SUCCESSFUL COOPERATIVE OWNERSHIP TRANSITIONS





Case Studies and Key Factors for Success in the Conversion of Privately Held Businesses to Worker Cooperatives

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COOPERATIVE OWNERSHIP TRANSITIONS
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Introduction

Every day in the U.S. 10,000 baby boomers retire. As a result, an estimated 70 percent of privately held businesses will change hands over the next two decades.[1,2] This represents a significant transition of ownership in the U.S. and has the potential to impact hundreds of thousands of jobs and thousands of enterprises that are critical to the livelihood of their communities.

As small business owners exit the workforce they face the dilemma of who will carry on their business and vision. The options for retiring owners include closing the business, selling it to a third party, transferring it to family, or selling it to their employees. Closing the business will certainly lead to a loss of jobs, as can selling to a third party. Keeping a business in the family comes with its own set of challenges. Only a third of family owned businesses endure the transition to the second generation, and even fewer make it to the third generation.[3]

The idea of selling a business to its employees and converting it to a worker owned cooperative is gaining traction as a viable succession strategy. It is a strategy that saves jobs, builds community wealth, and empowers workers to own and manage their own business. Worker cooperatives differ from other business entity types in that they are owned and democratically controlled by their workers, and workers share in the risk and reward of operating the business.

While the potential for cooperative business conversions is great, data on conversions is limited. Motivated by the lack of existing research and the opportunity to save quality jobs and strengthen communities, the University of Wisconsin Center for Cooperatives and the Democracy At Work Institute embarked on a joint research project to document the stories of successful cooperative conversions. The goals of this project were to illumintate best practices in cooperative conversions and to gain a better understanding of how to more effectively support businesses interested in exploring conversion.

The report includes case studies of the following businesses:

- New Moon Café in Olympia, WA
- Blue Scorcher Bakery Café in Astoria, OR
- A Yard and a Half Landscaping in Waltham, MA
- South Mountain Company, an architecture, building, and energy firm in Martha's Vineyard, MA
- Wisconsin Natural Heritage Cooperative, a natural conservation consultancy firm in Madison, WI

Each case study begins with a historical overview of the business, including the events leading up to the conversion, followed by the status of the cooperative as of fall 2014. Each business is then analyzed in terms of four components: 1) conversion structure and process, 2) governance and management, 3) membership structures, and 4) ongoing challenges. There were several common points of overlap between the cases, however, the small data set and the broad range of industries and conversion pathways made it difficult to draw strong conclusions.

Upon completion of the cases, further analysis led to the identification of five critical factors during the conversion process:

- Involvement and personality of selling owner
- Conversion timeline and process
- Financing the deal
- Management and governance systems
- Availability of technical assistance and peer support

Following the presentation of the five case studies, a comparative analysis of these five variables identifies critical factors during the conversion process and how the cooperative community can better support conversions. Continued study and data collection are essential, and we hope this report will lead to further research on best practices in cooperative conversions and improved resources for business owners and employees interested in worker ownership.

South Mountain Company

Introduction

South Mountain Company is a worker owned architecture, building, and energy firm located on Martha's Vineyard. South Mountain was founded in 1975 by John Abrams and converted to a worker owned cooperative in 1986. Since its founding, South Mountain has grown substantially in size, service offerings, and revenue. The complexity of the company's governance and management structures has also evolved considerably over the last three decades. With a total of 33 employees, including 21 worker owners, and $9.5 million in annual sales, South Mountain has grown

The people of South Mountain Company today

into a critical member of the Martha's Vineyard community and a shining example within the worker cooperative sector.

Historical Overview

In 1975, John Abrams and his business partner Mitchell Posin moved from Rockland County, New York to Martha's Vineyard to build a new home for John's parents. Their intention was to finish the house in six months and move back to New York, but six months turned into a year and they were still working on the house. Eventually new projects landed in their laps and they ended up staying on the island and forming the South Mountain Company. South Mountain remained a family business with John as the sole legal owner through the mid-1980s with just a handful of employees including both John and Mitchell's wives.

Mid-1980s South Mountain holiday card photo

In 1985, Mitchell left to pursue his interest in farming, and soon after, in 1986, two long-time employees approached John and said, "we've been here 10 years and we've been talking about our future. We don't want to go out and start a company ourselves. We want to stay here for our careers but we need more of a stake. We need more than an hourly wage."[4] The idea made a lot of sense to John, so the trio began investigating different ownership structures. Once they had chosen to move forward with a worker owned cooperative, they hired Peter Pitegoff, an attorney with the Industrial Cooperatives Association in Boston (now The ICA Group), to be their guide and help them structure the deal. In 1987, John sold the company to a new group that included Steve Sinnett, Peter Ives, and himself. At the time, the company had seven additional employees.

By the end of the 1980s, one of the original owners had left South Mountain and two new owners had joined. The company entered the nineties with a staff of 11. John describes the nineties as South Mountain's "coming of age decade." During this time, the Co-op increased its commitment to renewable energy, sustainable

Zero energy possible affordable housing in West Tisbury, MA

design, and affordable housing projects; took on two of its largest projects in the history of the company; added five new owners; and achieved a new level of profitability.

In the decade that followed, South Mountain grew into its new space, began a series of future focused planning sessions, and developed systems and structures to enhance its capacity to govern and manage the business well into the future. It is fortunate that the steering committee developed the new cooperative structure with the future in mind. Peter Pitegoff remembers that, "It was done in the context of a longer term plan and they set up a corporate structure that they could grow into over time."[5]

Conversion Structure and Process

Once the idea of broadening the company's ownership had been raised, John, Peter Ives, and Steve Sinnett created an informal steering committee to explore the idea further. Mike Drezner later joined the committee since it was clear he would soon be joining as the fourth owner. During this time, the final decisions were John's, but the process was inclusive and collaborative. John recalled that "in that process we by and large made decisions by consensus and our decision making process to date continues to be consensus."[6]

Neither the steering committee nor the additional employees received any formal education or training during the conversion, nor did they receive any help from other worker owned cooperatives. They did, however, participate in a lot of meetings and discussion. Mike emphasized, "There weren't a lot of examples that we could point to or take as an example of a worker owned company. There were ESOPs but this was a different model."[7]

A critical decision at the beginning of the conversion process was hiring attorney Peter Pitegoff to provide technical assistance and guidance. "Peter basically gave us a reorganization agenda. We needed to fill in the blanks and make all of the decisions with his guidance."[8] The other employees were not part of the steering committee but they were aware of the process and kept informed along the way.

The steering committee's work with Peter included establishing the co-op's five year vesting period (one of the longest vesting periods in the worker co-op sector), working with an accountant to determine the value of the business, and structuring the final deal. Peter described his role in the following way: "I charted a plan of legal steps with essentially what the corporate structure would look like at the other end and the steps to get there. Once the key participants reached consensus on what they wanted to do, I drafted the organizational documents."[9] The group decided to use a very classic Mondragon structure of internal capital accounts as well as subchapter T for tax benefits. Peter emphasized that the timetable was quite patient, both in terms of getting to a point of clarity about what the plan would be and how the plan itself would unfold over the years.

The valuation conducted by South Mountain's accountant showed that there was not a tremendous amount of value to the business. In the end, however, the valuation was a very minor factor in determining the purchase price. The group's top priority was to agree on a price that felt fair and comfortable to John and was affordable to the company.

The sale of South Mountain Company was facilitated through the creation of preferred shares, which were issued to John and redeemed from company profits over the course of seven years. Peter Pitegoff recalled that "the individuals involved didn't have the wherewithal to buy the company all at once... We created two classes of stock with John holding a substantial amount of equity but issuing membership shares that carried with them governance rights and the ability to buy those shares over time, so it was a very gradual buy out. It was bootstrapped through earnings of the company that John was able to take out in a very patient way. It was a very practical decision."[10]

The new owners, including John, purchased membership shares in the cooperative but were not required to personally finance the conversion. It was challenging to set the price of membership shares because the group wanted the ticket to entry to be meaningful without being an obstacle. They ended up deciding to base the cost of membership on the price of a good used car; and in 1987 that was about $3,500. The cost to join has escalated over time and is now $14,000.

After a three to six month exploratory phase and another six months of planning, South Mountain formally converted to a three-member employee owned cooperative on January 1, 1987. John was the sole owner and CEO of South Mountain prior to the conversion and he has remained the CEO and chairman of the board to this day. Over the years, however, his role has changed dramatically from that of the typical small business owner.

Current Status of the Cooperative

South Mountain is now in its 27th year of employee ownership and 39th year in business. The co-op has a total of 33 employees including 21 owners and achieved $9.5 million in sales in 2013.

The business looks very different today than it did even a few years ago. The most recent economic downturn was incredibly difficult for South Mountain and was ultimately a transformative experience. During the downturn, the co-op lost five long-term employees due to four layoffs and one early retirement. "Before we did the layoffs, we had made big moves – furloughs, wage cuts, major marketing, new skill-building – to avoid them. But as we made our way through the evaluation process we came to realize that, for many reasons, we wanted to get smaller even if we didn't absolutely have to."[11] The co-op emerged from this difficult period stronger than ever and was eventually able to add several staff members and take on some exciting new projects. South Mountain continues to diversify its services and critically evaluate how to be the best company possible as our society transitions from what author Marjorie Kelly describes as "the extractive economy of the past to the generative economy of the future."[12]

Governance and Management

Since converting to employee ownership, South Mountain has been very intentional about separating management decisions from policy decisions. The board of directors used to meet every two weeks but now meets every two months to deal with policy matters and long-term strategy. At present, every owner of South Mountain holds a seat on the board. The bylaws require owners to elect a minimum of three directors, and a director need not be an owner, so the board structure could change in the future. The board strives to make decisions through consensus but can resort to a 75 percent supermajority vote in the case of a stalemate. In the 27 years South Mountain has been employee owned, the co-op has used a supermajority vote three times.

South Mountain's day-to-day operations and decision-making are fairly traditional. "We don't stand around and draw straws for who builds a stairway. The best person to build the stairway builds the stairway. And the construction foreman makes that decision. So in terms of management, it's much more traditional."[13] John has maintained the title of CEO throughout the life of the business, but his role in the business has evolved significantly over the last three decades. John emphasized that the maturing of the business has influenced his role far more than the transition to a worker co-op.

The management structure underwent its most substantial change approximately ten years ago. In 2004, John went away for a six month sabbatical to write a book and see how the company would fare without him. Before he left, he worked with others to develop a management system that would not rely so heavily on him. John describes the experiment as "a dismal failure. Nothing disastrous happened; it just wasn't smooth." When John returned from his first sabbatical he and his colleagues spent another six months refining the management system, creating the structure that has remained in place to this day. John is still the CEO but a set of committees manages the day-to-day operations of the company and helps distribute decision-making power across the organization's employees regardless of ownership status.


"We don't stand around and draw straws for who builds a stairway."

