

THE WOODROW WILSON SCHOOL'S GRADUATE POLICY WORKSHOP

WORKING AND REBUILDING TOGETHER: Worker Cooperatives as an Economic Development Tool

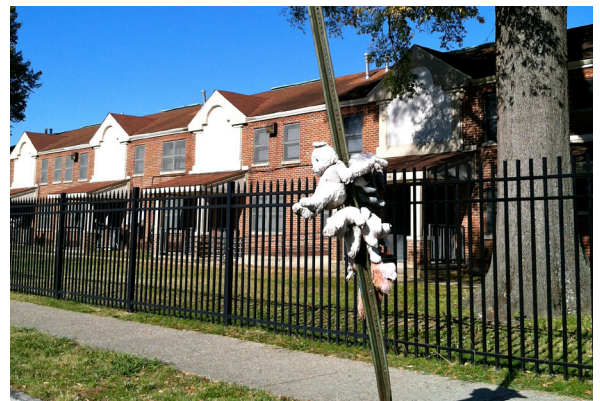
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January 2013





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WORKING AND REBUILDING TOGETHER

Considerations for the Use of Worker Cooperatives as an Economic Development Tool

This report was produced by a group of second-year graduate students at Princeton University's Woodrow Wilson School for Public and International Affairs as a degree requirement for the completion of a Masters of Public Affairs. The authors of this report are Stephanie Durden, Maggie Haight, Laura Hanson, Kimberly Harris, Francisco Perez, Sarah Ray, Daniel Sanchez, and Laura Tatum, under the supervision of Professor Hugh Price.

The workshop included field visits during October 2012 by three different groups of students to: Memphis, Tennessee; Mondragon, Spain; and Pittsburgh, Pennsylvania and Cincinnati, Cleveland, Kent, and Wilmington, Ohio. During these field visits, the authors met with individuals from: Advance Memphis, our client organization; worker-owned cooperative businesses; and other organizations involved in cooperative development. The authors would like to extend their sincere thanks to all those who generously shared their time, insights, and expertise. Any omissions or errors of fact are the responsibility of the authors.

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January 2013

ACKNOWLEDGEMENTS

We would like to take this opportunity to thank the following individuals who graciously shared their expertise, insights, and time. We would also like to thank our professor, Hugh Price, the staff of the Woodrow Wilson School, and Advance Memphis for making this workshop possible.

The analyses and recommendations in this report are solely the responsibility of its authors and should not be construed as the expressed or implied views of any other individuals or entities.

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EXECUTIVE SUMMARY

This report was prepared for Advance Memphis by a class of graduate students at the Woodrow Wilson School of Public and International Affairs at Princeton University. Advance Memphis is a faith-based workforce development and training center in Memphis, Tennessee, interested in worker cooperatives as an innovative local economic development strategy.

Worker co-ops are businesses that are collectively owned and democratically managed by their employees. Based on the experience of several worker cooperatives in the U.S. and abroad—including the most successful of all, the Mondragon Corporation in Spain—this report analyzes key factors and challenges to consider in planning an effective cooperative development strategy including:

- identifying a viable business idea for a cooperative with multiple bottom lines;
- raising start-up capital and approaching potential funders;
- providing training to ensure worker-owners have the necessary job AND management skills;
- creating and sustaining a democratic workplace that can maximize the benefits of co-ops;
- forming a cooperative development agency and prioritizing which capacities to develop first;
- building a winning coalition of partners and local leaders for the promotion of co-ops; and
- ensuring the necessary patience to see the project through.

We hope that this report and the following considerations will be useful to both Advance Memphis and other cooperative entrepreneurs in the U.S.

CONSIDERATIONS

First Things First: A Viable (Cooperative) Business Idea

1. Use the attached co-op canvas to brainstorm various business ideas. After an open and participatory process including potential worker-owners, commission a feasibility study of the most promising business idea.
2. Elaborate a business plan that:
 - a. details goals and explains the steps the co-op will take to benefit worker-owners, customers, and surrounding communities;
 - b. includes a market study to find the appropriate scale;
 - c. includes a risk analysis; and
 - d. is calibrated to the skill set of the worker-owners.

Overcoming Barriers to Cooperative Finance: Raising Capital for Low-Income Worker-Owners

1. Secure sufficient capital for the co-op's start-up phase. Under-capitalization is usually the biggest reason worker co-ops fail.
2. Tailor your capitalization strategy to the various possible funding sources.
3. Ensure your capitalization strategy does not significantly reduce gains to workers and the community from cooperative development.

Building Human and Social Capital: Education, Training, and Support Services

1. Train worker-owners on necessary business skills. Worker-owners must have the financial literacy and other management abilities to effectively participate in the co-op's important business decisions.
2. Perform a skills assessment and make up for any gaps through training before the business begins operations.
3. Design an interactive training program that teaches and adheres to cooperative values.
4. Hire strategically, prioritizing workers who are ready, willing and able to be collective entrepreneurs.
5. Provide workers with access to any support services they may need in order to maximize their participation in the co-op.

Sustaining a Democratic Workplace: Organizational Management and Governance

1. Develop a formal code of statutes.
2. Contemplate forming a study group on cooperative history.
3. Only hire individuals who are in agreement with the spirit and letter of the formal code of statutes.
4. Rotate tasks among workers as much as possible to decrease burnout.
5. Create a trial period for workers to ensure that they will be a good fit with the organization.
6. Create an environment that encourages productive conflict.
7. Ensure the productive use of meeting time.
8. Train management in cooperative business regardless of background or skill level.
9. Contract with consultants to complete necessary work that worker-owners may not have the skill-set to complete, for example, accounting and legal issues.
10. Consider what decisions worker-owners can and should make.
11. Contemplate the role that other stakeholders like foundations and anchor institutions may play in decision-making processes.

Supporting Cooperative Growth: The Essential Role of the Cooperative Development Agency

1. Assess your organization's capacities to incubate and support worker co-ops. Decide whether to become a CDA or to create a new organization to perform the role.
2. Choose which CDA functions to develop internally or through partnerships and which others to contract out to consultants. More importantly, formulate a timeline of when the organization plans to add specific CDA capacities.
3. Conduct a survey of the succession plans of local business owners.
4. Explore other opportunities for conversions of existing local businesses, both profitable and failing.
5. Partner with local community colleges and universities to develop and offer specialized programs in cooperative entrepreneurship and management that emphasize learning-by-doing and practical experience in co-op businesses.
6. Plan for the creation and expansion of a network of cooperatives in order to benefit from the pooling of workers, finances and risk and the sharing of support services.

Forming a Coalition for Community Wealth Building: Ensuring Success through Partnerships

1. Recognize that no organization can pursue a cooperative development strategy alone; begin to identify and explore potential partnerships as early as possible.
2. Prioritize the search for other project champions.
3. Contact a cooperative development expert organization like the Ohio Employment Ownership Center, the Democracy Collaborative or Cooperative Works! for technical advice on cooperative entrepreneurship.
4. Canvass local "anchor" institutions and explore ways they can target their procurement spending to stimulate sustainable economic development in Memphis.
5. Further strengthen ties with local government and relevant public agencies to start forming a political coalition in favor of cooperative development.
6. Meet with leaders at the University of Memphis and Southwest Tennessee Community College to discuss the possibility of creating cooperative business and entrepreneurship training programs.

"A Marathon, Not a Sprint": Patience and Cooperative Development

1. Recognize and convey to partners and other stakeholders that implementing a successful worker cooperative development strategy requires great patience.
2. Carefully manage expectations throughout the start-up phase and do not "promise too much too soon."
3. Focus on co-op development and be willing to decline requests from the media and researchers if they become a distraction.

PART I: INTRODUCTION

WORKER COOPERATIVES: A COMMUNITY WEALTH BUILDING STRATEGY FOR STRUGGLING NEIGHBORHOODS

A Different Approach to Urban Economic Development

Since 1970, nearly every state and local government has expanded its efforts to promote economic development and create jobs. Tax incentives for businesses easily dwarf all other money spent on state and local economic development programs at over \$80 billion each year.¹ A review of economic studies evaluating the effects of state and local tax incentives finds that these policies rarely create jobs in a cost-effective manner.² Given persistently high unemployment, a growing number of local governments, community development non-profits, and philanthropic foundations are looking for innovative approaches to local economic development. This report proposes and analyzes an alternative to conventional economic development regimes: the creation of worker cooperatives.

Worker cooperatives are democratic associations of people who collectively own and control their own businesses. They are a small, but growing, part of the economy in the U.S. and around the world. The first modern worker-owned cooperative in the world was founded by the Rochdale Pioneers in England in 1844 (see Appendix A), during the immense social and economic change that occurred during the English Industrial Revolution; since then, worker-owned cooperatives have tended to develop during periods of stagnant economic growth and high unemployment. In the United States, the number of worker co-ops has been growing steadily over time, and there are now over 300 democratic workplaces, employing over 3,500 people and generating over \$400 million in annual revenues.

Advance Memphis' Executive Director, Steve Nash, asked our policy workshop to explore democratic employee ownership as a strategy for job and wealth creation. Founded in 1999, Advance Memphis (Advance) serves the Vance Avenue neighborhood "by empowering residents to acquire knowledge, resources, and skills to be economically self-sufficient through the gospel of Jesus Christ."³ Using business development frameworks and case studies of successful cooperatives, our research has focused on the viability, opportunities, and challenges of developing worker cooperatives in inner-city Memphis. Successful worker co-ops are one way to prevent capital flight, to generate jobs and to increase the local economic multiplier, as worker-owners are not going to move their business and are more likely to reinvest and spend their wages and profits locally.

The Mondragon Example

The Mondragon Corporation, based in the Basque region of Spain, demonstrates the viability of the worker ownership model. This successful network of cooperative businesses competes on a global scale while supporting economic self-sufficiency, regional economic development and intergenerational wealth building. From its origins in the postwar devastation of the early 1950s, the Mondragon Corporation now comprises over 120 cooperatives and employs more than 83,000 workers worldwide, with over 14 billion Euros annually in sales.⁴ Citing Mondragon and other examples in Italy, France, and the United Kingdom, researchers argue that cooperatives are more economically resilient than other businesses while embodying features of participatory democracy that promote the welfare of workers.⁵

Inspired by Mondragon, several nonprofits in the U.S. have created worker cooperatives to increase self-sufficiency for low-income adults who face barriers to employment. For instance, the Community Service Society founded Cooperative Home Care Associates (CHCA) in the Bronx in 1985. CHCA is now widely recognized for creating significant and systemic positive changes in the home health care sector.⁶ Women's Action to Gain Economic Security (WAGES)⁷ in Oakland and the Center for Family Life⁸ in Brooklyn have both developed cooperative curricula to train immigrant women in collective entrepreneurship and business skills. In these cases, workplace democracy fosters economic self-determination and improves labor standards in the whole industry.

