

# Type I Conversions

## TYPE I CONVERSIONS

Type I conversions are cases in which the selling owner intends to remain on with the company as a worker-owner after selling to his or her existing employees. The cooperatives profiled in this section are Big Timberworks of Gallatin Gateway, Montana; Namaste Solar of Boulder, Colorado; Pattycake Bakery of Columbus, Ohio; and Real Pickles of Greenfield, Massachusetts.

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## BIG TIMBERWORKS

Design / build construction  
Gallatin Gateway, Montana

**Date of conversion:** 1999

**Number of workers as of summer 2014:** 11 worker-owners

**Conversion Type:** Type I

*The information presented below was collected largely from a case study published by the Northcountry Cooperative Foundation Center in 2004.*

## Background

Founded as a sole proprietorship in 1983, Big Timberworks is a design / build construction firm based in Gallatin Gateway, Montana. Big Timberworks specializes in timber-frame construction, as well as in woodwork, metalwork, stonework, and concrete building. Big Timberworks converted to a worker-owned cooperative in 1999, and as of 2014, the coop had eleven<sup>22</sup> worker-owners.

## Why it became a coop

The idea to transition Big Timberworks to a worker cooperative first emerged in the late 1990s, when Big Timberworks founder and owner Merle Adams began finding the rapid pace at which the company was growing to be unsustainable for one person to manage. He worried that if he decided to sell the company to an external buyer, he might put his employees' jobs at risk—and furthermore, he wasn't ready to leave the company.<sup>23</sup> Adams and his employees looked to worker ownership as a solution. By converting the sole proprietorship to a worker-owned cooperative, Adams could stay on as a worker-owner and share the responsibilities of managing the growing company—simultaneously relieving the unsustainable pressure he was experiencing

<sup>22</sup> "Our Craftsmen," website of Big Timberworks. <http://bigtimberworks.com/montana-crafted/our-craftsmen/>

<sup>23</sup> Kerstin Larson et al. "Using Worker-owned cooperatives to enhance the economic well-being of rural residents: a report for the United States Department of Agriculture." Northcountry Cooperative Foundation's Center for Cooperative Enterprise and Innovation: Minneapolis, 2004. p. 16. Available from: <http://community-wealth.org/content/using-worker-owned-cooperatives-enhance-economic-well-being-rural-residents-report-united>

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as a sole proprietor and offering his highly skilled craftsman employees the opportunity to “be their own boss.”

According to a case study of Big Timberworks’ conversion to a worker cooperative published by the Northcountry Cooperative Foundation in 2004:

The business of construction is one that usually spawns many small sole-proprietorships because once employees have mastered the craft many want to start their own businesses and “be their own boss.” Big Timberworks specifically wanted to retain its crew of highly trained, specialized and talented craftspeople. Worker ownership allowed employees to have the benefits of ownership without leaving the business.<sup>24</sup>

According to Big Timberworks’ website, worker ownership has benefitted the company by “giving each employee owner a vested interest in the quality of their products while ensuring that the spirit of creation lives on.”<sup>25</sup>

### Conversion logistics

Under the guidance of the ICA Group, and looking to South Mountain Company as a role model, Big Timberworks began its transition into worker ownership in 1999. The company hired an attorney and an accountant to help navigate the complexities of cooperative law and accounting. Additionally, Big Timberworks successfully lobbied to update Montana’s 80-year-old cooperative statutes so that the company could become a “justifiable business” under the cooperative statute.<sup>26</sup> The primary motivation for Big Timberworks to seek this update in state law, according to the Minutes of the Montana Legislature, was to “feel more at ease” in approaching others to buy into the coop.<sup>27</sup>

To finance the buy-out, Big Timberworks and its advisors hammered out an eight-year buy-out plan. Former owner Merle Adams initially retained ownership of the land but sold the cooperative the buildings and equipment in order to make the transition to worker ownership financially feasible for Big Timberworks’ employees.<sup>28</sup>

### Coop logistics

*The following excerpt is quoted from the 2004 Northcountry Cooperative Foundation’s case study of Big Timberworks’ conversion by Kerstin Larson et al., Using Worker-owned cooperatives to enhance the economic well-being of rural residents: a report for the United States Department of Agriculture.*

The cooperative uses a fairly straightforward management structure. A General Manager and office manager oversee day-to-day operations, and four department supervisors monitor operations within each of the company’s four divisions. Merle Adams serves as the CEO and is primarily an “idea guy” and resource for the Board of Directors. Though he is no longer sole proprietor, he continues to act as the face of the company.

The company recruits new members who express interest in employee ownership.

<sup>24</sup> Larson, 16.