The management committee, the co-op's most important committee, is made up of six standing members and one rotating member. Deirdre Bohan, the Vice President and COO, chairs the committee. There are eight additional committees: design, production, energy, charitable contributions, personnel, administration, marketing, and fun. The committees meet on a regular basis and are very focused and operative. "We're kind of fanatical about productive meetings. We do a lot of facilitation training so people are good meeting facilitators. It's a very collaborative management structure and that's how everything is done - it's the culture of this place."[14]

Committees meet on a regular basis.

Membership

In order to petition for ownership, an employee must have worked at South Mountain for at least five years and a minimum of 6,000 hours. The employee must also be employed with South Mountain at least three-quarters time. Once an employee has met these requirements and indicates an interest in becoming an owner, they must be approved by the Board of Directors and pay their ownership fee, which is currently $14,000. The full fee may be paid at the beginning of ownership, or payments may be spread, at no interest, over a period of time not to exceed 36 months. The new owner takes on all responsibilities and receives all benefits of ownership once 50 percent of the fee has been paid. There are four additional criteria that candidates for ownership are expected to meet:

1. The intention to work at South Mountain Company for the foreseeable future; not an absolute commitment for a certain number of years, but the expectation of long term employment.
2. An ability to work well and cooperatively in whatever job the employee does. Evaluations should demonstrate exemplary work and cooperation, or steady improvement where necessary, and a non-defensive attitude which encourages criticism and self-criticism.
3. A commitment to understanding and honoring the issues that are central to the company's values: quality work, ethical business conduct, environmental responsibility, and

concern for other people. In other words, Owners are expected to be good representatives of the company.

4. A commitment that, while an Owner, the employee will make South Mountain Company their primary work.

Owners are also expected to serve on the Board of Directors, understand South Mountain's governance systems and documents, serve at least one rotation on the management committee, and serve as a South Mountain ambassador within the community. In exchange for fulfilling these responsibilities, owners have the right to a vote and a voice on policy matters and to several financial benefits via their individual capital accounts and patronage dividends.

Ongoing Challenges

The only challenge South Mountain seems to routinely face revolves around growth—more specifically if and how the business should grow. "We have always challenged the principle of growth. We feel that we must not grow in response to demand but grow because there is a particular reason or reasons that we want to grow."[15]

Analysis

Besides the challenges of sorting out the technical aspects of the deal and setting aside the time needed to carry it out, the most challenging aspect of the conversion was convincing themselves and their community that conversion was a prudent idea. Peter Ives believes that for John, the most difficult part of the process "was convincing his friends that he wasn't giving away the farm. He had some friends who said, 'You're crazy! You're giving away the farm.' But as it turns out, he didn't."[16]

John admits that the hardest thing for him was embracing the unknown and letting go of his fear of losing control of a business he loved dearly. "The most challenging part was that I didn't understand it myself. Basically we were saying to ourselves, to each other, we're building this road as we travel. We don't know where this goes…and in the end I had to grapple with what was I really afraid of? And what I was really afraid of was that when the decision-making was in the hands of others, what would happen if this thing that we had all worked so hard to make and that I loved so deeply, what if decisions were made that made me not love it anymore? And that was really the only issue."[17]

Fortunately, the conversion of South Mountain Company to a worker-owned cooperative has truly been a success story. It is difficult to overstate how positive the conversion has been for John. When asked how the conversion has benefitted him, without skipping a beat, John exclaimed, "It saved my life!" He went on to explain, "I have the best job in the world. Here's this wonderful business and I get to own it, partly, and I get to run it, partly, but I still have the responsibility but only partly. So the sharing of responsibility and not having to be the buck stops here all the time is a tremendous relief. It means that I get to do more of what I want to do and not have to be the one that's right all the time. I get to be wrong. It's totally fun."[18]

The conversion has also been valuable to the employees in both tangible and intangible ways. First, ownership has been hugely valuable from a financial standpoint. "You're very likely in your first year to get 100% return on investment in equity, so it has become a very good investment."[19] Ownership also has several less tangible benefits. Peter Ives explained them this way, "If someone asks me who I work for, I can say I'm a part owner of South Mountain Company. It gives you a pride in the company because you are a part of it. I believe it does really make you want to contribute more, care more."[20]

Several factors contributed to the success of the conversion and the ongoing success of the business:

- The founder's personality, values, and leadership style. John has an open and collaborative leadership style and was open to the idea of employee ownership from the beginning. Peter Pitegoff recalls noticing a real learning process within the steering committee, which he attributed to John's values and style. "Nothing was dictated."[21]

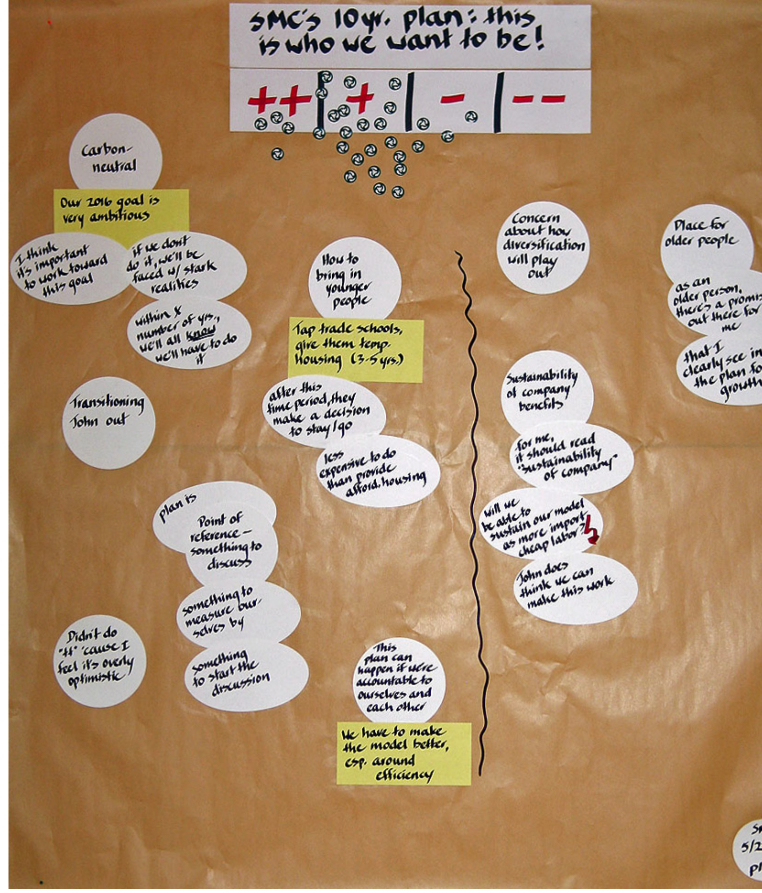
- The original business was in a strong financial position and already had a cooperative culture. Peter Pitegoff argued that one of the reasons the conversion succeeded is that the firm already had a very collaborative culture. "It was already a collaborative and trusting community of work, which frankly made the technical and legal steps so much more successful."[22] South Mountain was also a profitable business at the time of conversion. John emphasized that, "If you've got a chaotic, inefficient, immature, poorly organized company that you want to make into a co-op, you're going to have a chaotic, immature, inefficient worker co-op when you're done. It's so important to have a strong culture and a strong business."[23]

- The conversion process was patient and future focused. "There's an important phase before [choosing a co-op structure] of defining what you are trying to accomplish...How can you best accomplish this goal? Flexibility and careful consideration rather than a fixation on a particular legal structure is important."[24]

In addition to evaluating whether a cooperative was the appropriate structure, the steering committee also took the time to develop thoughtful, thorough bylaws and governing documents. Owners have continued to refine these documents and processes as needed. "A set of bylaws covers all sorts of things that aren't necessary initially but in time they prove important and they get revised all the time."[25]

- The steering committee received excellent technical and legal assistance. South Mountain received technical assistance from an attorney with cooperative expertise who could guide them through the process, help structure the deal, and draft legal documents

- The business has engaged in ongoing efforts to plan, evolve, tweak, improve, and grow for the right reasons. Since the conversion, South Mountain has consistently dedicated time to "big conversations" that are both introspective and future focused. Often these conversations deal with the issues related to growth. "We have always challenged the principle of growth. We've always felt that we must not grow in response to demand but grow because there is a particular reason or reasons that we want to grow. So that's always been an important part of our deliberation."[26] They also dedicate significant time to strategic planning, which many small businesses don't. "Every two years we do a five year plan and design quarterly tasks that will lead us to the results we are shooting for."[27]



Notes on the wall at a strategic planning session

- There is a long probationary period for ownership, but the workplace is participatory and inclusive for owners and non-owners alike. South Mountain has worked hard to engage all employees in decision-making, not just owners. Peter Ives explained, "We have the board meetings for people who are owners. We also have company meetings where everybody has a voice, not a vote but a voice. And once again we don't vote very much so a voice is usually as valuable as a vote."[28]

Conclusion

South Mountain was a pioneer in the field of cooperative conversions and there is much that other businesses can learn from their experience. Until recently, the company has largely been shaped by and thrived under John's visionary leadership. As the co-op moves into its fourth decade of employee ownership, one of its key challenges will be transitioning to new leadership. As older members are beginning to retire, and being replaced by new, younger employees, the South Mountain leadership is deeply engaged in planning the transition to Generation Two, and planning the next forty years. In 2025 the company will be 50 years old and John will be 75. The plan is for the transition to be complete at that time.

Creating the management committee was a step in that direction. Just this year, they completed the "Avalanche Scenario," a document that lays out, in great detail, how every part of the business will run tomorrow "if John is buried by an avalanche today." This document will evolve into the plan for the Next 40 Years. Fortunately, South Mountain employees apply the same principles to their business as they do to buildings. "Making buildings that work, and last, requires learning over time through experimentation, patient observation, dogged perseverance, and attention to detail. This is why we are so committed to remaining involved with the buildings we make - adding, altering, and maintaining."[29] Through experimentation, observation, perseverance, and attention to detail, John and his fellow owners have built a cooperative that works and one that will last, regardless of what storms blow its way.

Making buildings that work and endure, requires experimentation, dogged perseverance, and attention to detail.

Blue Scorcher Bakery Café

Introduction

The Blue Scorcher Bakery Café (the Scorcher) is a worker-owned bakery and café located in Astoria, Oregon. The Scorcher was founded in 2004 with the intent of being a cooperative, but it took several years for the business to fully realize that vision. The original business, the Bread Collective, was started by five Astoria residents in 2004. It eventually fell into the hands of Joe Garrison and Iris Sullivan, who shepherded the business as its sole owners for several years before recruiting a new set of owners in 2011 and converting it to a new worker owned cooperative in 2012. The Scorcher is currently owned by 10 worker owners and has a thriving bakery and café business with a loyal customer following. The business has made great strides in the last two years in realizing its potential as a worker owned enterprise. Despite the fact that this conversion is somewhat unconventional, many of the lessons learned are still applicable for private businesses that are considering conversion to employee ownership.

