurial potential of groups of entrepreneurs and the determining social factors in the establishment of businesses. He is currently the President of the Coopérative de recherche et de conseil ORION and the CWCF.

- first, since the entrepreneurial formula for a worker co-operative is still very little known, I should help foster your understanding by talking about some aspects that make it original;
- second, I shall point out what creates its extensive intelligent business potential, which is fully geared to the business environment of the 21st century;
- to conclude, I shall focus on the major reasons for our appearance here today, the unique and irreplaceable potential of worker co-operatives in meeting the major challenges that will be caused by the retirement of 200,000 business owners in Canada over the next ten years.

Understanding the originality of worker co-operatives

Like other forms of co-operatives, a worker co-operative is, first and foremost, a democratic business that operates along the lines of parliamentary democracy. Thus, every year, the members elect at their annual general meeting their representatives on the board of directors who ensure that the company prospers and meets their needs. Beyond this shared characteristic, however, this shared way of existence, the three major co-operative families, consumer co-operatives, production co-operatives and worker co-operatives, have different reasons for existing.

The originality of a worker co-operative thus arises from the logic governing its management, which differs fundamentally from that of private enterprise or those of the other kinds of co-operatives.

To ensure that this concept is understood, we can illustrate this with the case of a plant that produces, for example, cedar shingles. If this plant is owned by a private company, the logic behind its management will be to maximize profits in order to pay the maximum amount of dividends to the company's shareholders. This leads the company to seek to minimize production costs in purchasing raw materials for the plant, cedar wood, as cheaply as possible and to pay its employees as little as possible. The manager of the plant will also seek to maximize revenues from the sale of cedar shingles by selling them for the highest possible price.

If this plant is owned collectively by the cedar producers through a co-operative of woodlot owners, which might be the case in France, where such owners are numerous, the logic behind its management is completely different; although you still have the same plant, the same equipment and the same number of workers running it, it is managed in the interests of the owners. Since these are the people supplying the plant with cedar wood, the logic behind its management is no longer to maximize profits but rather to strive to purchase the maximum amount of wood from them at the highest price possible. Applying this same logic, the manager of the plant will seek to minimize salary costs and maximize the price of the cedar shingles sold to customers.

If, on the other hand, the plant is owned by a consumers' co-operative, as might be the case in Sweden, the logic behind its management is different yet again. To satisfy the client members that are the plant's collective owners, the plant manager will seek to sell them cedar shingles as cheaply as possible by purchasing wood from the suppliers as cheaply as possible and to pay the employees the lowest salaries possible.

Finally, if this plant belongs to a worker co-operative, which might be the case in Quebec, the logic behind its management is different yet again. To satisfy the employee members who are the owners of the plant, the plant manager will seek to provide them with good salaries and good working conditions and to preserve their jobs by purchasing wood from the suppliers as cheaply as possible and try to sell the cedar shingles to customers for the highest possible price.

Understanding the potential of workers co-operatives as a formula for entrepreneurship that is perfectly geared to the business environment in the 21st century

This management logic is accordingly totally different in a worker co-operative. It also releases the incredible potential for productivity of this entrepreneurial formula. Indeed, since the company belongs to them collectively, the workers know that, if it makes a profit, that profit belongs to them and may be redistributed to them in whole or in part as a salary supplement in the form of annual bonuses.

Therefore they have every interest in ensuring that the company is well run, that it is effective and efficient and that all their colleagues contribute to its overall productivity. As a result of this personal interest in the sound management of the plant, which is tied to the collective interest, the employees will naturally develop a very strong sense of attachment to the company and will accordingly spontaneously mobilize very strongly to ensure its success. This is why I often say that a worker co-operative is the only form of company that is strongly mobilized with a view to achieving success because it is by nature an intelligent company because everyone has an interest in pooling the intelligence of all with a view to supporting its success. Indeed, to the extent that the managers have fully grasped this potential, it will be possible for participatory methods of management to become established there easily. The “kaisen” model of organizing work, which was developed by the large Japanese companies using Maslow’s hierarchy of needs, is intrinsically “natural” in a worker co-operative.