Building Community Wealth Through Cooperatives

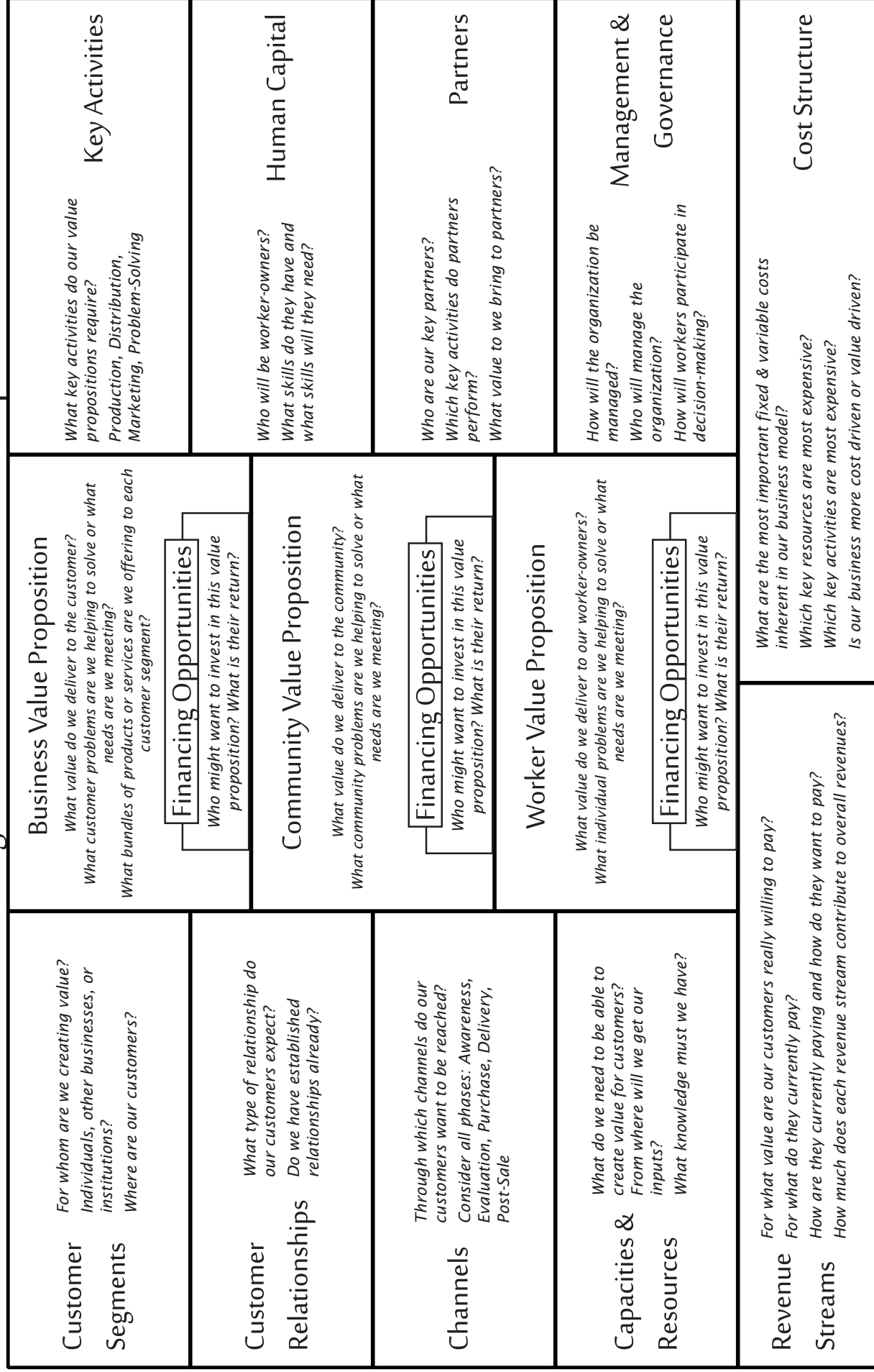
Other worker co-op development initiatives have embraced Community Wealth Building. This framework aims to promote local economic stability by “fostering local ownership, catalyzing locally-oriented economic development, building capacity for local community economic development, and expanding investment opportunities for Americans of modest means.”⁹ The Evergreen Cooperatives in Cleveland are a nascent effort to develop a network of worker co-ops that capture existing revenue streams from local “anchor” institutions. These “Eds and Meds” are large non-profit institutions like universities and hospitals that command significant resources and are unlikely to relocate. Although still developing, Evergreen has inspired dozens of cities to think about leveraging local procurement dollars to support worker cooperatives, anchor jobs, and recycle capital in low-income neighborhoods.

Advancing Worker Cooperatives in Memphis

Inner-city Memphis has experienced many of the problems associated with urban disinvestment and decline over the past several decades, including high rates of poverty and unemployment, and substandard education. These problems are acute in the Vance Avenue neighborhood, which is home to a major public housing complex. In 2010, more than half of Vance Avenue households earned less than \$10,000 and more than seventy percent of individual residents lived below the poverty line. Seventy-three percent of residents over the age of sixteen were not in the labor force, and thirty-six percent of those in the labor force were unemployed.¹⁰ Educational attainment in Vance Avenue also lags far behind other areas of Memphis. Fewer than half of adults in the neighborhood had completed high school in 2000, and only five percent had a college degree.¹¹ This may explain why the Vance Avenue labor force is concentrated in occupations such as building and grounds maintenance, food preparation, transportation, and sales. These types of low-skilled positions typically entail low wages, limited health and retirement benefits, and tenuous job security. In other words, Vance Avenue residents must overcome significant challenges to achieve economic self-sufficiency.

Given the failure of traditional economic development strategies to address community challenges, worker co-op development represents a promising opportunity for Advance Memphis to create jobs and build wealth in Vance Avenue. As seen in the examples briefly described above, there is considerable diversity within the arena of worker co-op development. Each decision point along the development path has critical implications for the value propositions for workers, consumers, and the community. Our report details seven sets of issues Advance Memphis should consider before embarking on a worker co-op development path. The next page includes a cooperative planning canvas that summarizes many of these key considerations and questions to aid in this development process. Appendix F provides a blank cooperative canvas that can be completed with answers to these questions. Appendix G includes the original business planning canvas that was used to develop Appendix F. We hope that these tools will be useful to you, as well.

Business Planning Canvas: Worker-Owned Cooperatives



PART II: CONSIDERATIONS

FIRST THINGS FIRST: A VIABLE (COOPERATIVE) BUSINESS IDEA

A worker-owned cooperative is, first and foremost, a business.¹² In order to be successful, worker co-ops must effectively meet the demand for a product or service. As democratically owned and managed firms, however, worker co-ops have to think of multiple “bottom lines” beyond the fundamental requirement of profitability that is typically the sole concern of investor-owned firms. In other words, co-op entrepreneurship is different from starting a traditional business.

Usually, entrepreneurs begin with a business value proposition, a profitable market opportunity that maximizes returns to investors. Co-op entrepreneurs, however, must also address a member value proposition because the guiding purpose of a worker co-op is to help members increase their skills and build wealth. In addition, worker co-ops have a third proposition, the community value proposition. This includes the positive spillover effects of the co-op on the surrounding community. Maximizing and balancing these three value propositions makes cooperative development inherently more challenging and rewarding than typical business development. When attempting to weigh these three values—profit, worker democracy and community development—cooperative entrepreneurs must consider how the trade-offs they make will shape and constrain the path of future business growth.

One such tradeoff is determining the skill set of future worker-owners. For example, a worker co-op providing engineering consulting services could hypothetically be profitable in Memphis, but given that few college-educated professionals live in the Vance Avenue neighborhood, residents are unlikely to successfully form this type of business. Many of the non-profit organizations and philanthropies promoting worker co-ops in the U.S. seek to create jobs for workers that have been excluded from the labor market for long periods and whose current skills base, consequently, is lacking or atrophied. Co-op entrepreneurs must weigh how the skills and work experience of potential worker-owners influence the viability of different business plans.

Sales Strategy and Scale

Once co-op entrepreneurs have identified a business opportunity, they need to distinguish a target market segment. Catering to different segments of a market means complying with different state and federal regulations and operating at different scales, and with margins that may not be appropriate for a fledgling business. Cooperative entrepreneurs should consider questions like:

- What kind of established relationships do we have with potential customers and suppliers? Can we meet large-scale demand?
- Do we have the internal capacity or established partnerships to understand the risks of the legal and regulatory environment of our potential business?
- Is the industry we may be entering typically characterized by high- or low-profit margins?

The table below briefly summarizes how these factors play out with different customer segments.

	Business to Consumer	Business to Small Business	Business to Large Business
Demand Scale	Small, provides lower capacity to employ workers, but increased flexibility in terms of contract fulfillment.	Medium, varying between ad hoc and contractual, depending on relationship.	Large, provides increased capacity to employ workers on a fixed contractual basis.
Regulatory Requirements	Little to none. Ongoing relationship management may contribute to ongoing business success.	Some plus relationship management.	Heavy, complicated regulatory requirements and procurement standards. Directly effects ability to fulfill contract.
Product or Service Margins	Higher margins offset by lack of defined fixed demand.	Varying margins, product or service dependent.	Low margins.

Differentiation, Channeling, and Support

New market entrants need to set themselves apart to be successful. Fortunately, a large proportion of U.S. consumers have shown their willingness to pay more for products and services they perceive as more socially or environmentally responsible (fair trade, organic, etc.) Not many businesses can credibly meet these standards; co-ops' branding and marketing should capitalize on this competitive advantage. This is crucial because it is often difficult for worker co-ops to compete in terms of price alone. According to Michael Shuman in *Local Dollars, Local Sense*, social entrepreneurs should “compete by develop[ing] a brand and reputation for uniqueness, quality, and performance.”¹³ However, competing on quality raises its own difficulties, as consumers must be able to visibly assess and evaluate said quality. Therefore, branding and marketing should also highlight the quality and craftsmanship of co-op goods and services.