<sup>25</sup> “Our Craftsmen,” website of Big Timberworks. <http://bigtimberworks.com/montana-crafted/our-craftsmen/>

<sup>26</sup> Minutes, January 14, 2000. Business, Labor, and Agriculture Interim Committee of the 56th Montana Legislature. [http://leg.mt.gov/content/committees/interim/1999\\_2000/business/0032loxa.pdf](http://leg.mt.gov/content/committees/interim/1999_2000/business/0032loxa.pdf)

<sup>27</sup> Larson, 7.

<sup>28</sup> Ibid.

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Though they hire primarily based on experience and qualifications, the company also wants to ensure that when employees become eligible for ownership, they want to become a part of the business. This ensures sustainability and long-term success. From the time an employee is hired, there's a two-year probationary period in which the membership evaluates the employee for qualification as an owner. There's little in the way of formal training to be a member of the co-op, but they encourage new hires to read *Built to Last: Successful Habits of Visionary Companies* by Jim Collins and Jerry Porras and a study of Mondragon co-ops entitled *We Build the Roads We Travel*. They're also encouraged to come to board meetings. Instead of institutionalized training, members try to create a culture of ownership by encouraging an atmosphere of mutual accountability and respect.

When an employee's probationary period ends, they apply for coop membership. The whole coop then votes a new member in or out. Once they've been voted in as a member, they're obligated to invest \$10,000 worth of equity ("the price of a good used car"). This amount was carefully chosen following South Mountain Company's example: the amount represented a significant enough investment to require commitment from the new owner that they would stay at the company for while, but not so significant that it would prevent employees from becoming members.

This equity may be paid in cash. They can alternatively take out a three-year, no-interest loan from the coop, or they can use any year-end profits they would receive to pay off their equity share. They must pay off their equity share within three years. Merle commented that while paying your equity investment by using year-end profits was a popular method it also made the idea of membership less valuable to new worker-owners. They've had a few worker-owners who used this method and then quickly left the company, requiring the company to pay out equity quickly and with no small detriment to the business's finances. They've learned over the years that the most meaningful equity investment would come directly out of the worker-owner's pocket.

All eleven worker-owners sit on the Board of Directors, which is primarily a consensus driven body. The Board of Directors governs policy, and approves any significant purchase or expense (capital improvements, any new equipment purchases, etc.). The general manager does have the power to fire employees and is free to implement all policies that the board has voted on. Most Board decisions are not contentious, and it's rare that there is a major conflict among owners.

## Challenges during conversion

The case study compiled by the Northcountry Cooperative Foundation notes that Big Timberworks chose to lobby for a change in state law in order to ensure that its transition into worker ownership was legally sound. Although lobbying for an update to Montana's cooperative statutes, which had not been updated since the 1920s, certainly introduced an additional challenge into Big Timberworks' conversion process, the cooperative transformed this potential barrier into an opportunity to ensure that Montana's cooperative statutes are applicable to and supportive of modern worker cooperatives. In doing so, Big Timberworks not only secured its own status as a cooperative, but also paved the way for the formation of future Montana worker cooperatives.

The Northcountry Cooperative Foundation's case study of Big Timberworks goes on to describe how

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[O]ne of the biggest challenges the coop has had to overcome is the lack of business experience on the Board of Directors. They've hosted trainings on such topics as how to read financial statements, and often Merle's advice is used to interpret subjective business data...As the board's skill-set becomes more developed, Merle's role is expected to diminish.<sup>29</sup>

Finding a balance point between the roles of the selling owner and the new worker-owners is an issue frequently faced by newly converted worker-owned businesses. Workers transitioning from purely employee roles into ownership often have never before had the need or the opportunity to learn the business management skills required of business owners. The selling owner can play a critical role in transferring ownership knowledge over to former employees, but he or she must simultaneously work toward relinquishing sole symbolic and emotional control over the company. Big Timberworks' conversion provides an example of how one company has successfully dealt with this challenge.

### Key lessons / effective practices

Big Timberworks' transition to worker ownership demonstrates the extent to which the continuous presence and active guidance of a selling owner can ease the “growing pains” of a new cooperative business. Merle Adams' willingness to train his former employees in how to manage the business was likely a critical component of the continued success of Big Timberworks during and after the transition to worker ownership.

Big Timberworks' utilization of prior worker ownership conversions as models for its own transition should also be highlighted as an effective practice. To avoid wasting time and energy “reinventing the wheel” in designing its cooperative structure and membership requirements, Big Timberworks looked to another design / build worker cooperative for guidance. The example set by South Mountain Company, a design / build company that transitioned to worker ownership in 1987—more than a decade before Big Timberworks began its conversion—shaped how Big Timberworks formulated its own membership requirements. Following the South Mountain Company model, Big Timberworks set the equity investment it requires of new members relatively high (\$10,000), and the probationary period relatively long (2 years), in order to require a significant up-front commitment from new worker owners. The commitment to long-term ownership is both monetary and symbolic, and may contribute to Big Timberworks' low turnover rate and overall long-term success.

<sup>29</sup> Ibid, 16; 14.