This is where one finds the perfect interlocking between this unique entrepreneurial formula known as the worker co-operative and the conditions for developing companies today in the so-called developed countries of the northern hemisphere like Canada. This idea is easier to understand if we take into account the two major trends that mark the competitive environment of today and tomorrow:

- on the one hand, the need to position companies in the global north that have to work with salaries that are clearly higher than those paid by companies in the global south and the emerging countries; and
- on the other hand, the lack of manpower that will make itself felt as the generation of the baby boomers enters retirement.

In the face of competition from companies in the southern hemisphere and from the emerging economies, we know that our companies must strive harder in niche markets with a range of sophisticated high-quality or high-tech products, all of which must be products with “high added intelligence”. In other words, we know that they must become intelligent companies that are able to count on the mobilization and dedication of their employees, who provide not only their work time but also their intelligence at work.

We also know that with the retirement of very large numbers of workers from the baby-boomer generation, we shall face a serious problem of manpower shortages. This phenomenon is already occurring in my region in Quebec City.

The challenge for businesses is now not only to become more intelligent and to develop their capacity to attract and retain their manpower. They are striving and will continue to strive to invent ways to involve their employees in the sharing of profits, to provide generous special benefits to attract employees and retain them and also to implement certain methods of participatory management in order to become more intelligent. All this will aim not merely to attract and retain high-quality employees but also, and above all, to allow companies to compete effectively, despite their salary handicaps and thanks to the high quality of the products or services they wish to market.

In this context, however, competitors will never be able to compete with a company that is wholly owned by its employees! In the other cases, when a private company, a producer co-operative or a consumer co-operative is

involved, the employees know that since they are not the owners, they will never have access to all the fruits of their labour! On the other hand, where the employees are collective owners of a company, they naturally mobilize their skills for the future of their company, naturally develop their sense of solidarity with one another and of responsibility to the company, and naturally design it and wish it to be intelligent.

This is why I say that in this century, unlike the last, worker co-operatives are completely in phase with the new conditions governing the emergence and development of companies. Their “DNA” makes them eminently competitive in the global economic new deal.

A major challenge that can be met by worker co-operatives: the new generation of companies

We know that a large-scale social and historical phenomenon will affect most countries in the northern hemisphere over the next ten years: hundreds of thousands of company owners will retire. The Canadian Federation of Independent Business (CFIB) has estimated their number at 200,000 in Canada. We also know, as a recent study by the Quebec Department of Economic Development, Innovation and Exports (MDEIE) has shown, that though the phenomenon is already under way, we are currently witnessing only its very earliest beginnings and that departures should reach their “peak” between 2017 and 2020 and that, when we are approaching this peak in 4 to 5 years’ time, there will no longer be sufficient individuals willing to purchase these companies. This phenomenon of a missing next generation of individual entrepreneurs should also manifest itself much earlier in rural areas. The social and economic risk is substantial and many companies risk closure, as a result of which tens of thousands of jobs could disappear, whole villages and communities could tumble into irreversible decline.

However, we also know, and this is what we wished to demonstrate today, that a solution is at hand, that it is the employees of these companies under threat who hold it in their hands and who will mobilize to save their jobs and their communities. We know that the entrepreneurial solution of the worker co-operative will impose itself naturally. In Europe, this process is already under way in that the co-operative solution in the transfer of companies to their employees is encouraged by the European Commission. In France, in Italy, in Spain, original provisions for the monitoring and funding of the process of transferring companies to their employees have already been put in place in partnerships between government and federations of worker co-operatives. It is provisions of this kind that will need to be made in Canada. That is what Ms. Corcoran will talk to you about.

Part II: Partnership between the Government of Canada and the worker co-operative movement to help ensure the economic future of communities

Presentation by Hazel Corcoran, Executive Director, CWCF/FCCT²

Introduction : Worker Co-ops in Canada and in the World

Thank you very much for inviting us to submit a brief and appear before the Finance Committee.

Today, there are about 350 worker co-operatives in Canada employing over 13,000 people, with revenues of \$470 million. An estimated two-thirds of worker co-operatives in Canada are located in Québec, employing about 10,000 people. If we include the related types of co-ops (multi-stakeholder or solidarity co-ops, and worker-shareholder co-ops), then there are approximately 600 such co-operatives. There are several different federations of worker co-ops : the Canadian Worker Co-operative Federation is Canada-wide including regional federation members in Quebec. Our regional federation members are le Réseau de la coopération du travail du Québec (Quebec Worker Co-operation Network), and la Fédération des coopératives forestières du Québec.