Market Entry – Two Potential Strategies for Cooperatives

There are essentially two ways for a new business to strategically enter and create a market niche. One possibility is a grassroots campaign, which would involve slowly building an ad hoc consumer and small business client base for the product or service. Shuman adds that “target[ing] customers who value the kind of social impact intended” is helpful.¹⁴ This system would be adaptable and relatively low risk, which is optimal for a business just getting started.

Another option for market entry, as explained by Dr. Steven Bares of Memphis Bioworks Foundation, is a beachhead strategy. When the target market or client is slightly larger, the co-op entrepreneur can find a niche by assessing relative margins, ease of production and current consumer/client dissatisfaction and enter the market with a single product that makes the best of these qualities.

Starting a business that seeks to sell to large clients is difficult without prior experience. Bares stresses the importance of scale in business transactions; the most successful relationships are between partners of similar size. However, markets with opportunities to scale up or expand in the future are valuable, and co-op entrepreneurs should keep this in mind.

	Mondragon¹⁵	Evergreen	Cooperative Home Care Associates¹⁶
Initial Market Entry	Heavily protected by the regional government and during an economic downturn.	Heavily protected through anchor-driven procurement.	Open market operations in a traditionally low-cost, low-wage, low-competition market.
Current Market Strategy	Global market competitor focusing on viable business ideas.	Evergreen is still young; the jury is still out on Evergreen's anchor-driven model.	Still successful today with a spinoff in Philadelphia.
Strategy Risk	As it expands, Mondragon is drifting away from cooperative principles, in some ways, in order to compete with ordinary business.	Reliance on anchor's demand to support business.	Legislative risk – reliance on Medicaid reimbursement rates to support business model.

Technical Feasibility – Revenue and Risk

After assessing market differentiation and entry, potential cooperative entrepreneurs should model their project budget including hard and soft costs. Businesses with larger start-up costs (in more capital-intensive sectors) are more difficult to finance, creating a market entry barrier, but by the same token, they may be safer in the long run because the same obstacles also discourage potential competitors.

A risk analysis is also crucial in thinking through the feasibility of a business. It includes:

- Different business climate scenarios and sensitivities
- City ordinances, permissions and allowances
- Other risks: property, market, financial, public relations, operational, regulatory, political, or legislative risk

Carefully outlining adverse outcomes as part of business planning can illuminate or mitigate future problems.

RECOMMENDATIONS

1. Use the attached co-op canvas to brainstorm various business ideas (Appendix F). After an open and participatory process including potential worker-owners, commission a feasibility study of the most promising business idea.
2. Elaborate a business plan that:
 - a. details goals and explains the steps the co-op will take to benefit worker-owners, customers and surrounding communities;
 - b. includes a market study to find the appropriate scale;
 - c. includes a risk analysis;
 - d. is calibrated to the skill set of the worker-owners.

CONSIDERATIONS

OVERCOMING BARRIERS TO COOPERATIVE FINANCE: RAISING CAPITAL FOR LOW-INCOME WORKER-OWNERS

Financing Challenges

Assembling sufficient financial resources, particularly at the beginning, is a difficult task for any business. Financing can be particularly challenging for worker cooperatives because their equity structure is unique. In traditional worker cooperatives, rules restrict ownership to worker-owners only and stipulate that management decisions are made by the principle of “one-worker, one-vote”. Some co-ops do not even allow for inequalities in equity stakes. Consequently, venture capitalists and angel investors are often weary of investing in businesses where they have no control over management. Moreover, potential investors may be discouraged by laws or regulations in various states that cap dividends to preferred shares. Similarly, banks may hesitate to lend to worker cooperatives because most loan officers are unfamiliar with this kind of business organization. Finally, entrepreneurs have traditionally invested much of their own savings as start-up capital, but this option is rarely feasible for low-income worker-owners.

Although worker cooperatives face these significant additional challenges to accessing adequate finance, finding sufficient start-up capital is possible. Worker cooperatives will be more successful if they understand the advantages and disadvantages of each of their potential sources of financing. For each potential source of financing, it is important to consider the time frame – how long will the financing last? Advance Memphis and its partners should consider how to address four key audiences: public and philanthropic investors, banks, clients, and worker-owners.

Public and Philanthropic Investors

Since worker cooperatives often create positive spillover effects in the communities in which they operate, a number of public agencies and philanthropies may be willing to support worker co-ops with start-up capital and technical assistance.

Community Development Financial Institutions

Community Development Financial Institutions (CDFIs) provide credit and other financial services to serve low-income communities that have traditionally been underserved. The mission of these banks and credit unions is to finance community development projects. They support job creation, build affordable housing, and provide consumer financial products. CDFIs also offer low-interest loans or grants to organizations serving low-income people. Worker-owned cooperatives that seek to employ and build the financial resources of low-income individuals can qualify for these low-interest loans. There are also some CDFIs that specialize in cooperative finance, such as Northcountry Cooperative Development Fund, the Cooperative Fund of New England (CFNE), and the Local Enterprise Assistance Fund (LEAF).

Federal Resources

Worker cooperative entrepreneurs can also secure funding through a number of federal programs. The New Markets Tax Credit is a federal program implemented by the Treasury Department designed to promote investment in businesses and affordable housing projects in low-income communities.¹⁷ The program subsidizes investment in low-income communities through a tax credit to investors. The Housing and Urban Development Department’s (HUD) Section 108 loan is part of the Community Development Block Grant program that provides funding for economic development projects, rehabilitating housing, or other public spaces in low-income areas.¹⁸

Various worker cooperatives have benefited significantly from these federal funding resources. Evergreen Laundry, for example, took advantage of the New Markets Tax Credit and HUD’s Section 108 program to finance its initial operations. However, a potential drawback to using these funding sources is the time required to apply and the subsequent reporting requirements that may prove a burden to fledgling businesses.

Financing of the Evergreen Laundry Cooperative

The Evergreen Laundry Cooperative was financed largely through private philanthropies, anchor institutions and federal government grants, as shown below:

Sources of Finance:

- **Initial Capital:** \$5.5 million
- **Annual Revenue** (as of 2010): \$1.1 million
- **New Market Tax Credit Finance:**
 - \$1.3 million US Bank CDE
 - \$1.4 million Evergreen Cooperative Development Fund Loan
 - \$1.5 million HUD 108 Loan
 - \$800,000 Shorebank Loan
- **Non-New Market Tax Credit Finance:**
 - \$300,000 Commonwealth Bank
 - \$200,000 Economic Development Authority loan

Nonprofits & Philanthropic Support

Many cooperatives successfully secure support from nonprofits and philanthropic organizations if the purpose of the cooperative aligns with the mission of the nonprofit or philanthropic entity. The largest worker-owned cooperative in the United States was originally financed with significant support from a nonprofit organization. In 1985 the Community Services Society of New York (CSS), one of the oldest social service nonprofits in New York City, helped start the Cooperative Home Care Associates (CHCA) in the Bronx. Like many startup businesses, CHCA struggled; the organization did not break even until after its third year in operation. CSS covered CHCA's losses in the meantime. Evergreen also secured significant financial support from philanthropic organizations such as The Cleveland Foundation and the Kelvin and Eleanor Smith Foundation.¹⁹

In order to access philanthropic support, Advance should highlight its multiple bottom lines—how co-ops are socially responsible businesses that can provide substantial benefits to their workers, customers and communities, and the environment. Moreover, as a business that will eventually be self-financing, the co-op entrepreneurs can emphasize to potential funders that this start-up capital is a long-term investment that will provide lasting benefits without depending on continuous grant aid. The disadvantage of relying on philanthropic support is the large amount of staff time necessary to comply with onerous grant proposal and reporting requirements. A second drawback to relying on multiple foundations and anchor institutions for financing is that these organizations may have a large enough stake in the business to want to influence management decisions, which may dilute the decision-making power of worker-owners.

While philanthropies traditionally provide financial support in the form of grants, they may also make what are called “program-related investments.” Program-related investments (PRIs) are investments made by foundations to support charitable activities that involve the potential return of capital within an established time frame. PRIs include financing methods commonly associated with banks or other private investors, such as loans, loan guarantees, linked deposits, and even equity investments in charitable organizations or in commercial ventures for charitable purposes.²⁰ Given their positive spillover effects (worker-owners’ increased self-esteem, increased civic participation, potential reduction of poverty, higher local economic multiplier, etc.) worker cooperatives can meet foundations’ criteria for PRIs.

Financing of Cooperative Home Care Associates

Twenty-seven years after its founding, Cooperative Home Care Associates receives much of its funding from government service contracts. As a large private home health care provider, CHCA contracts with the New York City Human Resources Administration (HRA), Independent Care Systems (ICS), and the Visiting Nurse Services (VNS). Of its revenue, \$16 million comes from ICS, \$13 million from VNS, and \$10 million from HRA.

CHCA also receives funding from U.S. Department of Health and Human Services to train its employees. Moreover, the company typically collects about \$500,000 in donations and small grants. CHCA employees can become worker-owners after a three-month probationary period. Then they are eligible to have pay a portion of their wages (at least \$3.50 per pay period) until the full \$1,000 dollars has been paid. As of 2011, the organization had annual revenue of \$42 million dollars.²⁵ Nearly 80 percent of its yearly revenue is spent on employee benefits and salary to over 1,600 workers. Even after decades in operation, CHCA operates with slim margins. In 2009, the organization only generated \$174,248 dollars in after-tax profits.²⁶

Banks

While traditional banks may hesitate to lend to new worker cooperatives, regulatory requirements and a viable business plan could improve the likelihood of receiving traditional lending. Advance should explore potential partnerships with local banks, particularly because Advance may be eligible for below-market rates. Under the Community Reinvestment Act of 1977 (CRA), federal regulators evaluate bank lending to reduce discrimination against low-income borrowers; banks therefore may lend to potential worker cooperatives in order to comply with the CRA. Loan guarantees for for-profit entities may also be available via the Small Business Administration.

Consumers

While consumers are traditionally considered to be a source of revenue and not finance, cooperative business offers entrepreneurs the unique opportunity to partner with their customers to obtain start-up capital. In Cleveland, key anchor institutions agreed to partly finance the Evergreen Laundry and guarantee its revenue streams by becoming its principal clients. In return, the partners received seats on the board of Evergreen Cooperatives.²¹ Unfortunately, this source of finance shares the same disadvantage as relying heavily on nonprofit or philanthropic support in that significant contributors may heavily influence management decisions or desire a large equity stake, weakening the workers' control and ownership of the business.