Historical Overview

Joe Garrison and Iris Sullivan met in Eugene, Oregon in 1995. In 1996, they moved to Astoria, Oregon to settle down and start a family. They immediately started volunteering for the Astoria co-op Grocery, where they met Kris Daehler, Sean McMullin, and Mary Nally. The group of five, who were either working for or volunteering at the Astoria co-op Grocery, all had an interest in launching some type of cooperative enterprise and began scheming about possible business ventures.

In the summer of 2004, the owner of Home Spirit Bakery, considered by many to make the best bread in town, decided to shutter his business and become an Episcopalian priest. When the group learned that the

bakery would be closing, they decided to form the Bread Collective, a worker-owned bakery that would operate in the same space and produce a similar type of bread.

The Bread Collective launched in 2004 as a wholesale business. Within two years the opportunity arose to move into a larger space with retail potential. In September 2006, the three remaining owners opened the Blue Scorcher Bakery and Café in the new space and hired 17 additional employees to fill out the staff. Approximately one year later the third owner exited the co-op, leaving Joe and Iris as the sole remaining owners.

Joe and Iris were the sole owners of the business for the next several years. During this time, they built their customer base, refined their internal systems, and worked hard to foster a cooperative culture. According to worker owner Peggy Bondurant, the business "grew by $100,000 every year for at least five years. It just grew and grew and so they got burned out as you can imagine."[30] Even when it was just the two of them, they tried to run the business as if it was a cooperative. "We did our best to have decision-making all the way through even while we were the only two owners…we had a lot of consensus-based meeting process. We studied how co-ops self-manage. How do you have a group where you don't have a boss man? We tried to put on all the process as though it wasn't just the two of us."[31] Joe and Iris even created a Stewardship Council made up of employees to increase the workers' sense of ownership and engage them more intentionally in management decisions. During this period, the topic of adding new members to the Bread Collective came up at several staff and Stewardship Council meetings, however, employees were always hesitant to take the leap.

Eventually, Joe and Iris' leadership and persistence bore fruit with the help of a strong nudge from Iris. In 2010, Iris gave the staff an ultimatum: take on additional leadership and ownership or this business might close or take on a very different shape. In January 2011, the Scorcher workers unanimously voted to pursue broader ownership at the annual membership meeting.

In October 2011, a group of workers retreated to Brietenbush Hot Springs for two days with Diane Gasaway from the Northwest Cooperative Development Center to begin laying out a plan for creating a new co-op. "Somehow the catalyst was having Diane come in and say I know co-ops. Let me evaluate yours and tell you how you can change it. Iris and I tried a lot of things but being authority figures on co-ops we certainly weren't and largely still aren't. Just her [Diane] having co-op on her business card was a good thing. It was just that element that we lacked."[32] On June 30, 2012, the Bread Collective sold the Blue Scorcher to the Scorcher Artisan Cooperative, launching the next stage in the business's development.

Conversion Structure and Process

The years that Iris and Joe spent instilling a cooperative culture at the Scorcher paid off when it was time to make the leap back to collective ownership. Despite the groundwork they had laid, there were still several issues that needed to be resolved to complete the transition:

1. **The legal transaction**: how would legal ownership of the business be transferred to the new owners?
2. **The financial transaction**: how much was the business worth and how would the financial transaction be structured?
3. **The governance and management systems**: how would the new business be managed and governed?

The Legal Transaction

One of the first decisions that needed to be made was whether the six employees interested in ownership should become owners of the existing structure (the Bread Collective DBA the Scorcher) or if a new cooperative business entity should be created to purchase the Scorcher from the Bread Collective. The group received advice that it would be simpler from an accounting perspective to sell the business to a new legal entity, so the Bread Collective sold the Blue Scorcher to the Scorcher Artisan Cooperative. The Scorcher Artisan Cooperative incorporated as a cooperative corporation in the state of Oregon and had eight founding members: Joe, Iris, and six new worker owners.

The Financial Transaction

Joe and Iris received some help looking at the business' financial statements and records, but a formal valuation was not conducted prior to the sale of the business. In the early days of the Bread Collective the owners did not take any pay. As each of the other original owners left the business, the group went through a process to value the owner's unpaid hours worked and the departing owner was paid that amount.

In order to determine the sum Joe and Iris would be paid for the business and the terms of the deal, Diane Gasaway from the Northwest Cooperative Development Center facilitated a meeting between Joe, Iris, and the employees who were thinking about becoming owners. It was important to the group that the purchase price was large enough to feel meaningful but that it was also affordable. The group eventually agreed that the new business would pay Joe and Iris $10,000 each out of future profits.

The $10,000 figure paid to Joe and Iris was largely an extension of the system used to pay out previous owners, but the figure was rounded down to make the transaction affordable for the new business. Joe and Iris had received advice that the business was worth more, but their highest priority was realizing their dream of creating a successful cooperatively owned enterprise. "The $10,000 we got to as a reasonable compromise. We got some advice that it could have been a lot higher but we got what we got."[33]

The $10,000 payments were structured as loans from Joe and Iris to the business. No owner equity was used to purchase the business. Joe and Iris each received a promissory note, however those promissory notes conveyed no additional ownership or management rights. To date, neither promissory note has been paid down.

Governance and Management

Once the decision had been made to pursue a broader ownership structure, a small, self-selected group of employees formed a steering committee to write the bylaws and hash out the new cooperative structure. The bulk of this structure was based on the principles of sociocracy, which the Scorcher had coincidentally adopted around the same time they decided to formally reinvigorate the cooperative structure. Worker-owner Karmen

Hughes and Joe Garrison believe the sociocratic method is what gave the Scorcher a platform for becoming a full-fledged cooperative, even though the idea of adopting the method was daunting at first. "The advent of sociocracy provided a last minute scare for the Owners because it felt like this new scary thing that would be messy and take some time to figure out. But in fact I think it helped everybody to relax because it does such a good job of making clear who is responsible for what and for how long."[34]

The Scorcher also added a general manager position and department leads during the conversion to streamline communication and decision-making. "When we instituted that [GM] position, it gave the leads a place to go or anybody could go to the GM with questions or concerns. I just think the flow of the business was better because there were more people in charge of taking care of what had to be done."[35]

During the conversion, the steering committee engaged in a lot of planning but they did not write a formal business plan. Joe explained their business planning process in the following way: "Lots of head scratching and deciding what sorts of tweaks to make to pricing and shift scheduling in order to hit our margins. That sure did happen. And we did do a big wave [of business planning] with the new owners."[36]

Throughout the conversion process workers received ongoing training during staff meetings and retreats. The sociocracy trainings the group received from John Buck and the ongoing support from the NW Cooperative Development Center were particularly important. According to Peggy, the training from John Buck was invaluable. "I think it immediately helped improve communication, which was something that we sorely needed."[37]

Once the appropriate structures were in place and the wheels starting turning, the transition from two owners to eight went well. "There was kind of this beautiful balance between the time that it took for us to move away from being the center of the storms and the time it took for the new folks to feel comfortable stepping into the center of the storms. We were figuring it out and they were figuring it out and it happened amazingly smoothly."[38]

Current Status of the Cooperative

Four years later, the Scorcher now employs ten worker owners and 16 to 22 additional staff depending on the season. The business generated $762,000 in sales revenue in 2013 and is on sound financial footing.

Governance and Management

The co-op continues to use sociocracy as its governance and management framework. Sociocracy is a way of establishing and running organizations based on the belief that people have the right to determine the conditions under which they live and work.[39] The sociocratic method uses interconnected committees governed by consent, referred to as circles, to run the organization and make decisions.[40] The Scorcher uses the sociocratic circle method to organize both the management and governance of the business. The underlying principles of sociocracy include the following (taken from Blue Scorcher's bylaws):

1. **Consent**—The principle of consent governs decision-making. The principle of consent is the method of decision making whereby the arguments presented in discussing a decision are of paramount importance, and the result of the discussion is that no one present has a reasoned objection to the decision being made.
2. **Selection of Persons**—Persons are elected to fulfill functions and tasks exclusively by consent after open discussion.
3. **Circles**—The organization is composed of a hierarchy of semi-autonomous, self-organizing circles. A circle is a group of persons who are operationally related. Each circle has its own aim and has the authority and responsibility to execute, measure, and control its own activities and to maintain an appropriate level of knowledge and skill, assisted by a program of development conducted by the circle.
4. **Double-Linked Circles**—All circles are double-linked. A lower circle is always linked to a higher circle in such a way that at least two persons, that is, the operational leader and at least one elected representative from the lower circle belong to and participate in the decision making of the next higher circle.

The Scorcher is organized into a hierarchy of double-linked circles, in the following order from top to bottom: member circle, board of directors circle, general circle, department circles, and section circles.

All worker members in good standing are automatically part of the Member circle. The Member circle is responsible for selecting the Board of Directors, accepting new member owners, authorizing new classes of membership, changing the quorum of membership meetings, and changing bylaws. The Board of Directors circle, referred to as the Board, manages and directs the business and affairs of the Cooperative, with full power to engage in any lawful act or activity authorized under Oregon state statutes. The co-op often talks about adding a few non-owner community members to the board but has not yet done so.

The General circle consists of the General Manager, leads of the Departments, and at least one representative from each Department circle. The General circle manages the operations of the Cooperative within the limits set by the Board. Responsibilities include determining and controlling policy, delegating part of its decision-making authority to the Department circles so that the objectives of these circles can be achieved, assigning tasks to its own members to execute its own policy, and deciding whether new Department circles should be created or whether existing circles should be split up, combined, or dissolved.

The next level of organization is Department circles. The Scorcher has four Department circles: bread, pastry, kitchen, and front of house. Each Department circle consists of a manager and at least one representative from each Section circle. Department circles set and execute their own policies and have the power to decide whether a new Section should be set up or whether existing circles should be dissolved. Section circles consist of a leader and its own members. The Section circle sets and executes its own policy and assigns tasks to its members.

Since the Scorcher's main tool for managing and governing the business is circles comprised of both owners and non-owners, there are very few distinctions between owners and non-owners. This was intentional. The owners did not want the new structure to create two classes of employees. "I often have an experience where I'm talking to one of the newer people and I say Greg over there, he's been an owner for the last few years, and they're like oh, I didn't know he was an owner! It's not like we wear a different uniform or have different stature. It's more like you're one of the old timers and you may or may not be elected into a position of authority at that time."[41]

Membership

The Scorcher currently has one membership class consisting of Worker-Owner Members and Emeritus Worker-Owner Members. The co-op has a clause in its bylaws that states that the co-op may extend to include a consumer member class or a Farmer-Provider Class.