Note that the relatively small worker co-op sector in Canada stands in contrast to the sector in Europe, where hundreds of thousands of people are employed by worker co-ops, and the US, where over 10 million people work in employee-owned businesses, under Employee Stock-Ownership Plans or ESOPs.

The Worker Co-op Contribution to Community Economic Development

Our argument can be summarized in three stages :

1. We believe that government has the responsibility to enable communities across Canada to benefit from sustainable and equitable development.
2. We further believe that in many regions, worker co-ops will be able to save businesses in which there is no other succession option and also create new enterprises which will ensure sustainable and equitable development because they are under the control of their communities.
3. This is why we submit that by helping the worker co-op sector to reach its full potential, government is thereby helping these communities.

The Government Contribution to Maximize Worker Co-op Potential

There are 3 elements which we believe are necessary to unleash the potential of worker ownership to serve workers and communities across Canada:

- To launch a Co-operative Investment Strategy;
- Making the federal Co-operative Development Initiative (CDI) permanent;

² Ms. Corcoran is the Calgary-based Executive Director of the Canadian Worker Co-operative Federation, the bilingual association of worker and multi-stakeholder co-ops. For approximately 20 years, has been involved in all aspects of worker co-op development and support including capitalization, advisory services, and launching the Worker Co-op Developers' Network. Trained as a lawyer and fluently bilingual, has served the co-operative movement in other capacities, including as Director of le *Conseil canadien de la coopération* (1994-2005), Calgary Co-op (1999-2002), Prairie Sky Co-housing Co-op (since 2006), and First Calgary Savings & Credit Union (since 2007), and coordinator of the CoopZone Developers Network, through CWCF (starting in 2005).

- To expand the CDI into the new area of conversions to worker co-ops.

Collectively these programs could be an important legacy of the UN International Year of Co-ops in 2012, unleashing the potential of co-operatives to provide jobs and services in communities across Canada. In fact the first two are also being advocated by the Canadian Co-operative Association and *le Conseil canadien de la coopération et de la mutualité (CCCM)* as legacy projects of the Year of Co-ops. We believe that these legacy projects will create a long-term enabling environment for co-operative development and ensure the growth and sustainability of co-operatives in Canada. These economic measures will also contribute to the economic health and well-being of the country.

A. A Co-operative Investment Strategy

A strategy which would provide co-operatives with much-needed access to financing, in partnership with the co-operative sector.

For us, an effective Co-operative Investment Strategy must have 2 components :

- a) **A Canadian Co-operative Development Fund;** and
- b) **A federal Co-op Investment Plan** based on Quebec's « Régime d'investissement coopératif » for a tax credit for members who invest in their worker co-ops, as well as farmer and producer co-ops.

Both components of this investment strategy were unanimously endorsed by the House of Commons Standing Committee on Finance in its 2010 pre-budget report.

A Canadian Co-operative Development Fund

Co-funded by the federal government and the co-op sector, this Fund would provide large and medium sized capitalization loans to new and existing co-operatives and would require a one-time federal government contribution of \$70 million after which it would be self sustaining. This would be a repayable loan fund and not a source of grant funding. Investments would only be made based on an analysis of a co-operative's business plan and its capacity to pay back loans. The fund would also seek financing from the co-operative financial sector. An example of such a fund is the **Arctic Co-operative Development Fund**, which was capitalized by the federal government in 1986 with \$10 million and is now worth over \$30 million. In 2008 the Co-operatives Secretariat of the federal government commissioned Price Waterhouse Cooper to examine the CCA /CCCM model for this fund. They concluded in their report that "The potential impact of the fund is positive and will assist emerging and existing co-operatives to grow and expand." CWCF believes that this Fund would be an effective source of support for worker co-ops, including helping worker co-operators to finance the purchase of their share capital.