Worker-Owners

One of the biggest obstacles to cooperative finance is many workers' lack of sufficient personal capital to make a significant equity investment, particularly when cooperatives target workers from low-income communities. In response, many worker cooperatives allow new worker-owners to purchase their equity stake over time. For example, CHCA employees can become worker owners after completing a three-month probationary period, at which point workers are eligible to have a portion of their pay (at least \$3.50 per pay period) deducted until the \$1,000 minimum equity threshold is reached.²² While these equity amounts may be relatively small, their significance to the success of the business is much larger. Such sums for low-income workers represent an extraordinary level of commitment to and trust in the cooperative. Indeed, potential cooperative entrepreneurs may hesitate to invest their small, but hard-earned, savings in cooperatives because they are unfamiliar with worker-ownership and therefore view such investments as inherently risky.

Workers must also understand the concept of sweat equity, or the (often) unpaid work that goes into building a business, such as planning and marketing. This is especially pertinent for founding and early cohorts of worker-owners. At *Si Se Puede!*, the founding worker-owners were overwhelmed by the number of hours they had to work without pay while developing and marketing the business in its first year.²³ Majee & Hoyt acknowledge the significant commitment that founding worker-owners must make, including identifying and developing the business opportunity, building consensus for a cooperative, developing trust among potential members, securing other members' commitment, and involving stakeholders in the planning process, all with no guarantee that they will realize returns on their initial investments.²⁴

Worker-ownership is the foundation of a worker co-op's promise as a community wealth-building strategy. A successful worker co-op redistributes a portion of its annual profits into workers' accounts, the cooperative equivalent of a dividend. This increases the worker-owner's savings and raises the value of their equity holdings, allowing them to build significant financial assets in addition to their wages and to begin breaking the cycle of poverty in the Vance Avenue neighborhood.

RECOMMENDATIONS

1. Secure sufficient capital for the co-op's start-up phase. Under-capitalization causes many worker co-ops to fail.
2. Tailor your capitalization strategy to the various possible funding sources.
3. Ensure your capitalization strategy does not significantly reduce gains to workers and the community from cooperative development.

CONSIDERATIONS

BUILDING HUMAN AND SOCIAL CAPITAL: EDUCATION, TRAINING, AND SUPPORT SERVICES FOR WORKER-OWNERS

Education was one of the seven original Rochdale cooperative principles. The education and training of worker-owners has since proven to be crucial for many of the most successful cooperatives in the United States and abroad.²⁷

- **Mondragon Corporation (MC):** Father Arizmendiarieta created the Professional Polytechnic School in 1943 in Mondragon, Spain as a cooperative to equip teenage boys in the area with both technical skills to help rebuild the region's economy and Arizmendiarieta's social vision of economic and social cooperation.
- **Green Worker Cooperatives (GWC):** The Green Worker Cooperatives, established in the South Bronx in 2008, developed the Green Worker Co-op Academy to provide several weeks of training to community residents interested in creating green, worker-owned cooperatives. Four graduates of the inaugural class were chosen to become worker-owners for ReBuilders Source, the GWC's first cooperative, and earned a living wage of \$17 per hour.²⁸
- **Cooperative Home Care Associates (CHCA):** Cooperative Home Care Associates in the Bronx was established in 1985 with twelve experienced home care aides. Organizational management quickly realized that it was most efficient to train inexperienced aides in CHCA's skills and culture in order to avoid conflict with past work experiences and resistance to CHCA's approach.²⁹
- **Center for Family Life and Si Se Puede!:** The Center for Family Life also chose to develop a cooperative-based training curriculum for the worker-owners of Si Se Puede! in South Brooklyn that was based on the organization's research, observations, and community organizing experiences.³⁰
- **Evergreen Cooperatives:** Evergreen Cooperatives in Cleveland, Ohio, began in 2009 with the grand opening of the Evergreen Cooperative Laundry. It started with five workers and quickly expanded to 21 within one year.³¹ The company implements a high-quality, low-cost, comprehensive training model that focuses on basic job skills, environmental sustainability, equipment operations, employee-ownership training, and support services.³²

Based on the experiences of cooperatives like the Mondragon Corporation, Cooperative Home Care Associates, Si Se Puede!, and Evergreen, Advance and its partners should consider the following issues when developing and implementing an effective training and support services delivery system for worker-owners.

Development

***Curriculum:** Identify a training provider, such as Advance Memphis itself or a local educational institution, with knowledgeable community and professional partners, to develop a training curriculum.*

Advance would either do its own training or inform the training organization of its vision and needs and monitor the incorporation of those concepts into the training curriculum. According to Jay Simecek at the Ohio Employee Ownership Center (OEOC), some key concepts to consider when developing a training program are the cooperative's purpose, goals, vision, values, and the behaviors to encourage among worker-owners. It is also critical that the training itself embody those values. For example, CHCA partnered with Lehman College and the City University of New York to offer a home aide certification program to its employees. The colleges taught the courses and provided tutorial assistance in classrooms located at CHCA's main office by way of a grant that allowed the employees to attend without the burden of tuition.³³

The inclusion of community members and professionals who are knowledgeable about the nature of the work and potential employees often greatly aids the process. Their input could be valuable in determining how to best present the training material to explain the cooperative's work, how it should be performed and how to engage the trainees at the appropriate education level and in a culturally sensitive fashion.

Skills Assessment: *Advance and its partners should identify the skills needed by potential worker-owners and compare them with the existing skill set of the Vance Avenue community to determine the skills that must be introduced and reinforced in training programs.*

This skills assessment could be achieved by surveying the skills of those community residents who have expressed interest in the cooperative or the group of community members targeted by the cooperative entrepreneurs. As the training partner develops the curriculum and the cooperative develops its business, they need to understand which skills need to be introduced versus those that simply need to be reinforced. The more the cooperative knows about its workers' skills, the better it can understand how to build upon those skills to expand the business.

For example, during its screening process, CHCA seeks applicants who have the innate abilities needed to manage the strenuous work of a home health aide, such as resourcefulness, ability to work independently, high comfort with taking initiative, reliability, honesty, maturity, compassion, and the ability to derive personal satisfaction from helping others. CHCA then uses its training to reinforce and build upon those skills.³⁴ The Center for Family Life in South Brooklyn works with many hard-to-employ individuals who face a "triangle of limitations" that include limited literacy in English, limited education due to many being first-generation immigrants, and limited work history outside of the agriculture and trade industries. It has brought those individuals together to form cooperatives that build on their skills and provide them with gainful employment. The Center for Family Life has established three cooperative businesses to date: Si Se Puede! cleaning services, Color Me! interior painting, and Beyond Care Childcare.³⁵

Comprehensive Skill Set: *As both workers and potential owners, trainees must be comfortable with the technical skills required to be efficient workers and the business skills needed to be empowered, engaged owners.*

Training should not ignore the kind of "soft skills" like collaboration and effective communication that foster a cooperative culture at the workplace. Practicing these skills forges strong ties between group members, a concept scholars call "bonding" social capital, that increase the cooperative's chances for success. During Si Se Puede!'s 12-week employee training, it focused on developing bonding social capital by emphasizing collaboration, community organizing, leadership development, and conflict resolution. This focus empowered them to work collaboratively and formally make company decisions about an individual worker's behavior before tensions escalated. Establishing this foundation allowed the cooperative to assume more workers and clients.³⁶

Technical skills include the skills needed to complete work-related tasks. CHCA also focuses heavily on technical skills training. Because this field is regulated by federal law, CHCA is required to provide a certain amount of classroom and practical skills training to the aides, but the company goes a little further with its Quality Jobs / Quality Care approach to training. The organization believes that if its workers are highly trained to manage the tasks of their work, then they will be empowered to provide better service and obtain better results. This would result in more satisfied clients and build the company's reputation, which would hopefully result in a larger client base and better wages and benefits for the aides.³⁷

Developing business skills is crucial to help workers understand the nature and responsibilities of ownership. Workers must understand how to become an owner, what ownership means and entails, and how it benefits them and their communities.³⁸ Smaller companies such as Si Se Puede! or the Evergreen Cooperatives may require a more frequent, direct form of participation, while larger organizations, such as the Mondragon Corporation or Cooperative Home Care Associates, may prefer infrequent, representative forms of governance. Finally, workers must possess the basic skills needed to be engaged and informed owners, such as the ability to read the company's financial statements. According to Simecek at the OEOC, this training must occur before worker-owners can be expected to fully participate in important company meetings and decisions.³⁹ During times of slow production, the management at Evergreen Cooperatives holds discussions about the company's financials and performance to help the workers understand these important concepts in a relaxed environment.⁴⁰

Implementation

Strategic Selection Process: *In addition to high-quality training, a rigorous selection process would identify workers with a strong desire to work for a cooperative, perform at a high level, and participate in its ownership and management.*

In an interview with founding members of the Evergreen Cooperative Laundry in Cleveland Ohio, one worker-owner explained that it is difficult to convince new worker-owners of their democratic and cooperative culture. However, because all of the employees live in the distressed neighborhoods of the Greater University Circle in Cleveland and many have experienced difficulty finding jobs due to criminal records and ageism, workers have a shared experience that strengthens their commitment. Workers said they “fight tooth and nail” at Evergreen to make the laundry work, investing invaluable sweat equity.⁴¹ Consequently, a training program should incorporate cooperative skills, practices, and behaviors.