In order to petition for ownership, an employee must have worked at the Scorcher for at least nine months or 1,000 hours, whichever occurs first. The employee must also be committed to making the Scorcher their primary vocational focus. Once an employee has met these requirements and indicates an interest in becoming an owner, the following process is enacted:

1. The candidate seeks approval from the general circle, which nominates the candidate to the membership circle.
2. The candidate submits a written application for membership to the membership circle.
3. Upon the recommendation of the membership committee, a special meeting of the full membership is called to vote on the candidate. Consent by one hundred percent of members is required for approval.
4. Once approved by the full

membership, the candidate must submit at least $500 of the $1,500 membership share. The rest can be paid over two years with a minimum quarterly contribution of $100.

Members are required to fulfill a minimum average of 20 hours per week, attend relevant operational meetings associated with their specific production duties, participate in circle meetings to which they are elected, and attend the annual member circle meeting and any special meetings of the member circle.

Ongoing Challenges

The conversion back to cooperative ownership has taken the business to a whole new level and helped alleviate some of Joe and Iris's stress, but the business continues to experience a few challenges. "I think there are challenges big and small all the time… we're very organic. And so when something is organic it is like an organism that breathes and sleeps and grows. So there are always new things that come up…It is very much a learning experience trying to figure out how to deal with things."[42]

While sociocracy has provided much needed structure, it is not perfect. "The sociocracy model is all tidy and looks good on paper…but the reality of it is there are only so many of us and no matter who is elected into what position, there are a lot of gray lines everywhere. For example, I'm the baker with the most hours in at the shop right now but I'm not working any bake shifts nor am I elected to any baker positions. Whenever there's a question that needs attention given to it, whether I like it or not I'm still in the thick of the decision-making."[43]

There is also the inherent challenge of running a cooperative café that strives to sell high quality food at reasonable prices while simultaneously paying workers a living wage. Sometimes the numbers just do not add up. This can be increasingly challenging in a worker owned cooperative where employees have additional governance responsibilities. "You're always struggling with payroll. Always doing everything you can to make do with fewer payroll hours. But what that means is that the people that are in the best position to get the agendas out and take the notes and follow up, those are the same people that are fully burdened by needing to get the bread baked. It's a tough thing to balance the working *in* the business, the baking bread, with working *on* the business, making meetings and keeping track of things."[44]

Analysis

Two critical factors helped pave the way for a successful conversion process. The first was Diane Gasaway's cooperative expertise and the confidence it gave the new workers to create a new cooperative business structure. The second was the wholesale adoption of sociocracy as the business' operational backbone. The importance of Diane's ability to speak with authority on the co-op model and the organizing principles of sociocracy cannot be understated. Both were essential to helping workers envision a path forward.

Ultimately, the business may not have survived if a handful of workers had not made the leap to full ownership. Joe and Iris had grown weary of running a complicated and time consuming business on their own and were losing hope. "We were desperate for a hand off, we were running out of gas."[45]

The cooperative conversion benefitted Joe and Iris in several ways. It eased their stress. It helped them fulfill their long-term dream of starting a cooperatively run enterprise. It allowed them to step back and share the joys and challenges of ownership with a larger group of people. And perhaps most importantly, it gave them the ability to take some time off when Iris became ill in 2013. "With Iris' illness they were both able to pull out of the bakery. Joe...was able to cut down to a couple days a week so he could help her and the business is still running successfully. I think that's huge. If that had happened before [the conversion] I don't know what would have happened."[46]

The most challenging part of the conversion process was the first step: convincing employees to become owners. Fortunately, the conversion also benefitted the new owners. In addition to having a greater say in management and policy decisions, owners earn an extra dollar per hour and are eligible for patronage dividends at the end of the year.

Looking back on their experience, Scorcher Owners have several pieces of advice for groups considering a conversion:

- Determine how someone leaves the co-op before you take on members.
- Establish your decision-making framework and make sure everyone fully understands it. "It's really important that if you don't use something like sociocracy, you have your framework down. Because if you just have a bunch of owners you have to know how you're going to make your decisions and you have to have regular meetings."[47]
- Spend time thinking strategically about where you want the business to go. It's easy to get swept up in the daily grind and put off that hard work.
- Don't expect the process to be orderly. "It's kind of like falling in love or having children, you just need to plunge in."[48]

Conclusion

Despite launching as a cooperative ten years ago, the Scorcher enjoyed a rather circuitous route to its current cooperative structure. The co-op has finally come full circle and is thriving again under cooperative ownership and a highly democratized workplace. This most recent incarnation of the cooperative structure is due in large part to the patience, persistence, and dedication of Joe and Iris, two of the co-op's founding members. But the Scorcher's story of change and growth is far from over, though how the business evolves in the coming years is still a mystery. "Each business has to be somewhat flexible and I'll bring up the 'organic' word again, a living organism that is willing to change. No matter what your plan is for the immediate future or long-term future sometimes it's like a painting. It doesn't come out exactly how you'd planned but hopefully it will all be good."[49]

Wisconsin Natural Heritage Cooperative

Introduction

The Wisconsin Natural Heritage Cooperative (WNHC) is a natural resource consultancy agency contracted by the state of Wisconsin to collect, analyze, and manage rare species data for Wisconsin's Natural Heritage Conservation program and Natural Heritage Inventory (NHI). In May 2012, 11 highly skilled, experienced biologists branched off from their conservationist nonprofit to form the WNHC. In the two and half years since they incorporated they have been successfully fulfilling their contracts, while simultaneously running their business collectively. The worker-owners split their time between conducting fieldwork and working from their office, a state-owned building used by the Department of Natural Resources in Madison, Wisconsin. WNHC paves the way by introducing the cooperative model to a new sector and shows a direct path to taking control of one's professional life.

Historical Overview

WNHC formed out of the biologists' desire to take a more active role in their professional lives. In 2011, their nonprofit employer went through a management restructuring that left 11 of its employees feeling insecure and uncertain in their jobs. Amidst many changes and generally deteriorating relations between the conservationist nonprofit and its employees these workers moved to take control of their work situation. The employees looked for ways to work within the nonprofit to improve the situation, but when all attempts to negotiate failed they began to explore other options.

Understanding the landscape of the natural resource consulting industry is key to grasping the biologists' process for forming WNHC. In Wisconsin, state contracts worth over $50,000 are required to be filled through an open bid process. In compliance with this pro-

cedure, every two years the nonprofit, along with other companies, would submit a bid for the state contract. If successful, the bid was fulfilled by the employees. A single state contract provided the resources and wages for all 11 employees.

Serendipitously, the contract was coming up for renewal in six months on July 1, 2012. The employees started having conversations about submitting a bid on their own behalf. They knew that the nonprofit and other agencies would be vying for the same contract, and with this knowledge in hand the employees met in December 2011 to discuss how to move forward. The biologists wanted to continue their work and needed to find a stable employment situation. As a founding owner remembers it:

"Our first step was figuring out what options we wanted to pursue. We held a strategy meeting in which we laid out all of our options on the table, which included staying with our current employer, switching to another nonprofit and encouraging them to submit a bid on our behalf, starting our own cooperative, and even unionizing. We had a very open and collaborative process. The meetings were facilitated, notes captured, and then shared among the members, which helped us generate consensus over which option we wanted to pursue. Once we identified that our top choice was to incorporate as a worker-owned cooperative we began the process of investigating the mechanism by which to do that." [50]

In order to be eligible to submit a bid for the state contract they would need to incorporate, and submit their completed bylaws and employee handbook with their bid. Motivated by their decision to incorporate as a worker cooperative, the future owners of WNHC used the next five months to plan and prepare a bid for submission once the contract came up. For three to four months they met weekly over their lunch hour in neutral, public spaces like the public library, a nearby cooperative grocery store, and the Summit Credit Union across the street from their building. They did not want to use any of the state's resources, and the planning was all done on their own time.

An informal steering committee made up of all 11 future owners worked together as a group leading up to the bid submission. Members of the steering committee nominated themselves to tackle different tasks based on their skills and desire. Members independently researched policy, bylaws, business plans, employee handbooks, benefits, and financials and would bring that information back to the group. Eventually specific committees were formed for policy, membership, and benefits. WNHC was regularly communicating with Anne Reynolds at the University of Wisconsin's Center for Cooperatives, MadWorCs, and other worker-owned cooperatives in Madison such as Isthmus Engineering and Manufacturing and Union Cab of Madison. They hired an attorney who specialized in cooperative law from the start, who helped them draft their bylaws and advised them throughout the process.

The group's efforts readied them for incorporation in May of 2012. Shortly after incorporating, they won the state contract, hired themselves, and opened for business. WNHC was founded with all 11 members and one employee who has been with them from the start. To finalize the cooperative ownership transformation one more item was left to be addressed: "We all had to send in our letters of resignation," remembers worker-owner Kim Grveles[51]. The ownership transition was complete, and a new worker cooperative formed.

Conversion Structure and Process

As WNHC set out to start their cooperative, they were in agreement that all founding members should be on the Board of Directors, but challenging questions remained. How would their roles change? Were people comfortable with being owners, not simply employees of a nonprofit? If the co-op grew, how would new members and employees participate? These questions informed their process, and ultimately the final outcome.

In the beginning, there were long discussions about how their roles and responsibilities would change. The WNHC group went out of their way to educate themselves and gather information, which helped them differentiate their daily (employee) duties from their board (owner) duties. The outside technical assistance they received from the aforementioned sources was invaluable to them. They learned technical skills that gave them the know-how and confidence to build supportive structures that allow them to be efficient and effective with their business and time.

"Two years and one month later we have a lot less discussions about process, what we can or can't do, and the definitions of our roles. We are a lot more comfortable with fulfilling our roles as board members and distinguishing between our roles as board members and employees."[52]

This group of biologists never planned on opening their own business. It came out of a drive for self-determination during a time of instability. Some members expressed that they were pre-disposed to the worker-cooperative model, because Wisconsin is a bastion of cooperative activity. For others it was unsettling to take on the role of owner. To address this concern WNHC was thoughtful and transparent in all of their processes, which built considerable trust within the group and carried all 11 members through the challenges of learning to be owners in addition to doing their jobs.

This trust is reflected in their meeting procedures. Attaining quorum for meetings is set intentionally low, recognizing that people have families and a life outside of work. [53] The Board meets the first Tuesday of every month, and decisions are made based on simple majority of the *present* board members using Robert's Rules of Order[54]. The Secretary provides written notice of the time, place, and agenda of each membership meeting at least ten days before the date of the meeting allowing owners who are unable to attend opportunities to participate. They can listen in to board meetings by phone or vote on decision items by sending their vote in beforehand. Board members should not miss more than two meetings consecutively. The WNHC worker-owners have found that being an owner is fulfilling, and that it is a role they have grown comfortable with.