A federal Co-op Investment Plan

A federal **Co-operative Investment Plan** (based on Quebec's Régime d'investissement coopératif which has existed since 1985), which would provide a federal tax credit for co-op members and employees who invest in producer (such as agriculture, fishery, forestry) and employee-owned co-operatives.

A national CIP would be a partnership between citizens who invest their own money, and the federal government. Tax incentives for member or employee investment would not be spent unless co-op members and employees first invest their own funds. In the plan in Quebec, from 1985 to 2006, some \$393 million in total was invested by members and employees in eligible co-operatives. Such a plan at the federal level is estimated to cost \$17-20 million per year and it would produce some \$120 million per year of new investment across Canada. In 2008 the Canadian Federation of Agriculture ranked the CIP as its number one priority in its pre budget brief.

B. Making the federal Co-operative Development Initiative permanent

For us, this program which provides grants and technical assistance to new and emerging co-operatives has to be a

permanent and expanded **Co-operative Development Initiative (CDI)**.

In 2009, CDI was renewed for four years and is now managed by the two national co-operative associations, CCA and the Conseil canadien de la coopération et de la mutualité (CCCM). The current \$4 million-a-year budget needs to be increased to effectively support the creation of new co-operatives and strengthen existing ones. Twenty-one different national, regional and sector co-operative organizations including CWCF are involved in delivering services.

By 2013, the CDI program will have existed for ten years; given its strong track record, it should become a permanent federal program and part of Canada's economic and social infrastructure. It should have an additional element of staged, non-repayable contributions to hire needed expertise as co-ops in development reach specific milestones that demonstrate their potential for long-term success.

In the last two years, the Innovative Co-operative Projects component of the CDI program received over 300 applications for support and was able to fund some 84 projects to date, with more to come this year. These projects involved funding the start up and planning of co-operatives in every province and territory and in every kind of industry including renewable fuels, agriculture, food, health services, and retail stores and the creation of many new jobs in communities.

C. To expand to a new CDI component : the conversion of enterprises into WCs

For us, considering what is at stake for a lot of communities in Canada, the CDI has to be improved with a new component : a specific and temporary program for the conversion of enterprises into worker co-ops.

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

The experience of RoyNat Capital Inc., a Canadian merchant bank, should interest those considering succession options. "Our experience as a merchant bank, which is supported by U.S. studies, is that 70% of family businesses do not survive to the next generation. The odds are little better – just 50/50 – when the business is sold to an outside buyer." (R. Reynolds, Financial Post). On the positive side, there is another succession option that has a significantly greater chance of success - the employee/management buyout. "Successions involving leveraged employee buyouts, supported by key managers, succeed in about 80% of the cases."

The legacy project specifically proposed by the worker co-op sector is: a program to carry out retiring owner successions using the worker co-op option, administered by the Canadian Worker Co-op Federation and its Quebec federations.

The sale of small or medium-sized businesses to employees via a worker co-op holds a lot of potential, but also much complexity. The issues which must be addressed include promotion of this option so that it becomes known, engagement with succession planning professionals, and then within the co-operative one must work to help ensure business success, effective management and beneficial governance structures.

In order to meet this complexity and realize the potential, we would require a program of approximately \$500,000/year to carry out the program. It will permit us to :

- a) Finalize and continually improve a set of promotional materials, workshops and documentation on the potential of retiring owner succession using worker co-ops;
- b) Carry out promotion especially among business succession professionals;
- c) Carry out the conversions of small and medium-sized enterprises or SME's to worker co-ops by Co-op Succession Professionals.

Conclusion

To give a closing overview: Canada has come out of the global recession with renewed economic activity and some important positive lessons for other countries in terms of regulation of the financial sector. However, many Canadian communities and groups of people are still hurting and unemployment rates are too high in many places. Co-operatives have helped in the recovery by continuing to provide jobs and services in communities across Canada.

The **International Year of Co-operatives** is an important occasion for Canada to recognize the contributions of co-operatives to Canada's economy and social life. Canada has one of the largest and most important co-operative sectors of any country.