Interactive Training: *Training is more engaging and effective when it is administered interactively.*

Interactive training provides realistic examples of future work-related expectations and helps trainees assess whether they fit the position. Simecek, of the OEOC, notes that the “learning by doing” style of interactive training allows a company to explain its expectations for workers by exhibiting those expectations.⁴² For example, Cooperative Home Care Associates provided interactive training via its adult learner-centered educational model, in which CHCA encouraged active trainee participation by way of case studies, role-playing, team exercises, and brainstorming sessions. The trainers have found that this model creates a supportive environment that facilitates learning, emphasizes mutual respect, and boosts the confidence of the trainees, many of whom have had limited access to education and/or negative educational experiences.⁴³

Support Services: *Depending on the workers’ professional and personal backgrounds, they may need additional support to ease the burdens they face in the workplace or at home to allow them to fully invest in their work.*

The Evergreen Cooperatives partner with the OEOC to provide credit counseling and personal finance skills training to workers, most of whom have criminal backgrounds, a history of substance abuse, and/or have faced long-term unemployment. These skills help the workers reap the most of their ownership benefits. Evergreen also hired an attorney to help the workers negotiate child support agreements, provides advances against the workers’ paychecks to pay parking tickets so that they may have a valid driver’s license,⁴⁴ and offers a homeownership program that allows worker-owners to purchase a three-bedroom home in the company’s primary hiring zones and pay it off within five years.⁴⁵

Cooperative Home Care Associates also provides support services, such as counselors during training to help the trainees transition into the responsibilities of full-time work and mitigate any significant employment barriers.⁴⁶ More than half of CHCA’s aides did not work in the year prior to training, and more than forty percent did not have a high school diploma or equivalent.⁴⁷ They also receive written feedback and meet individually with trainers twice during training.⁴⁸ Once the workers complete training, coordinators manage their schedules and field any complaints. Coordinators also check in with the aides each day during their first two weeks in the field and arrange multiple supervisory visits from nurses. Workers are also required to attend at least two update sessions to discuss their adjustment to the work, any concerns they have, and review technical skills and company policies. A team of staff also reviews workers’ performance biweekly and annually via a mandatory competency exam.⁴⁹

RECOMMENDATIONS

1. Train worker-owners in necessary business skills. Worker-owners must have the financial literacy and other management abilities to effectively participate in the co-op’s important business decisions.
2. Perform a skills assessment and make up for any gaps through training before the business begins operations.
3. Design an interactive training program that teaches and adheres to cooperative values.
4. Hire strategically, prioritizing workers who are ready, willing and able to be collective entrepreneurs.
5. Provide workers with access to support services they may need to help maximize their participation in the co-op.

CONSIDERATIONS

SUSTAINING A DEMOCRATIC WORKPLACE: ORGANIZATIONAL MANAGEMENT AND GOVERNANCE

Because worker cooperatives are controlled and owned by the workforce, their unique business structure can lead to management and governance challenges within the workplace.⁵⁰ It is not enough for a democratic business entity to be a financially viable enterprise; it must also successfully incorporate democratic behavior into the business to ensure productivity and longevity. There are three primary obstacles to the effectiveness of worker cooperatives and other democratically organized business entities: “1) the lack of a common culture or social contract in which there is a widely accepted set of values and processes that guide behavior; 2) the lack of democratic norms for decision making; and 3) the inappropriate mixture of skills for the needs of the enterprise.”⁵¹

Overcoming the “Lack of a Common Culture” Obstacle

Decision-making in a typical workplace is organized hierarchically, with the most important decisions made by a small group of individuals or one person, limiting the autonomy and self-direction of most employees. Worker cooperatives can yield the benefits of a more open, participative, and democratic organizational structures and practices, such as more communication and innovation and less need for supervision. Nevertheless, worker cooperatives are “likely to be characterized by more of a yearning for a common culture than by the actual existence of such a culture.”⁵²

In a recent article, Adam Schwartz, founder and principal consultant at The Cooperative Way, formulated the steps necessary for developing a cooperative culture. He argues that a focus on creating an organization of people who are passionate about cooperativism is not a distraction from business but instead will “pay significant dividends. Engaged employees who believe they’re working for a cause, not just a paycheck, will accomplish more, be more content, and deliver better member service.”⁵³ Worker cooperatives employ multiple strategies for developing common culture.

Seven Steps to A Cooperative Culture⁷⁰

- **Understand It:** “Understand what it means to be a cooperative and why your cooperative exists.”
- **Believe It:** “It’s important to really believe that the cooperative business model is best and to communicate your belief to others.”
- **Create It:** “Brainstorm with your colleagues about what your [cooperative] can do to show it’s different than a for-profit [enterprise].”
- **Measure It:** “Conduct statistically valid surveys over time to gauge your effectiveness”
- **Manage It:** “This is the process of implementing and actively managing your [cooperative’s] culture. Employees...should actually start to feel your [cooperative’s] culture at this stage”
- **Market It:** Internally, everyone must consistently believe “that the cooperative business model is best.” Externally, “use both traditional and social media to create a unified mutually supportive media strategy that showcases your cooperative strengths”
- **Sustain It:** “Change that doesn’t last isn’t change. If your culture is treated as ‘the marketing campaign of the month,’ the impact will be minimal at best.”

Study Group

Many cooperative development efforts, ranging from the Rochdale Pioneers to the Bricks Rural Life School, intensely focused on education as the foundation for building a cooperative culture. Phil Amadon of the Cincinnati Union Co-op Initiative argues that cooperatives can only achieve economic and social impact if they have the “philosophical glue” that comes through collective study. Amadon catalyzed union co-op organizing efforts in Cleveland by recruiting a small study group of local leaders who met weekly to learn about the history of Mondragon (see Appendix E) and cooperatives in the U.S. This study group attempted to understand cooperative principles in a “real way, rather than just spending five minutes studying the flow chart of decision making.”

Amadon believes this intensive study is critical to differentiating co-ops from other types of businesses: “I think if you just start out a co-op as a strictly business venture, it’s going to end up as strictly a business venture. It’s gonna [sic] make big mistakes down the road because it didn’t pay attention to what’s referred to as impractical philosophy.” He also believes that historical study facilitates contemporary innovation: “If you don’t study the history of organizations [...] you’re going to make the same mistakes over and over again that other people have made. You just won’t know that you’re making them.”

Development of Formal Code of Statutes

Member adherence to social statutes such as the Rochdale Principles and the Mondragon Principles are vital to the success of many cooperatives. Social statutes should not be static but instead should evolve with the cooperative. Indeed, this interaction between the formal code and daily practice will help clarify shared values, attitudes and expectations.

Principles in Action

Cooperative Grocer Information Network offers an inexpensive discussion course guide that includes co-op history, principles, values, philosophy, models, industry sectors, and legal issues from around the world. The study groups are typically groups of six to twelve people who meet weekly for about two hours to discuss short readings from each chapter. The Democracy at Work Institute also offers a free online library with resources about worker co-ops, including case studies and practical how-to guides.

A Code of Social Statutes could include but are not limited to:

- A description of the purpose and nature of the firm
- The basis for membership and the rights of members
- The obligations of members to the enterprise
- Criteria for making decisions
- The bases for remuneration (e.g. distribution of surplus, pricing policies)
- The relationship to other democratic workplaces and the larger community
- The organizational and financial principals that will be employed

Overcoming the “Lack of Democratic Norms for Decision Making” Obstacle

The first step in building a democratic workplace culture is the process of hiring and training. Schwartz stressed the importance of creating and managing a strong cooperative culture to develop a more engaged and committed workforce and to set the company apart from for-profit competitors.⁵⁴ Selecting worker-owners who are already in agreement with the spirit of the co-op leaves less to chance, as a trial-and-error process in hiring can hinder a co-op’s growth. Schwartz also cautions that it is important to avoid hiring worker-owners who are attracted to co-ops more due to antipathy to the traditional workplace than a positive desire to create and sustain a democratic workplace. A lack of democratic norms for decision-making may be inherent in the formation of a worker cooperative because most individuals have little, if any, experience in truly democratic organizations. Four key problems cause issues in the lack of democratic norms in a worker cooperative environment: “(1) the legitimate exercise of authority; (2) obtaining accountability from members; (3) the productive use of conflict; and (4) the productive use of meetings.”⁵⁵

Legitimate Exercise of Authority

One potential informal method of minimizing differences in authority is to rotate tasks among workers. This strategy can be seen in practice at the Evergreen Laundry Worker Cooperative in Cleveland. Workers share physically demanding or unpleasant tasks, such as working in the dirty laundry room, as well as pleasant tasks, such as folding clean laundry. Rather than being responsible for the same processes throughout their tenure at Evergreen Cooperative Laundry, worker-owners become skilled in the various aspects of production, thus preventing burnout and creating a greater sense of ownership and responsibility.⁵⁶

In larger cooperatives, it may become necessary to develop formal management; however, this can be a challenging process. Because most managers do not have experience with cooperatives, management training is vital regardless of the manager's background and previous successes.⁵⁷ Many cooperative entrepreneurs prefer internal promotion, but cooperatives often hire managers externally because of a lack of appropriate management skills within the existing member-ownership. Hiring managers from outside the workplace can create potential conflicts, particularly surrounding issues of race and class. Such status differences between workers and managers are already prevalent in the cooperative sector. As Nicholas Luvieni writes of the Evergreen Cooperatives, "while the worker-owners of the cooperatives that have been created so far are almost all African American and lower-income, the managers of the cooperatives and the leadership team...[are almost exclusively] white and middle to upper class."⁵⁸

Ron Jones, CEO of Evergreen Cooperative Corporation, is an African-American man with degrees from two Ivy-league institutions and has "worked in executive leadership capacities with financial services companies such as KeyCorp, Bank One, CitiGroup, and NCNB (now Bank of America)."⁵⁹ Despite this class difference, workers and fellow leadership value his expertise tremendously. As Luvieni noted, "One member of the leadership team said that as long as [there] was a level of mutual respect between management and worker-owners, the racial and class dynamics did not matter so much."⁶⁰ Regardless, it is important for Advance Memphis and its partners to consider these challenges and dynamics as it develops worker cooperatives within the Vance Avenue neighborhood.

Obtaining Accountability from Members⁶¹

In traditional, hierarchical workplaces, managers are tasked with holding workers accountable; indeed, it is one of the defining functions of management. In some co-ops, there is no "boss", and therefore workers have to learn to hold each other accountable. Worker-owners have to develop strategies to safeguard against individuals shirking or freeloading. Ideally, the workplace culture will minimize accountability problems, but the formal code of statutes must include provisions for addressing serious violations.⁶² Another way to ensure accountability is through trial periods for workers. Some cooperatives, like Evergreen Laundry, assess the quality and work ethic of individuals they employ temporarily and look to this pool of laborers when the organization is ready to take on additional full-time worker-owners.⁶³ Likewise, at Cooperative Home Care Associates, an employee only becomes eligible to become a cooperative member after a three-month probationary period.⁶⁴

Principles in Action

*Over time, established cooperatives such as Cooperative Home Care Associates (CHCA) have developed avenues for workers to become meaningful decision makers within the organization by:*⁷¹

- Attending Quarterly Regional Meetings
- Serving on CHCA's Board of Directors
- Serving on the Worker Council
- Becoming a Union Delegate
- Serving on CHCA's Labor-Management Committee
- Approving Allocation of Net Income

Productive Use of Conflict

Conflict is a necessary feature of democratic decision-making that is "designed to allow the routine expression of different interests and values."⁶⁵ So while some researchers of democratically-run enterprises have found that conflict seems more prevalent in co-ops than in other types of firms, this may have positive implications. On the other hand, some researchers have found that worker-owners tend to suppress conflict for many of the same reasons as workers in other group settings.