"Determining the separate hats and what they mean, and then being able to assume an owner role is difficult. Not everyone is comfortable with being an owner and would rather just be an employee. People have had to step out of their comfort zone in order to run the cooperative. We do pretty much run it ourselves. We work full time at the services we provide, and then in our spare time we run our business."[55]

Governance and Management

Wisconsin Natural Heritage Cooperative is guided and run by four branches:

- The Board of Directors constituted of all 11 founding worker-owners
- Elected officers serving on the Board for two-year, staggered terms
  - President
  - Vice President
  - Secretary
  - Financial
- Committees
  - Policy
  - Benefits
  - Membership
  - Ad hoc committees as needed
- Program Manager

In addition to serving on the Board, member-owners can participate in decision-making through committee work. WNHC has three permanent committees: Benefits, Membership and Policy. The Committees meet regularly. The committees save precious time in the board meetings, make decisions easier to implement, and bind people together by making it possible for everyone to participate and affect change.

The last pillar of WNHC's management structure is the Program Manager (PM). She is the only non-owner employee at WNHC, by choice, but has been with the team the whole way. The PM's primary responsibilities are administrative and include payroll, time sheets, performance reviews, insurance, worker's comp, liability, bid submission, as well as overseeing the financials in partnership with the financial officer. She is able to handle the day-to-day items that the owners are not always able to do, because they are in the field. The Program Manager is off site and acts as the liaison between the cooperative and the Department of Natural Resources.

Membership

To become a member-owner, an employee must be a resident of Wisconsin, have worked 650 hours or six months for the cooperative (whichever comes first), file an application for membership in writing, and make a payment of an initial member equity contribution set by the Board.

The founding members needed to make decisions about how new members would be brought in to the cooperative. What should the process be for establishing their status as voting members and board members? While the co-op has no immediate plans for growth they wanted to be thoughtful about creating a structure that would grow with them when the time came. They decided on the following structure:

1. All founding members are board members
2. The President and Vice President will be elected from the pool of board members
3. The Secretary and Financial officers are elected positions selected from the pool of membership or board

At this time, WNHC has not brought on any additional members or employees and does not have any plans to do so in the foreseeable future.

Ongoing Challenges

As a cooperative WNHC is doing well. The biggest challenge ahead of them is to have their contract renewed, and, possibly, fulfill new contracts in the future.

Analysis

The challenges throughout the process were directly related to the short time frame the member-owners had to develop the cooperative and submit their bid for the state contract. They did all of the planning on their own time with their own resources.

"People have families and a life outside of work, but we were in such a bad place that people were energized by the thought that we might actually have a better work situation in the future. If we were able to get the bid, that is. We had deadlines making it a short period of time, which was the most challenging part."[56]

The success is that they accomplished what they set out to do in only a few short months. Filing the articles of incorporation and receiving them back letting them know that they were a cooperative was a massive win. Similarly, when the bid package was completed and hand delivered to the purchasing agent at the Department of Natural Resources, the group rejoiced. The group of biologists accomplished what they set out to do, and within five or six months they were a legal worker cooperative.

The best practice that defined WNHC's successes in their cooperative ownership transition was utilizing cooperative experts and worker-owners from across Madison. They were able to go out to the community to find the answers they were looking for, bring them back to the group, and make informed decisions. The one-on-one direct engagements with local worker co-ops have had a lasting effect, because as questions come up they already have a support network in place to reach out to.

Working with Anne Reynolds from the University of Wisconsin's Center for Cooperatives to facilitate early planning meetings was a key component of the group's development because it set the tone for open and transparent processes and built trust among the group. Anne also encouraged the group to thoughtfully develop their management and governance structures. Based on Anne's recommendation, WNHC hired an attorney with cooperative experience early in the process. The attorney's support was valuable in writing their bylaws and articles of incorporation. These resources combined gave WNHC a support team throughout the ownership transition.

Wisconsin Natural Heritage Cooperative handled their ownership transition deftly and with grace. When asked if they would have done anything differently, the answer echoed by three founding member-owners was, "Nope, I don't think there is."[57]

Conclusion

WNHC's story is compelling, and they have truly created a wonderful work environment, where they are supported to do their best work. Founding member Ryan O'Connor shared, "Our ultimate goal is a good employee work environment for the individual, whether as a co-op or as a government employee." WNHC is connecting this sentiment with the larger cooperative movement by integrating into the Madison cooperative scene joining MadWorcs. In this vein, while WNHC does not aspire for growth past what their current contracts can sustain, they do actively support other groups' efforts to form worker cooperatives.

The value of their story is inspiration. Taking control of one's professional life may be challenging and stretch all members a bit thin, but it does not have to be difficult or complicated. In fact, for WNHC, it was a blast that ultimately bonded the group together more closely than before. There are resources out there to give technical support to any business interested in undergoing a cooperative ownership transition. WNHC has shown how well the cooperative model adapts to a specialized and intellectualized industry, and how well it can be adapted for government contract work.

Wisconsin Natural Heritage Cooperative is a strong blueprint for state contracted, specialized jobs. They paved the way, showing that there are openings for cooperatives to compete for state contracts. Their cooperative ownership transition can be replicated, and there is much to be learned from their experience.

The New Moon Café

Introduction

Established in 1996 by a sole proprietor in downtown Olympia, Washington, The New Moon Café has long been known for its quirky menu, delicious food, and curiously large selection of hot sauces. In July 2013, this breakfast and lunch restaurant transferred ownership to a collectively managed 14 worker-owner cooperative. Since that time, the cooperative has made systematic supply changes by sourcing from local, organic, and ethical suppliers, who embody the café's values. To avoid alienating the restaurant's existing clientele, these changes have been implemented gradually.

The worker-owners have their roots in a democratically-run student enterprise on the Evergreen State College campus, which prepared and inspired the worker-owners of the New Moon Café to come together to manage and operate a cooperatively owned restaurant. It is a new and exciting juncture in the restaurant's history as the business thrives under collective management.

Historical Overview

The New Moon Café's worker-owners come out of a student-run, collectively managed café, the Flaming Eggplant, on the Evergreen State College campus. At the Flaming Eggplant, students gain restaurant and kitchen skills, as well as experience in collective management and consensus decision-making. Most students who work at the Flaming Eggplant are greatly influenced by their experience. This was especially true for a group of 13 students, all past employees of the Flaming Eggplant, who upon graduation felt impassioned to continue participating in democratic workplaces.

"We had formed a group called the Black Moon Collective. We had been working at the Flaming Eggplant and had gotten experience working with each other in a non-hierarchical model. Then a lot of people graduated and didn't want to have to work a job again with a boss, and so we started having meetings around the idea of opening a collective restaurant downtown."[58]

The Black Moon Collective started meeting regularly in January 2013 with the intention of owning, managing, and operating a cooperatively owned restaurant together. Early in the exploratory planning phase they were presented with an opportunity to cater an event. The catering job was viewed as an opportunity for the group to practice their business skills and raise capital for the eventual restaurant. While the catering job fell through, the experience acted as a catalyst to focus the group's energy on planning the next steps in launching a worker cooperative café of their own.

Conversion Structure and Process

During that time, four members of the Black Moon Collective were working at the New Moon Café. When the existing owner heard of their plans, he said that he would be amenable to selling the business to the collective. A founding worker-owner recalls, "The owner was a younger guy who wanted to go back to school. He had been approached to sell but wanted to make sure the business was sold to the right people in the community, and he liked our project."[59]

This development triggered three months of informal negotiations between the owner and the collective to estimate the restaurant's value. The value was based upon such factors as the café's established and loyal clientele base, its reputation, and its history of profitability. The Black Moon Collective made a unanimous decision to move forward with the purchase of the New Moon Café, leading to the New Moon's incorporation as a cooperative in July of 2013. "We felt really lucky to have the opportunity to buy an already existing restaurant with goodwill and a customer base," explains worker-owner Kai Martins. [60]
Contemporaneous to the purchasing process, the group focused on developing a cooperative framework for their new business. They worked in informal, flexible committees to write a business plan and secure financing. They trained and educated all the worker-owners in the New Moon Café's day-to-day operations. The worker-owners entered the ownership transition thoughtfully with the strategy of making incremental, yet fundamental changes:

"The Cooperative will change very little about the way in which the business is outwardly practiced, in order to not disrupt the preexisting customer base. The New Moon Café will gradually incorporate business practices more aligned with its mission statement such as sourcing its ingredients from local farms and holding evening events, performances, and programs. The only immediate change to the business practice will be the management structure. All decisions will be made democratically and the tasks a single owner would normally be responsible for will be divided among the members, as is typical of worker-owned businesses."[61]

The worker-owners utilized three revenue streams to purchase the restaurant: owner buy-in, crowdsourcing through an IndieGoGo campaign,[62] and financing through the previous owner, who willingly carried the loan. Because the financial committee was under-informed about how much financing they would qualify for, its members felt a great deal of stress while raising the money. Despite raising only $8,705 of their $50,000 IndieGoGo crowdfunding goal, the addition of $15,000 in owner equity made it possible to purchase the New Moon Café.

To ensure a more seamless ownership transition, four cooperative members, in addition to the four already employed at the New Moon Café, trained without pay for the month of July. They learned the back house and front house duties, and transferred that information to the remainder of the cooperative members. The training process weighed heavily on a few. While some members learned the daily kitchen and serving duties, others regularly met with the previous owner in order to learn the operation's financial tasks, including how he did his books and his purchasing routine, as well as his taxes and payroll. The most important transition step was the time they took to build relationships with the Café's customers and suppliers.

To further support the ownership transition, one other employee of the New Moon Café who was familiar with the operations joined the worker-owners. This brought the group to an even 14 worker-owners and helped bridge the institutional knowledge gap from the New Moon Café to the new cooperative.

For general support, the worker-owners made use of existing cooperative development resources. They reached out to the Northwest Cooperative Development Center, and other cooperatives, such as Casa Nueva Restaurant in Athens, Ohio, with specific questions. They also worked with the Anti-Oppression Resource and Training Alliance Collective (AORTA) on group dynamics and conflict resolution. "[AORTA] is really awesome and helpful. I think we have incorporated almost all of their suggestions."[63] All but one of the cooperative's worker-owners was educated in workplace democracy while working at the Flaming Eggplant. These experiences made it possible to forego some of the basic education in democratic capacity and cooperative financials that new co-op members should receive.

While competent in collective management, the cooperative would have benefited from professional business advice to guide them through the purchasing process. The worker-owners suffered a steep learning curve in the negotiation phase, and now believe they should have hired a business appraiser to value the business. Though they worked with a lawyer in the initial stages, they discontinued his services after finding him unhelpful. They could have benefited from bringing on a lawyer familiar with cooperative law.

Current Status of the Cooperative

As of September 2014, the New Moon Café is comprised of the founding 14 member-owners and has the intention of hiring soon. They are financially stable bringing in $320,000 in sales their first year as a cooperative, and are successfully paying down their debt.