We believe that the role of the co-operative sector is a contributing factor to the relative strength and stability of the Canadian economy during the recent crisis. As a recent study by the Quebec government has shown, co-operatives last twice as long as the average lifespan of all enterprises in Quebec.³

At the same time as they are more durable, co-operatives, because they are owned by community members, have the social as well as the economic interests of those communities front and centre. As the United Nations Secretary-General Ban Ki-moon has said: "*Co-operatives are a reminder to the international community that it is possible to pursue both economic viability and social responsibility.*"

Canada, like most of its other G8 partners, is in a period of economic recovery and reset. We believe the co-operative model can be used more as we examine how to refit and re-energize our economy.

We could start by examining the recent United Kingdom (UK) experience. The 2010 elections in the UK ushered in a new government made up of Conservatives and Liberal Democrats. During the election, all three major parties committed to support more co-operatives and social enterprises and the new coalition program includes the setting up of more co-operatives and social enterprises.⁴

The United Nations has called on all member states to take advantage of this special year to promote the co-operative sector, take "appropriate measures aimed at creating a supportive and enabling environment for the development of co-operatives" and "enhance the growth and sustainability of co-operatives".⁵ In this context, we are asking the government to recognize the special role of co-operatives in Canada and to partner with the co-

³ 44% of co-operatives last ten years while the average for all businesses is only 19.5% in *Taux de survie des coopératives au Québec*, Edition 2008, Ministère du Développement économique p. 41 <http://www.mdeie.gouv.qc.ca/>

⁴ *The Coalition: our programme for government*, Cabinet Office, May 2010. Available at www.cabinetoffice.gov.uk/media/409088/pfg_coalition.pdf

⁵ The text of the UN resolution, adopted by the General Assembly on December 18, 2010, can be found at www.copac.coop/publications/un/a64r136e.pdf

operative sector to help improve the socio-economic life of Canadians.

Finally, we are proud to announce a significant upcoming event : the **October 2011 Conference**: CWCF will improve on our annual event by hosting an international, bilingual Conference with the theme of Business Successions Using the Worker Co-op Model on October 11-13, 2011 in Quebec City. At this Conference, the foremost experts on this approach from within Canada and around the world will be featured, presenting cutting-edge research and practices on how to successfully carry out conversions to worker co-ops.

Summary / Summary of Recommendations

In this Brief, we have explained the functioning of worker co-operatives as employee-owned enterprises which are democratically run in accordance with co-operative principles. We have outlined the potential of worker co-operatives, especially with regard to the significant challenge of business successions for small and medium-sized enterprise. The Government of Canada has a historic opportunity to act given that 2012 will be the International Year of Co-operatives.

In summary of our recommendations, there are three elements which we believe necessary to unleash the potential of worker ownership to serve workers and communities across Canada:

- To launch a Co-operative Investment Strategy with two components :
 - a. A Canadian Co-operative Development Fund; and
 - b. A federal Co-op Investment Plan
- Making the federal Co-operative Development Initiative (CDI) permanent;
- To expand the CDI into the new area of conversions to worker co-ops.

Appendix: FOR MORE INFORMATION

To learn more about the potential of worker co-operatives and for business succession in particular, we refer you to the following background information:

Succession Planning using the Worker Co-op Options, by CWCF, 2005:

www.canadianworker.coop/content/succession-planning-using-worker-co-op-option-employee-buy-outs-option-consider-retiring-sma NOTE: French version : www.canadianworker.coop/fr/resources/les-guides/planification-de-la-relève-au-moyen-de-l'option-de-la-coopérative-de-travail

Presentation on Conversions to co-operatives, by Alain Bridault, 2010: www.coopzone.coop/fr/node/3627 (in French only).

Case studies of conversions (see especially: Greenhouse Co-ops, Careforce): by the Canadian Co-op Association, 2007: www.coopscanada.coop/en/orphan/Case-Examples

[The Worker Co-operative Movements in Italy, Mondragon and France: Context, Success Factors and Lessons](#), by CWCF, 2010

The Rationale for Worker Co-ops, by CWCF, 2011: www.canadianworker.coop/resources/documents/rationale-worker-co-operatives-creating-jobs

Worker Co-op Success Stories, by CWCF, 2011: www.canadianworker.coop/resources/documents/worker-co-operative-profiles

The web site of the Worker Co-op movement in France: www.les-scop.coop/sites/fr/. (in French only)