Worker-owners may feel that being honest and direct about disagreements will threaten intimate relationships with their colleagues, which stifles creativity and productivity. If worker-owners fail to address their differences quickly and thoroughly, tensions will simply grow until a major conflict erupts. Therefore, Advance Memphis and its partners must focus on fostering workplace environments that allow for productive conflict.

Productive Use of Meetings

Researchers and practitioners note that some worker cooperatives are held back by unproductive meetings. Instead of discussing the co-op's pressing practical issues, workers may devote too much time to personal conflicts between particular worker-owners, views on abstract political or social issues, and the minutiae of daily management. To combat this potential problem, Evergreen Laundry has developed a system of different kinds of meetings for different purposes. Nearly every employee attends weekly meetings that address issues such as capacity, logistics, and quality control. General assembly meetings are held every six months and include a vote to add new worker-owners to the cooperative.

Tips for Ensuring Productive Use of Meeting Time

- Create a planned agenda with a reasonable time limit for addressing issues
- Use an appropriate facilitation style
- Resolve personal conflicts privately
- Address small details of daily organizational issues outside of larger meetings with only those involved

These suggestions will not only ensure a productive use of meeting time but also improve attendance.

Overcoming the “Lack of Appropriate Skills” Obstacle

The egalitarian wage structure and democratic management that characterize co-ops often result in lower salaries and less authority and status for highly-educated workers than they would command in the open market.⁶⁶ This is especially true at the founding of cooperatives, when profits may be small or nonexistent. In addition, members of democratic workplaces sometimes downplay the need for skilled workers. Fortunately, there are several ways to address this “lack of appropriate skills” obstacle. One option is to train existing workers in these new skills, although this method may not be entirely feasible for certain skill sets. Another potential solution is to create a different salary structure for employees with specialized skills.

A third way to combat this problem is to hire consultants or non-worker-owner employees for jobs that require a specific skill set, such as accounting or management. There may be consultants or non-worker-owner employees who are willing to accept less money than they would otherwise earn for these services because the co-op's mission is in line with their personal or religious values. As an example of an organization that provides such services, Evergreen Business Services (EBS) provides this support for cooperatives both within and outside of Evergreen Cooperatives. EBS' new business services promise to help others start their own cooperatives by offering assistance such as feasibility studies, business plans, and referrals for consultants to handle back office tasks.⁶⁷ Whatever method a cooperative uses, it must be aware of any lack of appropriate skills within the organization and must work to alleviate this problem as quickly as possible because it ultimately causes many small businesses to fail.

Management and Decision-Making

What Decisions Can and Should Worker-Owners Make?

After speaking to leaders and workers at Evergreen, we found that decision-making was focused on logistics, capacity, and hiring and primarily made at the management level. While this scenario may not be ideal, it is perhaps the most realistic, especially in the early stages of cooperative development. Since Advance Memphis targets the low-income neighborhood of Vance Avenue, it is doubtful that many employees will start out with the skills to make high-level decisions for a business enterprise; it will likely take time for workers to develop these skills through training and practice.

Management Training

In larger cooperatives it may become necessary to develop formal management; however, this can be a challenging process. As Gamson and Levin note, “managers in democratically organized workplaces complain that they have responsibility without authority.”⁶⁸ It is clear that just as worker training is essential to the success of a worker cooperative, so is management training. Leaders from the Ohio Employee Ownership Center noted that management training is key regardless of the background and previous success of an outside manager because most managers do not have the experience and training to lead in cooperative environments.⁶⁹

Who Else Is Part Of The Decision-Making Process?

Another important consideration is whether and which other stakeholders may be involved in the governance process. For example, several Cleveland anchor institutions are represented on the Evergreen Cooperative boards. While some may argue that outside stakeholder input dilutes worker-owner governing power, the cooperatives and supporting organizations, such as the OEOC, have found this multi-stakeholder approach to be particularly beneficial. Outside stakeholders argue that their participation in boards helps to secure clientele, encourages continued support from foundations, and provides unique skill sets that may not be available within management or the worker-owner pool.

RECOMMENDATIONS

1. Develop a formal code of statutes.
2. Contemplate forming a study group on cooperative history.
3. Only hire individuals who are in agreement with the spirit and letter of the formal code of statutes.
4. Rotate tasks among workers as much as possible to decrease burnout.
5. Create a trial period for workers to ensure that they will be a good fit with the organization.
6. Create an environment that encourages productive conflict.
7. Ensure the productive use of meeting time.
8. Train management in cooperative business regardless of background or skill level.
9. Contract with consultants to complete necessary work that worker-owners may not have the skill-set to complete, for example, accounting and legal issues.
10. Consider what decisions worker-owners can and should make.
11. Contemplate the role that other stakeholders like foundations and anchor institutions may play in decision-making processes.

CONSIDERATIONS

SUPPORTING COOPERATIVE GROWTH: THE ESSENTIAL ROLE OF THE COOPERATIVE DEVELOPMENT AGENCY

In order to create and sustain employment in Memphis, Advance and its partners should promote new business ideas and support expansions of existing cooperatives into new markets. Advance and its partners must decide which new and/or existing organizations are going to fill the role of a cooperative development agency (CDA). CDAs provide resources, advice, and assistance to help worker cooperatives form or expand. They can arise from the “bottom-up” efforts of worker-owners who realize the benefits of a federation or they can be the result of a “top-down” effort started by government, a community group, or a philanthropic foundation. Either way, an organization acting as a CDA is often necessary for a cooperative to establish itself and grow.

A successful CDA performs several critical functions. For instance, a CDA may play a venture capital role by identifying and financing business start-ups or form worker cooperatives from conversions of existing traditional businesses. CDAs may offer management consulting, technical assistance, financing, and other support services to cooperatives both in their “incubation” phase and when they need to restructure. CDAs also play a critical role in promoting entrepreneurship, developing “spin-off” cooperatives, and growing a network of cooperatives. This section uses the example of the Mondragon Corporation—the most successful CDA—to outline the full range of cooperative growth support functions in a large, mature network of worker co-ops. Advance and its partners must carefully consider which CDA functions are necessary initially and whether they possess the capacities necessary to perform them. If they do not, they must weigh the costs and benefits of hiring outside consultants or contractors versus developing these capacities internally.

Venture Capital

One of the most crucial functions CDAs play is as venture capitalists. Until 1991, Mondragon’s Credit Union, Caja Laboral, had an Entrepreneurial Division that was responsible for incubating new cooperatives, identifying new market opportunities, formulating business plans, hiring managers and workers, providing technical assistance for the first few years of operation, and, most importantly, financing. Over time, Caja Laboral spun off several specialized cooperatives that have taken over the Entrepreneurial Division by providing services to Mondragon’s industrial and consumer cooperatives and outside businesses. Caja Laboral now focuses exclusively on banking, while the Mondragon Corporation’s New Business Development Center handles venture capital investment. In search of new markets for high value-added manufacturing goods, the Mondragon Corporation’s strategy is to invest in research and development of medical device technology and green energy equipment.

Developing Cooperatives from Existing Businesses

In addition to developing new worker cooperatives from scratch, there are also options to form cooperatives from existing businesses via conversions and succession planning. CDAs can form cooperatives by converting existing traditional businesses. Workers are more protective of their jobs during challenging times, and hence may be more amenable to converting firms to employee ownership during economic downturns—especially bankrupt firms where their jobs are already in jeopardy. Advantages of this approach include the pre-existing trained staff, knowledge of the sector, and established relationships with clients. On the other hand, converting a failing business is an inherently risky investment for a CDA. One cautionary tale is the Philadelphia Area Cooperative Enterprise (PACE) and the United Food and Commercial Workers (UFCW) Local 1357’s takeover of five supermarkets that the A&P chain had decided to close in the 1980s.⁷² By the end of the decade, this promising experiment in worker cooperative development had failed. All but one store had closed, and the one that survived had significantly regressed with worker-owners choosing to restrict membership.

Ideally, a cooperative development agency would focus on converting successful businesses into Employee Stock Ownership Plans (ESOPs) or worker cooperatives. Although ESOPs are typically easier to establish than worker co-ops,

ESOPs guarantee ownership only – not the participatory worker democracy that is fundamental to cooperatives. The Ohio Employee Ownership Center focuses heavily on succession planning and has helped workers take advantage of the federal tax incentives provided through ESOPs. Often, small-business owners have no willing or able successor and may agree to turn over the business to their employees to ensure the business survives. Accordingly, CDAs should research the succession plans of elderly small-business owners in their areas.

Consulting Services

Cooperatives need ongoing management and technical support to survive, thrive, and grow. Initially, Caja Laboral's Business Division provided much of the business support and consulting services for the Mondragon cooperatives. Later they relied on management and technical assistance by the Mondragon Corporation's Central Departments or its sectoral division staffs.⁷³ The Mondragon cooperatives also hire outside consultants, but the managers have expressed disappointment with the cost and results of using outside consultants, primarily the lack of long-term support. As part of the reorganization of Mondragon in 1991, most of the technical work done by the Business Division was spun off to create the LKS Group, a group of cooperatives that consults for the cooperatives and outside companies on management, technology, legal issues, engineering, architecture, real estate, and design needs.⁷⁴ Evergreen Business Services, described above, plays a similar function for the Evergreen Cooperatives.

Promoting Entrepreneurship

To ensure the continued development of new business ideas, a successful CDA must promote entrepreneurship via accessible services and education.

Entrepreneurship Center

The Mondragon Corporation, with the aid of the Basque Regional Government, has also successfully promoted entrepreneurship in the Basque Country, launching hundreds of small businesses, many as sole proprietorships or limited partnerships. Saiolan is an entrepreneurship center launched in 1992 with a mission to create jobs in the Basque Country by providing entrepreneurs with training, coaching, and technical support, in addition to subsidized capital in the form of grants and low-interest loans.⁷⁵

Mondragon University

Father Arizmendiarieta's Polytechnic School was expanded in 1968 to include higher education courses. Today, Mondragon University has more than 3,600 students enrolled in engineering, business, and humanities departments. Students in the business school can receive an undergraduate degree in Liderezago Emprendedor e Inovacion or LEIN (Entrepreneurial Leadership and Innovation). In the same spirit as Saiolan, the curriculum emphasizes teamwork and "learning while doing." Students create team cooperatives from day one, work on new business ideas as interns with existing cooperatives and other businesses, and benefit greatly from working with entrepreneurship coaches on real-world projects.