Governance and Management

The New Moon Café is governed through committees. They have four active committees that meet weekly:

- Food: responsibilities include ordering; budget analysis training, and consistency
- Operations: responsibilities include scheduling, conflict resolution, maintenance, planning trainings, and strategy retreats
- Marketing: responsibilities include all aspects of marketing and community outreach
- Finance: responsibilities include maintaining the books, payroll, and quarterly financial reports

There is no official board. The member-owners act in place of a board by taking on the long-term strategic planning as well as the responsibility for running the business's daily tasks. Decisions are made collectively using consensus decision-making.[64] Every member is on a committee that consists of three to four members each and meets weekly. In addition, there is a weekly general staff meeting, where individual committee work is presented to the broader membership and whole-group decisions are made. The committees have autonomy to make day-to-day decisions, and the membership body is generally abreast of the direction and challenges facing each committee. Twice a year, the worker-owners participate in a staff retreat focused on the co-op long term strategy and vision.

Rather than a conventional management structure where one person or a small group takes the lead by supervising, the New Moon Café maintains its collective quality by relying on a process of accountability. One worker-owner sums it up:

"On shift, our boss is our group expectations and our manager is our accountability process. You are responsible to the whole group at our weekly meeting, and so far this is working for us. [The accountability process] looks like – when something is going wrong— that the person will meet with two to three people on the operations committee to develop an improvement plan that they then share with the whole group at our general meeting. If something becomes chronic behavior, right now, that will trigger one of these processes."[65]

An ordinary shift consists of one to two servers, one dish washer/prep cook, and one line cook. Everyone on the floor has received the same trainings from the Food committee, and they have a shared understanding of what is expected of them. The Food Committee trains everyone on general standards and portion consistency, making it possible for each person to hold their shiftmates, as well as themselves, to a baseline standard.

Membership

When the time came for all members to buy in, they had not yet settled on a member equity price. "We said, whatever you feel comfortable throwing in, do it!" remembers founding member Simon Gorbaty.[66] The worker-owners did, which resulted in owners investing substantially different amounts in the cooperative. One worker-owner put in $14,000, while others only contributed $100. Retroactively, the New Moon Café cooperative set their membership equity at $350 for founding members. After the first year in business, everyone has either paid in or been paid back all but the $350 equity buy-in. The co-op continues to struggle with setting the equity requirement for new members.

"We are still talking about a buy-in price. We are trying to determine what a buy-in for new members will be. That number right now is around $700. We are trying to figure out a way to make it equitable for all of the unpaid work that people have done through committees that new members are going to see a return on, but didn't necessarily invest in."[67]

The cooperative has yet to hire and is in the process of working out the details of membership requirements. To date, all workers are members and they intend to maintain this composition, making it 100 percent worker owned and run.

Ongoing Challenges

The worker-owners are committed to seeing the café succeed. The sheer amount of personal time they regularly dedicate to the business is proof enough. At this point, the worker-owners have not been compensated for the time they spent planning and purchasing the café or for their ongoing committee work. Their contribution to running the business, outside of their work shifts, depends on the worker-owner's commitment, ideological dedication, good will, youth and fervor, and a genuine desire to create a wonderful place to work.

The worker-owners are starting to wonder if their committee work is sustainable without being paid. Hoping to find some balance, owners are looking for ways to fairly compensate themselves for the time they work. The solution is still unclear, but they are having discussions and collaboratively confronting the challenging issue that so often put workers and bosses at odds: how do we spend payroll on work not directly related to our daily tasks?

Another current challenge for them is an impending construction development next door to the café.[68] It is not yet clear what this will mean for them, or what can be done about it. But the concern is real. The cooperative is actively monitoring the situation and has taken precautionary measures to either combat or accommodate the development. Which strategy they pursue will depend upon what is best for the cooperative.

What they have created so far has fulfilled the owners' expectations, and it is a source of pride for each of them. Being an owner, a manager, and a worker comes with a unique set of challenges. The New Moon Café is committed to meeting these current and future challenges head on through the collective decision making process.

Analysis

The New Moon Café is fulfilling its mission of allowing workers to control their livelihoods by creating jobs that foster self-development and well-being, while affirming their worth and equality as workers. As important, the café strives to make locally-sourced, organic, ethically-supplied food accessible to their community.[69] Whenever possible, the café partners with other cooperatives to deliver the best products to their customers, while strengthening its solidarity with workers across the country. The café's sourcing priorities support other cooperatives and workers, in addition to local and organic producers. As worker-owners they are proud to tell people they own the café.

The worker-owners' experiences are foundational to the success that they are currently experiencing at the New Moon Café. Through their time working at the Flaming Eggplant, they learned the meaning of working collectively and the value of democracy in the workplace. They developed skills well beyond how to be a server or a prep cook. They learned not only how to run a business and a restaurant; *they learned how to do it together*.

Their vision is to grow additional democratic and community-oriented projects out of the New Moon Café. The worker-owners are clearly dedicated to strengthening their connection to the Olympia community, which is expressed in their business plan:

"The café is already a well-established community space that highlights local artists, fliers for local events, and community papers for patrons to read while they eat. The Cooperative will not make any alterations that may drastically change this atmosphere, although the cooperative is interested in opening the café for evening events and performances in the future."[70]

The New Moon Café worker-owners are dedicated to the cooperative structure and have tangibly experienced the transformative impact of the cooperative difference. "I have seen myself and so many of my collective members really become incredible people.

Through this project, we have learned skills that we never thought we would have. We have become better people in really amazing ways, and it has been wonderful to watch. We are more accountable, more hard working, more creative and intelligent."[71] Their lives have benefited from taking control of their livelihood, and they hope to expand participation to more workers.

Part of expanding this model is learning from the personal and collective experiences at the New Moon Café. If the worker-owners were able to go back in time, there are a few things they would have done differently:

- Completed an independent valuation of the business
- Conducted a thorough survey of the location, including future development plans
- Sought help with the purchasing negotiation
- Found a lawyer with a specialization in cooperatives

The cooperative's explicit advice to other potential employee buyers is twofold:

- "Owners that are selling to their employees may come across like "I am really trying to work with y'all. I really support what you are doing," but it is good to be cautious and consider why they are trying to sell."[72]
- "Be patient, because it can take a while. There are a lot of scary things, but do not be intimidated. Dream big, and you can do it! It is totally possible."[73]

Conclusion

The New Moon Café has been a staple for Olympia's locals since 1996, and in July of 2013 the café converted to a worker cooperative structure. Since then, customers have been very positive about the functioning of the business and have consistently complimented them on their menu changes. The worker-owners are committed to their jobs and the overall success of the restaurant. They find the shared-ownership both rewarding and demanding. It is challenging to improve menu offerings while paying themselves fairly and maintaining their bottom line. They are excited to own the café together and enact their commitment to collective-management every day. Their start at the Flaming Eggplant put these collective-entrepreneurs on a new, exciting, and rewarding path, which further rooted them in the community and gave them control of their livelihoods. In an unstable job market for recent graduates, the worker-owners of the New Moon Café have found a way around taking undesirable jobs or unemployment, and are happy with what they have created.

A Yard and A Half Landscaping Cooperative

Introduction:

In January 2014, 11 worker-owners took over the operations of A Yard and A Half Landscaping, an organic landscaping company based in Waltham, Massachusetts. The company was founded in 1988 by Eileen Michaels. This cooperative ownership transition was a major milestone for the company. It represented the fulfillment of a vision that had been growing for five years, and that was carried out by owner and staff over the course of 12 months of sustained efforts. The conversion has equipped the company to carry on the vision of its founder and build the wealth of the employees for years to come, while rewarding Eileen's entrepreneurship and providing for her retirement.

In successfully completing the ownership transition, the cooperative has overcome many key challenges that owners face in selling their business to their employees. These challenges include:

- Finding training materials culturally appropriate to the El Salvadorian worker-owners who compose the new cooperative
- Finding support professionals to assist in the transition
- Creating clear channels of communication between leadership and employees that are engaging and provide accurate information
- Disentangling the selling owner from the business

The conversion has also demonstrated two of the key benefits created by transitions to cooperative ownership. First, the owner and

the community are rewarded, because the owner's vision outlasts their actual possession of the business. Second, both the employees and the enterprise benefit from by empowering worker-owners at every level of the company. The success of this conversion also demonstrates the importance of culturally appropriate communication and participatory management practices in facilitating a smooth ownership transition.

Historical Overview

Since its inception in 1988, A Yard and A Half Landscaping has had two primary goals. The first is to deliver family and environmentally safe landscaping to the greater Boston area. These services include landscape design, hardscape installation (walls, driveways, etc.), and landscape maintenance. The second goal is to provide a dignified workplace for employees. The hallmarks of this workplace included: women and Spanish-speaking immigrants at every level of the company, giving employees as much year-round work as possible, and wages and benefits as high as the market would allow.

A Yard and a Half Landscaping was the brainchild of Eileen Michaels, an MBA graduate who left her job in the management world in search of a different type of business venture. She launched the company in 1988 with one employee. When she sold the company at the end of 2013, it had grown to 20 year-round employees, with additional employees hired during the busy season. The business generated annual revenue in excess of $2 million.

In 2009, Eileen began to think about selling the business and retiring. She was familiar with employee ownership through the work of John Abrams, founder and worker-owner at South Mountain Company, a worker cooperative architecture firm on Martha's Vineyard, Massachusetts. According to Carolyn Edsell-Vetter, now co-CEO of A Yard and A Half, Eileen, "felt very strongly that the employees helped her build the company to the size that it was, and that she and we had created something really special that could be put at risk to just somebody who had the money and wanted to buy a landscaping company."[74]

Conversion Structure and Process

During 2009 and 2010, Eileen took two steps to begin the process of selling the company to her workers. First, she reached out for business conversion assistance. She found a firm to have the business valued and looked for lawyers accountants and cooperative developers to begin the conversion process. Finding these professionals was one of the most challenging aspects of the conversion. She eventually found a lawyer who had worked on cooperative conversions, as well as the Cooperative Development Institute, a New England based non-profit that develops new cooperative businesses and supports cooperative ownership transitions.

Second, she expanded the management team of A Yard and A Half Landscaping. In addition to herself and the office manager, she added three additional employees, including Carolyn Edsell-Vetter, a long-time employee and landscape designer, and Geovani Aguilar, the construction Projects Manager. Together, this five-person management team took over managing the company and governing its direction as an advisory board. This board voted on key decisions, and the individuals on it took over more and more day-to-day management tasks. Although Eileen retained the final say on key decisions, she listened to all sides and often accepted the majority opinion, even if she disagreed.