Spinoffs

Most of Mondragon's expansion has come from spinning off new businesses as an extension of existing cooperatives. The history of the original Mondragon cooperative, Fagor, is illustrative since by late 1960s it had spun off its most important divisions.⁷⁶ This strategy has the advantage of being "organic." There is little need for specialized research into new opportunities as new business activities evolve from existing ones. Moreover, cooperatives have a comparative advantage in this kind of business venture as greater communication between manual workers, engineers and managers is more likely to reveal the kind of information that leads to product and process innovation. Finally, spinning off new businesses also helps keep the cooperatives small, preserving the human and democratic work environment that makes cooperatives distinctive in the first place.

Research and Development

The first Fagor products were produced using foreign patents. By the early 1970s, Father Arizmendiarieta warned that Mondragon would soon have to develop its own capacity for research and design in order to compete in increasingly integrated European markets. In 1973, the founders of Mondragon inaugurated Mondragon's first research and development (R&D) cooperative. Today, Ikerlan employs over two hundred researchers, including approximately 40 students.⁷⁷ Mondragon boasts over a dozen R&D centers, including several working with Fagor on improving high-tech goods like nanotechnology and robotics, and others working on management innovation. In 2011, Mondragon invested 165 million Euros in research and development, and the Mondragon cooperatives hold over 500 patents. In fact, one in five products sold by Mondragon's Industrial Division in 2011 did not exist five years ago.⁷⁸ Recently, the Mondragon Corporation launched the "Garaia Innovation Center," where Ikerlan, the LKS Group, and many of the other R&D and business support co-ops are now located.

Promoting Intercooperation and Creating a Resilient Network

Promoting intercooperation and creating a resilient network is the ultimate CDA function. The Mondragon Corporation's experience demonstrates the benefits of intercooperation through the formation of a federated network of cooperatives. Intercooperation allows small businesses to pool risks and costs by sharing earnings and workers. Mondragon redistributes profits from high-performing cooperatives to cover the losses of those cooperatives facing adverse market conditions. The cooperatives are willing to subsidize each other because they trust that they will also be able to draw on the fund the next time they face a tough market.

Similarly, intercooperation has allowed Mondragon to maintain its pledge to protect jobs. Instead of mass layoffs, Mondragon's worker-owners cooperate with job-sharing across the entire network. When a cooperative fails to break even, workers from that cooperative are often temporarily reassigned to profitable cooperatives. Another option allows worker-owners to take yearlong furloughs, financed by Lagun Aro, Mondragon's insurance company, at 90% of their salary. After a year, they rotate so that no group of workers bears the brunt of the cooperative's losses. Finally, when all else failed, the Mondragon Corporation has closed cooperatives with persistent losses, as subsidizing failing cooperatives for too long can jeopardize the stability of the entire network.

Furthermore, Mondragon's model of intercooperation and strategy to diversify into new sectors has strengthened the network's resiliency. A cooperative sector or network that concentrates heavily on one or two business lines or markets is more vulnerable to economic recessions.⁷⁹ Lastly, intercooperation at the scale of a network of cooperatives like Mondragon also means the CDA can be self-financing. Not having to recur to commercial bank lending or outside angel or venture capital investors allows Mondragon to have the kind of patient venture capital at concessional interest rates necessary for sustainable growth.

RECOMMENDATIONS

1. Assess your organization's capacities to incubate and support worker co-ops. Decide whether to become a CDA or to create a new organization to perform the role.
2. Choose which CDA functions to develop internally or through partnerships and which others to contract out to consultants. More importantly, formulate a timeline of when the organization plans to add specific CDA capacities.
3. Conduct a survey of the succession plans of local business owners.
4. Explore other opportunities for conversions of existing local businesses, both profitable and failing.
5. Partner with local community colleges and universities to develop and offer specialized programs in cooperative entrepreneurship and management that emphasize learning-by-doing and practical experience in co-op businesses.
6. Plan for the creation and expansion of a network of cooperatives in order to benefit from the pooling of workers, finances and risk and the sharing of support services.

CONSIDERATIONS

FORMING A COALITION FOR COMMUNITY WEALTH BUILDING IN MEMPHIS: ENSURING SUCCESS THROUGH PARTNERSHIPS

Building a cooperative or a network of cooperatives will require a large amount of work, but through partnerships, the lead organization does not have to be responsible for doing it all. A good partner is one with a mix of capacity, connections, energy, and the desire to see a community wealth-building strategy succeed. If Advance is strategic in developing partnerships, it will gain access to resources, advocates, and expertise that would otherwise be inaccessible.

A community wealth building approach involves bringing external capital into an underinvested neighborhood. Therefore, partnership building should be both internally and externally facing: internally to build community support and identify potential worker-owners, and externally to tap into business expertise, access financial resources, and build political support.

In this section, we lay out the main areas in which partnerships are helpful for a newly emerging co-op to assist Advance Memphis in identifying a set of initial target organizations with which they could partner to ensure the success of a community wealth-building strategy.

Project Champions

Successful cooperative development initiatives are driven by a team of engaged and supportive “project champions,” leaders who contribute their time and/or resources to the effort and encourage others to do the same. Project champions are crucial at all stages of initiative development but are of particular importance at the beginning to help the founding organization develop a leadership team and begin to attract resources and expertise. We suggest considering candidates for the project champion role that can help the founding organization with some combination of the following resources: advice and thought leadership as the initial efforts take shape, capacity and staff time to build an organizational foundation, connections to the community and to city leadership, and access to financial and in-kind resources.

In Cleveland, because of the Evergreen Cooperative Initiative’s anchor-driven strategy, a project champion is described more specifically as, “a foundation or another institution that has the capital and political will to invest that capital in business ventures and to hire expertise.”⁸⁰ Project champions—mostly the Cleveland Foundation and the Democracy Collaborative—were able to provide initial funding that went toward hosting community roundtables, introducing local leaders to the idea of co-ops, developing business ideas, and launching the necessary partnerships. Though there is much to learn from Evergreen’s example, organizations that pursue cooperative development outside of the anchor-driven model may have an even broader conception of what types of organizations can serve as project champions.

Organizations at the early stages of cooperative entrepreneurship should reflect on the process that led participants in the Greater University Circle Initiative (GUCI) to conceive the Evergreen Cooperatives. The GUCI was a loose grouping of stakeholders generally interested in revitalizing the University Circle neighborhood, but without a particular focus on co-ops. Evergreen was able to grow organically from the GUCI, drawing upon its resources, organizational structure, and established rapport among members. Moreover, the Cleveland Foundation had dedicated two full-time staff to the Greater University Circle Initiative, providing essential capacity for the launch of Evergreen.

Following in Evergreen’s footsteps, it will be helpful to begin to convene a leadership team to discuss wealth creation in a general sense in the target neighborhood and to identify project champions from within that group. With regard to Memphis specifically, we suggest considering project champions from three categories: organizations currently designing and/or implementing economic development programs in the Vance Avenue neighborhood, organizations currently active in formulating economic development strategies city-wide, and any other organizations with strong roots in the community.

Expert Partners

Finding expert organizations that can help supplement the capacity and knowledge of Advance with respect to general business development and cooperative development especially is of utmost importance as well.

Partners with Business Development and Incubation Expertise

As the Mondragon Corporation's senior leaders emphasize, a cooperative is at its core a functioning, viable business. Finding a revenue-generating business idea will be an early challenge for Advance, as will be the recruitment of management and the development of detailed, feasible business plans, both of which were vital milestones for the Evergreen Cooperatives. Advance can partner with organizations that have expertise in business development to help them generate business ideas and eventual plans. We recommend that Advance generate a few business ideas and work through their viability with expert partner organizations.

Partners with Cooperative Development Expertise

On top of the challenges in launching a traditional business, Advance Memphis will face a learning curve as it begins to set up a cooperative business structure. Turning to co-op experts will help ease this process. Nationally, an organization with such expertise is the Democracy Collaborative. The Democracy Collaborative works to "advance a new understanding of democracy for the 21st century and to promote new strategies and innovations in community development that enhance democratic life." Through their Community Wealth Building Initiative, they have consulted with cities across the country that are working to develop networks of cooperative businesses. Instrumental in the Evergreen Cooperative Initiative, the Democracy Collaborative would be an essential partner to Advance Memphis. Once Advance Memphis is able to raise money through its financial partnerships, a possible path forward would be to contract with the Democracy Collaborative for a feasibility study of a few business ideas of interest.

The Ohio Employee Ownership Center (OEOC) is a business development center based at Kent State University that helps business owners sell their businesses to employees through ESOPs and provides technical assistance to worker cooperatives. They were instrumental in the launch of the Evergreen Cooperatives and have helped many co-op entrepreneurs with the legal and organizational details of launching a worker co-op.⁸¹ Another potential resource is CooperationWorks!, a cooperative of consultants and cooperative development agencies; it works with cooperative entrepreneurs nationwide offering "expertise across all aspects of co-op enterprise development, including feasibility analysis, business plan development, business launch and on-going training for operational success."⁸²

Partnerships with Anchor Institutions

The Evergreen Cooperative Initiative Model is built around the purchasing power of anchor institutions (so-called "eds and meds"), where local hospitals, universities, and other big purchasers commit to purchasing goods and services from local cooperative businesses. This fixed stream of expenditures can be a primary source of revenue for newly developed co-ops. Anchor institutions participated with Evergreen from early stages, helping to identify what functions cooperative businesses could serve based on their supply chains.

As we have discussed in the section of this report on business ideas, there are many ways to build a network of co-ops, and an anchor-driven strategy is just one of many possibilities. If Advance Memphis does wish to pursue an anchor-driven strategy, however, building partnerships with such institutions early on is crucial. Possible anchors include: local government, the local school district, hospitals, universities, and research institutions.

Education and Training Partnerships

Advance Memphis will have to carefully design and manage the process for selecting the right candidates to become worker-owners and providing them with initial training. Several partner organizations played critical roles in recruiting, screening, and training workers at Evergreen. Another important consideration is that very few programs are available to teach people how to be the successful worker-owners of a cooperative business, which requires a particular set of business skills in addition to the occupational skills necessary to be successful in a more traditional job.

Although Advance Memphis already offers job training, the organization should consider how it would expand internal capacity or build partnerships to meet these training needs that are specific to co-op development. The OEOC was able to fill this need for Evergreen and provided training on management skills for cooperative business like democratic decision-making techniques and client relations. If Advance Memphis decides to partner with an outside organization for any worker training needs, Advance might consider working with local community colleges or Department of Labor affiliates.