During 2005 and 2006 Eileen also instituted a system of participatory management, which engaged the workers more broadly in the business. The following were hallmarks of this system:

- Sharing the company's financial data at quarterly meetings
- Supporting workers in understanding the data and its link to their day-to-day work through financial education and accessible meeting facilitation
- Financial rewards for team managers who exceeded expectations on specific jobs
- Increasing worker participation in management projects

According to Eileen and others at A Yard and A Half, the adoption of participatory management improved workers' buy-in to the business prior to its sale, increased employee retention, and contributed to the financial success of the business as a whole. Especially successful was the engagement of employees in management tasks. One example was the re-design of the morning "circus" in which workers distribute themselves, tools, and materials to various trucks in preparation for leaving to the day's jobs. This traditionally inefficient process was redesigned by the workers to help them start their day efficiently, saving time and money. Other aspects of participatory management had unexpected outcomes. When financial rewards were given to team leaders, they often re-distributed these across the crew, demonstrating the more team-oriented culture of the El Salvadorian immigrants, who compose most of the crews at A Yard and A Half.[75]

In the fall of 2012, Eileen concluded that she would like to retire within 16 months. First, she informed the management team of her desire to sell the business to the employees, then she shared the news with the rest of the employees. Her announcement kicked off a year of planning and work, which culminated in the sale of the company in January 2014.

By the time Eileen made the announcement, the day-to-day management of the

business had almost completely transitioned from Eileen to the management team, who at first formed the core of the transition planning process. Neither the employees nor the owner wanted to see a major change in management while both the ownership and governance of the business were changing.

After holding several meetings to discuss the idea of forming a cooperative that would purchase the business, interested employees elected a steering committee. This steering committee represented the future cooperative in discussions with Eileen and made early decisions about the governance and management of the cooperative after the purchase of the business. The committee included Carolyn and Giovanni, as well as the maintenance manager, office manager, and a crew leader. Carolyn did the majority of the business planning and coordination of the sale on behalf of the employees, checking in with the committee for advice and approval on major decisions. This steering committee eventually incorporated all of the potentially interested worker-owners in its meetings, and it was used as the founding board of the cooperative.

The transfer of A Yard and A Half Landscaping's assets to the newly formed A Yard and A Half Landscaping Cooperative Corporation took place on January 1, 2014. By the time of the transfer, 11 of the 20 eligible employees had purchased a $7,000 membership share. In the previous year, the business had set up a payroll deduction system to help the employees save for their share. Some employees had secured small, outside loans to finance their share price. For the worker-owners, most of whom had been with the company for three

or more years, buying-in was seen as a "no-brainer" because of the quality of the workplace and the opportunity to become owners of the business. Of the nine employees who chose not to buy-in, almost all cited the inability to commit to the job for a number of years going forward due to various life circumstances. A few cited the financial investment as a barrier.[76]

Overall, the worker-owners provided approximately 15 percent of the total purchase price of the business. The co-op received a loan and a line of credit from the Cooperative Fund of New England (CFNE), a Community Development Financial Institution. The line of credit was especially critical since landscaping businesses typically incur major expenses in the early spring when there is little or no cash flow. Small donations and a significant five-year note from Eileen made up the rest of the purchase price. This financing was part of the loan agreement from CFNE, ensuring that the owner retained some "skin in the game." In return for advancing the cooperative a portion of the purchase price, Eileen was guaranteed a non-voting seat on the board for three to five years. The cooperative also found this arrangement advantageous since it ensured continued access to Eileen's industry expertise and knowledge of the business. Eileen based the purchase price on the 2009 valuation, discounted by 40 percent. After a brief and amicable negotiation between the steering committee and Eileen, the steering committee agreed to the price.

Decisions about the direction of the cooperative under formation and education of potential worker-owners, took place in meetings of all the employees. During these meetings, the first hour was usually dedicated to education. These trainings were usually led by Carolyn Edsell-Vetter, who had received a graduate degree in divinity prior to her time with A Yard and A Half. The steering committee conducted these trainings themselves because there were few local trainers, and they were unable to find cultural, linguistic, and educational level-appropriate cooperative training materials.

Upon the transition to a cooperative, the five-member steering committee, plus Eileen Michaels the former owner, became the board of the cooperative.

Current Status of the Cooperative

The interviews and documentation for this case study were gathered six months after the transition had taken place, and the current management structures remain very similar to those put in place prior to the conversion.

Day-to-day management of the cooperative is split between co-CEO's Carolyn Edsell-Vetter and Geovani Aguilar, with Carolyn taking responsibility for financial operations and Geovani for field operations. The remaining office staff is comprised of an office manager, a maintenance manager, and a shop manager. Field operations are split into two- and three-person teams, each of which has a team leader. The teams specialize in hard installations, soft installations, and maintenance.

The cooperative recently shifted its board structure from a six-person board to a board comprised of all the worker-owners, plus Eileen. This structure seemed to be the best solution for gaining input from all of the young cooperative's members and for clearly transferring information about the board's decisions to all owners.

Analysis

By all accounts, the transition to worker ownership at A Yard and A Half Landscaping has been a resounding success. The employees began operating the business at the start of 2014 and marked their first months by taking increased responsibility for the business. Interviewees reported a "great impact in a positive way." [77]

"We're asking a lot from everybody. This is a crucial first year for us, and we are giving 110 percent in everything that we do. The environment, for members and non-members, is just great. It's amazing how you can see the differences; everybody just smiling and getting to work. Not that it doesn't get hard every now and then: it's work. Landscaping is hard work. It's a very warm, nice way of looking at things."[78]

One example of the growing culture of ownership is demonstrated by the employees' response when some large equipment was stolen from the company early in 2014. Employees rallied together during a time of year when they would not normally be working. They posted signs across the city asking for information and drove around the local neighborhoods looking for the machinery. Fortunately, the equipment was eventually returned to them via the local police department. The experience created a feeling of camaraderie, which helped the employees settle into their new role as owners.[79]

Eileen and the new worker-owners can also celebrate a success of a relatively clean transfer of both ownership and management to the new cooperative. Because of Eileen's preplanning, management passed very efficiently to a new set of general managers prior to the sale of the business. By setting up these structures before she left management, Eileen ensured that the managers had access to her knowledge and support. In addition she created a well-documented operations system, which is often the key to good management in cooperatives. The clear legal structure and good accounting practices at A Yard and A Half Landscaping also contributed to a relatively smooth transfer.

Eileen and the new worker-owners overcame a number of challenges to the successful transfer of the business. First, both the owner and employees reported feeling under-supported by the cooperative movement. Specifically, they found it difficult to find good

professionals in the Boston area to support their transition, both in terms of training and professional services. While they did eventually find the support of several high-quality lawyers, finding them was challenging. The employees also lacked for training resources that were culturally appropriate and in the language that most of the employees spoke. Carolyn Edsell-Vetter, who did much of the training, reports:

"I had to do this three-step process where I'd read something and get to where I, with my college education, could understand it and wrap my brain around it. Then I'd try to figure out how I would explain the concepts to somebody who had maybe an elementary school education. And then I'd translate that into Spanish."[80]

Eileen also felt she lacked two key tools that would have made the process easier: (1) a clear process and timeline for the sale of the business and (2) better support to deal with the emotional challenges of a selling owner. According to Eileen, "The impacts on the owner are immense. It starts way back with letting go of something that you built. It's like tearing a Band-Aid off slowly. It's difficult and complex. It's something that you want, but it's difficult."[81] To handle these challenges the cooperative and selling owner could have used "somebody who could have let us know ahead of time some of the things we'd be feeling... to prepare for the emotional stuff that was going to occur."[82]

The transition of equipment leases also caused a challenge, as the new company needed to assume the leases of trucks and other pieces of equipment, which created a second process of negotiations with the owner and leaseholders. These lease agreements should have been made prior to the sale of the company.

Internally, the cooperative faced the challenge of clearly communicating information and controlling rumors among its potential future members. At several points, employees came to believe unclear information about the future transition. Interviewees attributed this to the natural apprehension about the process, and unclear information communicated to the steering committee, which was then communicated to the larger group. This contributed to uncertainty and stress, although there was no significant derailment of the process. The cooperative expanded its board to include all of the current members, so that accurate information was more easily available to all employees. Since the co-op has clearly established a governance role for the board, the new structure does not slow down management decisions and allows for more input on major decisions by all worker-owners. During the transition, the cooperative communicated clear information by using more all-employee meetings rather than relying on chains of communication.

As the cooperative has progressed through its first year, it has been challenging to create structures for accountability between the new co-CEOs and the board. Over the first year, the board has had to adapt to their new role as ultimate supervisor of the CEOs. This is a significant cultural shift in thinking, especially since the primary board advisor is one of the CEOs.

There have been some ongoing challenges created by the lack of employee engagement in the valuation and price negotiation for the business. To save money, Eileen based her sale price on the 2009 valuation and the cooperative did not pay for an independent assessment of that valuation, or thoroughly educate its members about what the valuation was based on. Though the cooperative expects to be able to repay all financing within five years given current cash flow, in hindsight some employees disagree with the value assigned to the business. This has continued to cause a low level of resentment in some members of the cooperative. While all interviewees reported these challenges as minor, it does point to the importance of all employees being able to understand the valuation and negotiation process, either before or after the negotiations conclude.

Despite these minor challenges, the transition of A Yard and A Half Landscaping to cooperative ownership was a relatively smooth process. It required extra effort on the part of all employees, management, and the owner, but the results have been positive. Their process points to a few good practices in cooperative ownership transitions:

- Engage employees in participatory management of the business early in the process
- Structure a clear transfer of management responsibilities
- Explicit transfer of governance responsibilities from the previous owner to a board
- Engage cooperative development and legal support for both owner and employees early in the process
- Find or create culturally appropriate educational materials
- Communicate clearly to employees during the process through direct communication
- Ensure employees' engagement in the valuation of the cooperative

Conclusion:

While still in the relatively early stages, the cooperative ownership transition of A Yard and A Half Landscaping points to the capacity of this form of succession planning to meet the needs of business owners, employees, and the community. The owner receives compensation for years of work in building the business and can see the business continue as an ongoing entity. They are able to see their values carried into the future of the business. The employees can keep their jobs and their work community while gaining a means to building wealth and more personal growth and development. The community can continue to use a high road employer in an industry not renowned for its labor practices. According to Eileen, the highest bidder in an open market sale for A Yard and A Half would have been a large regional or national landscaping firm, which would not have continued the employment practices of A Yard and A Half, or been committed to delivering the high quality, family-oriented, and environmentally safe services.

This case also highlights the need for greater formalized support for this form of cooperative creation. There is a need for more standardized processes, better support in training, and an accessible central directory of consulting and training resources for potential selling owners. While cooperative ownership transitions hold tremendous potential, they need more infrastructural support and well-targeted promotion from the cooperative community.

Analysis and Conclusions

Critical Factors During the Cooperative Conversion Process

There are several factors and decisions during the cooperative conversion process that influence how that process unfolds and how well a business handles the transition. These factors include the involvement and personality of the selling owner, the organizing timeline and process, financing, the development of management and governance systems, and the availability of technical assistance and professional advisors. This section summarizes how the cooperatives in our study approached these different issues and decisions during the conversion process.

Involvement and Personality of Selling Owner

A willing seller is a prerequisite for converting a business to a cooperative, but having a supportive selling owner makes the process much easier. A supportive owner can be instrumental in educating employees and initiating structural and cultural changes early in the process. They can also be an excellent source of capital and ongoing advice after the business has become a cooperative.

The personality of the selling owner and the culture they foster within their business can also impact the conversion process. If a company already enjoys a participatory, collaborative culture, it will be easier to transition to a worker owned cooperative. The founding owners of the Scorcher and South Mountain were very involved in the conversion process and stayed with the business in leadership positions after the conversion was complete. In both cases, these selling owners had already established a robust cooperative culture within the business and actively worked to educate employees during the conversion process. In the case of A Yard and A Half, the owner left shortly after the conversion, however prior to the conversion she spent a number of years creating a participatory management culture and transferring management to other employees. She also continued to be involved as a non-voting board member.

The conversion of New Moon Café shows that a deeply supportive seller is not absolutely necessary. New Moon's selling owner provided little more training to the new owners than he might have to an individual buyer. As the conversion of New Moon Café suggests, if a supportive seller is not present, the cooperative will want to carefully manage its due diligence in the run up to the sale to make sure that the new owners have all relevant information regarding the current value and the future of the business.

In three of the businesses, the idea for a cooperative conversion arose from the employees. In the remaining two businesses, A Yard and a Half and the Scorcher, the selling owners brought up the possibility of cooperative conversion. Blue Scorcher is unique in that the founding owners started the business as a cooperative. When the other founding members exited the business, the remaining owners spent several years fostering a cooperative culture and trying to attract additional owners. There is no right or wrong answer in terms of who initiates the idea, however each scenario poses unique challenges.

Organizing Timeline and Process

In an ideal scenario, the decision to convert a business to a cooperative is made well before the owner wants to leave the business. A long, patient conversion timeline gives everyone the time to become educated and to make ownership, governance, management, and cultural changes in stages. In two of our case studies, however, the selling owner left relatively quickly once the decision to convert was made, so a long timeline is not inherently necessary. Regardless of the timeline for the selling owner's exit, it may take as long as five years for a cooperative culture to fully take hold. In the case of conversions, it may be best to think of the process as an onramp to becoming a cooperative, rather than a traffic light turning green the day the papers are signed.

The conversions in our study represent a range of timelines, both in terms of the transfer of ownership and the adoption of the new cooperative culture. WNHC and New Moon developed their cooperatives rather quickly and the worker-owners drove the process forward in under a year. In the cases of the Scorcher and A Yard and a Half, the process was driven by the selling owners who had to build buy-in amongst staff. Lastly, there is South Mountain. Their conversion process was initiated by some long-term staff members but was implemented by an extremely dynamic leader who fully supported the idea of worker ownership.

In the cases of WNHC and New Moon Café, the new owners had been working together as peers for an extended period of time prior to the conversion. At Blue Scorcher and A Yard and A Half, the selling owners had worked to foster a cooperative culture for several years prior to the conversion. The new owners of A Yard and A Half continue to work to formalize their cooperative culture, especially in the areas of board-management relations and accountability across the organization. At South Mountain, the original conversion occurred over the course of a year, but the co-op's long probationary period for membership (five years) resulted in a period of time during which only the founder and the two most senior employees were eligible for ownership.

Financing the Deal

The cooperatives in our study used a range of mechanisms to purchase the business from the selling owner (see Table 1).

Cooperative start-ups typically rely on member equity for a portion of their start-up capital, however only two of the five cooperatives

Table 1: Financing the Deal: How the Business Was Purchased from the Seller (x indicates that this form of financing was used, but specific percentages were not provided. In the case of WHNC no financing was used to create the business)

COOPERATIVE	Seller financing	Member equity	Loan from financial institution	Unsecured loan from personal network	Donations/ Crowd-funding
A Yard and a Half	12%	11%	58%	18%	1%
Blue Scorcher	x				
New Moon	x	x			x
South Mountain	x				
WI Natural Heritage	n/a	x	n/a	n/a	n/a

in this study used significant member equity to purchase the business.[83] All owners did purchase shares upon the formation of the cooperative.

Seller financing was used to capitalize four out of five of the conversions in our study. In the cases of South Mountain and the Scorcher, the entire deal was financed by the selling owner(s). Seller financing can make securing other financing easier, is typically less expensive to buyers than borrowing from a traditional lending institution, and can be a good investment for the selling owners.

Of the cooperative conversions that purchased businesses from retiring owners (A Yard and A Half and New Moon Café), both reported challenges understanding what an appropriate price was for the business and understanding the valuation of the business. This lack of understanding may or may not have led to the cooperative's overpaying for the business, but it did lead to worry and mistrust around the transaction. It points to the need for future worker-owners, or their representatives, to fully understand and engage with the valuation process.

The Wisconsin Natural Heritage Cooperative is the only cooperative that did not use financing beyond member equity to capitalize the new business. As a service-oriented business, using state-owned facilities, WNHC required very little capital. WNHC is unique in that the employees did not purchase the business from a previous owner. The members worked for a non-profit which did not support the conversion. They started a new cooperative business to compete with their former employer for a state contract.

Management and Governance Systems

Businesses that decide to convert to cooperative ownership will need to critically analyze their current management system to ensure a smooth transition to their new cooperative structure. At a minimum, the existing management system will need to be clearly codified. In the case of A Yard and A Half, the new management structure also needed to incorporate more worker participation. In some cases, such as in the case of Blue Scorcher, the selling owners may wish to significantly change the management system, especially if the purpose of the conversion is to increase employee buy-in and participation in management. If a business already has a participatory management structure and the selling owner plans to remain in a leadership position at the new cooperative, as was the case at South Mountain, it may not be necessary to make significant changes to the management system. Regardless of which path a cooperative takes, its management system should be clear and well documented.

Developing an effective governance system for the new cooperative is equally important. All of the co-ops included in this study created a board of directors and committee structure for governing the business. The adoption of a new governance system is the largest cultural shift the cooperative will go through and the most complex in terms of creating new structures for visioning, planning, representation, and accountability. Even though in all of our case studies a new governance structure was adopted at the time of sale, the full implementation of that structure and the culture it imbues may take time. In the case of A Yard and A Half, a new governance structure was put in place soon after the purchase of the business. Despite this, the members interviewed for this case study acknowledged that ongoing training and study will be needed for members to feel confident in their new role as owners, particularly in the areas of board-management relations and strategic visioning. In the case of South Mountain, the cooperative conversion happened quickly, but the newly created governance structure was fairly simple because the new co-op only had three owners. South Mountain's five-year probationary period limited the growth of the ownership base, which meant that governance rights were also shared slowly within the cooperative.

Availability of Technical Assistance and Peer Support

Advisors and technical assistance providers are often critical partners in the development of new cooperative businesses. The same is true for conversions. Participants in this study had varied experiences finding adequate support and technical assistance. New Moon Café, Blue Scorcher, and WNHC received strong support from cooperative development centers in their regions. New Moon and WNHC received support from peer co-ops during their conversions. WNHC continues to receive advice from local cooperative development centers and peer support through membership in MadWorC, a network of worker owned cooperatives in South Central Wisconsin.

In 1986, when South Mountain began exploring conversion, there were no peer co-ops for them to look to, nor was there an established network of cooperative development centers. Fortunately, South Mountain identified an attorney who was knowledgeable about the legal aspects of conversion and capable of helping them think through the structure of the new cooperative and the path to building it.

While access to assistance has improved in the past 30 years, it can still be difficult to find good advice and supportive resources. A Yard and a Half found an attorney who was able to walk them through the legal process, but they did not find the help they needed from the co-op community. They struggled to find training materials that met the needs of their employees. Most of the curriculum they found was in English and targeted at post-secondary education levels. They felt the capacity simply was not there "to support prospective worker-owners in developing themselves as a democratic ownership group capable of crafting a business plan, securing financing, and advocating for their own interests in a cooperative conversion. Language, education, class, and cultural competency add layers of complexity that technical assistance providers need to be aware of, so that they can start the development process where workers are, rather than assuming shared knowledge, values, or goals."

Another factor to consider is the financial stability of the business involved in the conversion. South Mountain was well resourced and thus was able to pay for extensive legal assistance. Businesses with thinner margins or fewer capital reserves would benefit from grant funded technical assistance or cost sharing programs, such as the Catholic Campaign for Human Development grant received by Yard and A Half Landscaping that they have used for training for their worker owners after the ownership transition.

Conclusions: Building Better Systems of Support for Worker Cooperative Conversions

Most of the cooperatives interviewed mentioned several types of training and resources that would have been useful to them during the conversion. They include the following:

Technical assistance

- Facilitator to guide the group through the early planning process
- Support drafting legal documents
- Support for growing co-ops that are transitioning from a collective structure to more complex management system
- Training in meeting facilitation and conflict resolution

Resources

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

The wide range of these requests points to the need for the cooperative movement to support the process of conversions more strategically. While nearly all the conversions studied found support in the form of individual cooperative developers and other professional advisors, few found all the tools they needed to navigate the conversion, and some incurred additional costs or lost time because it was challenging to find existing training and resources.

About the University of Wisconsin Center for Cooperatives

Established in 1962, the staff at the University of Wisconsin Center for Cooperatives pursues a research, educational, and outreach agenda that examines cooperative issues across multiple business and social sectors. The agenda encompasses all aspects of the cooperative business model, including development, finance, structure, and governance. The Center seeks to increase understanding and encourage critical thinking about cooperatives by fostering scholarship and mutual learning among academics, the cooperative community, policy makers, and the public. The Center benefits from an active Advisory Committee composed of cooperative business leaders, legal and accounting experts, public policy officials, and university scholars. Their insights into issues affecting cooperatives bring a timely, relevant perspective to the Center's programs. The Center's interdisciplinary programs build on the resources of the University of Wisconsin-Madison and the University of Wisconsin Extension, and are implemented through partnerships with UW faculty, staff, and extension agents, federal and state agencies, state cooperative councils, cooperative business groups, and others.

About the Democracy at Work Institute

The Democracy at Work Institute is the only national organization dedicated to building the field of worker cooperative development. Through research, education and relationship-building, it meets the need for coordination of existing resources, development of standards and leaders, critical discussion of models and best practices, and advocacy for worker cooperatives as a community economic development strategy. The Institute brings both a birds-eye view of the national stage and an experiential on-the-ground understanding of cooperative business, making sure that our growing worker cooperative movement is both rooted in worker cooperatives themselves and branches out to reach new communities of worker-owners.

Drawing on our ongoing research and on-the-ground-knowledge of worker cooperative enterprises, we work with a variety of clients and partners:

- With worker cooperatives to help them develop, grow and replicate.
- With non-profit organizations to support the implementation of new cooperative programs, and to increase the impacts of existing programs.
- With conventional businesses to support them in succession planning & transition to cooperative ownership.
- With governments and economic developers to design and implement policies and programs that use worker cooperatives as a tool for local economic development.

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