Political Partnerships

The Evergreen Cooperative Initiative explains: “A comprehensive community wealth strategy needs to have political legs, i.e. the city government needs to be supportive and willing/able to provide financial support and act as an advocate with other governments and various government agencies.” Advance Memphis will have to deepen its relationships with Memphis City Government, the Memphis City Council, and with government agencies focused on economic development.

RECOMMENDATIONS

1. Recognize that no organization can pursue a cooperative development strategy alone; begin to identify and explore potential partnerships as early as possible.
2. Prioritize the search for other project champions.
3. Contact a cooperative development expert organization like the Ohio Employment Ownership Center, the Democracy Collaborative or Cooperative Works! for technical advice on cooperative entrepreneurship.
4. Canvass local “anchor” institutions and explore ways they can target their procurement spending to stimulate sustainable economic development in Memphis.
5. Further strengthen ties with local government and relevant public agencies to start forming a political coalition in favor of cooperative development.
6. Meet with leaders at the University of Memphis and Southwest Tennessee Community College to discuss the possibility of creating cooperative business and entrepreneurship training programs.

CONSIDERATIONS

“A MARATHON, NOT A SPRINT:” PATIENCE AND COOPERATIVE DEVELOPMENT

“It Takes Time, But It’s Well Worth It”

“Bringing together anchor institutions and additional stakeholders takes time. The development of the strategic plan takes time. Determining the feasibility of the businesses and other community wealth building mechanisms takes time. All the pieces take considerable time, but it’s well worth it... Nothing will take away the need for considerable time, effort, and the commitment of a community of organizations dedicated to building a local economy that works for people, planet, and profit.” – Evergreen Toolkit (“Getting Started and Setting Your Goals,” page 1)

In our conversations with co-op worker-owners, one of the themes that frequently came up was the importance of “taking the long view.” Within this framework of “taking the long view”, three essential features of successful cooperative development in the U.S. are: (1) being deliberate and realistic about your co-op’s development over time and managing expectations accordingly; (2) realizing that replicating Mondragon is unrealistic in the short term; and (3) a strategic cost-benefit approach to communications over time.

Managing Expectations

In conversations with worker-owners, and in researching co-op history, we learned the importance of a deliberate and realistic approach to a co-op’s development over time. When planning to start a co-op, it is helpful to lay out a timeline to make it clear that major results cannot be expected immediately. It can take several years for a co-op to really take off and get up to scale, so it is essential to be patient. The Mondragon Corporation (MC), for example, is a remarkable co-op success story, but it did not spring up overnight. Javier Marcos, the Communications Director, noted that during economic downturns and other difficult times, it is useful to “look at the long-term, or at least the medium-term, rather than the short-term.” Even after such incredible achievement, Mondragon’s leaders understand that the patience and forward thinking is required for continued success.

It is also important to carefully manage expectations over time. The Evergreen toolkit notes that it is better to “under-promise and over-deliver.” Expectations to manage include those of a co-op’s leader(s), worker-owners, community, government partners, outside investors or funders, and any other partners, as well as the general public. The founding of the Evergreen Cooperatives involved multiple stakeholders in the kind of collaborative, multi-step process that is useful in managing expectations as well as fulfilling other goals. This inclusive approach early-on pays off in many ways but particularly in managing expectations and ensuring that all of the major players are on the same page about what is to come.

The Challenge of Replicating Mondragon

Mondragon’s model of job creation and local economic development through cooperative business formation has inspired a large and diverse array of social entrepreneurs around the world—community groups, foundations, non-profit agencies, local governments and unions— but it is extremely difficult for anyone to replicate Mondragon’s success. Unfortunately, many aspects of Mondragon’s remarkable success are due to unique factors such as the history of Basque communal traditions and nationalism, the economic conditions in post-Civil War Spain, and the charismatic leadership of Father Arizmendiarieta (see Appendix E for a History of Mondragon). Many of the strategies for cooperative development that Mondragon has pioneered are only possible for a large network of cooperatives. For example, the spin-off cooperatives are a function of scale. Therefore, even though spin-offs are probably the best way for cooperative networks to grow, they are not an option for new CDAs.

Secondly, Mondragon is also exceptional as one of a handful of worker cooperatives that have been successful in manufacturing. Many of Mondragon Corporation's industrial cooperatives are high-tech enterprises at the technological frontier. Most cooperatives in the U.S. are in the service sector and hence less likely to invent new products. Mondragon's founders were also fortunate that they started a factory under ideal conditions of high tariffs on imports and growing domestic consumer demand. With greater competition under globalization and the ongoing euro crisis sapping demand, it would be much more difficult to replicate Fagor's experience today. Mondragon was able to grow from an inefficient producer using antiquated foreign patents to a respected competitor in global markets for high-tech capital goods. This focus on high value-added production is one of the keys to Mondragon's success. High labor productivity is its engine of growth and capital accumulation. Mondragon would not have been able to become self-financing if most of its cooperatives had been in low-margin service sectors. Cooperative entrepreneurs in Memphis should carefully consider whether to incubate an industrial worker cooperative as this strategy poses the highest risk in terms of competition, the most daunting barriers to finance, and requires the most patience, but also offers the highest reward in terms of profits, reinvestment and eventual financial independence.

Communications: A Strategic Cost-Benefit Approach Over Time

The third and final critical component of taking the long view is a strategic approach to communications weighing the costs and benefits of media attention over time in the life of the coop. Our conversations with co-op leaders and worker-owners suggested that in planning a communications strategy that serves the co-op's goals, it is particularly important to consider these two questions: *How much attention/exposure do you want, and when? Will the exposure help the co-op achieve its goals or will it be a distraction that soaks up scarce resources – or is there a way to ensure that the attention brings in resources?*

Increased attention or exposure can be very beneficial to a worker coop, potentially boosting interest from customers, funders, investors and partners. It can also take over a great deal of staff time and potentially distract from a co-op's goals by generating a flood of requests for interviews, tours, or advice. Co-ops often want to help each other, particularly because "cooperation among cooperatives" is one of the Rochdale Principles. However, this mutual assistance can present challenges, too.

The Evergreen Cooperatives and Energize Clinton County exemplify two different approaches to strategic communications. The Evergreen Cooperatives are probably the most-publicized worker-owned cooperative businesses in the United States. Evergreen has sought and earned a great deal of positive press coverage, but they also face an enormous number of requests for advice and tours, which claim a large amount of staff time.

Energize Clinton County (ECC), while not a co-op, is a non-profit community economic development organization that has experienced the challenges that come with media attention. In the first two years of its existence, ECC received rather extensive exposure through NPR coverage and the receipt of a Do-Something Award, among others. Its co-founders received many invitations for speaking engagements and many inquiries from other organizations hoping to learn from their success. But soon, co-founders Mark Rembert and Taylor Stuckert made a strategic decision to scale back their external engagement and target their focus more narrowly on their mission and their community of Wilmington, Ohio. Mark Rembert explained:

"Every time I go do something else, I'm very grateful to get home to Ohio. Because it's very easy to get caught up in the marketplace of ideas. That's a lucrative, sexy market to be in. But it can be very distracting, particularly for a small organization. If Taylor and I are away at a conference, there's nobody at ECC doing any work in our own community."

Mark explained that he and Taylor found it useful to look at communications and external engagement opportunities from a cost-benefit perspective. “We always say it’s worth it if it comes with resources – but that’s usually not the case,” he said. “The Do-Something Award brought a monetary prize and some conferences have enabled us to develop relationships with important funders, but generally speaking, getting caught up in the conference circuit can be harmful by causing people to lose focus on their own projects.”

Timing can be an important consideration for co-op communications efforts, as certain pitfalls can be even more of a trap for co-ops early on in their development. Co-ops sometimes face grandiose expectations of being magical cure-alls for struggling communities, but it is important for them to avoid overselling themselves or letting themselves be overhyped. It is especially critical for co-ops to avoid “overselling” when they are young, since only about half of all new small businesses survive at least five years.⁸³

RECOMMENDATIONS

1. Recognize and convey to partners and other stakeholders that implementing a successful worker cooperative development strategy requires great patience.
2. Carefully manage expectations throughout the start-up phase and do not “promise too much too soon.”
3. Focus on co-op development and be willing to decline requests from the media and researchers if they become a distraction.

PART III: CONCLUSION

Worker cooperatives have the potential to be a viable and successful strategy for job and wealth creation in Memphis and the nation as a whole with a limited risk of capital flight. However, creating a thriving worker cooperative, such as the Mondragon Corporation, is no simple task. There are numerous important issues to consider before setting out to create a worker cooperative. Many of those most critical considerations are laid out in this report.

A worker cooperative is first and foremost a business enterprise; it requires a viable business idea to have a real chance of success. A worker cooperative needs sufficient start-up capital and training for worker-owners to get the cooperative off the ground. Additionally, without a clear and conscious effort to create and sustain a democratic workplace, the unique benefits of a worker cooperative may be lost. But if all of these factors are considered in conjunction with support from individuals and organizations such as cooperative development agencies and/or a strong coalition of partners and local leaders, and the creators have the patience to see the project through, worker cooperatives can be exceptionally rooted businesses employing more sustainable practices, providing long-term quality jobs, and significantly boosting community wealth. The following list summarizes the recommendations that are provided throughout the report in hopes that they might assist Advance Memphis and other organizations working to create worker cooperatives and spur local economic growth.

PART IV: APPENDICES

- A. Cooperatives in the United States: The History and Policy Context**
- B. Seven Cooperative Principles**
- C. Logos of Familiar Coops**
- D. Worker Cooperatives: The Basics**
- E. The History of Mondragon**
- F. Cooperative Planning Canvas**
- G. Business Planning Canvas**

APPENDIX A: COOPERATIVES IN THE UNITED STATES – THE HISTORY AND POLICY CONTEXT

There are two young fish swimming along, and they happen to meet an older fish swimming the other way, who nods at them and says, “Morning, boys, how’s the water?” And the two young fish swim on for a bit, and then eventually one of them looks over at the other and goes, “What the hell is water?” ~ David Foster Wallace, Kenyon College, 2005

Business development tends to ebb and flow with macroeconomic cycles. These cycles often coincide with public policies that significantly facilitate or impede the success of collective entrepreneurship. Understanding the historic context of cooperatives would help Advance frame its efforts to develop worker cooperatives within a broader domestic ‘policy window’ that could help it secure public and philanthropic support.

The Origins Of Modern Cooperative Enterprise

Many scholars have observed that cooperatives tend to develop during periods of economic stress and social upheaval.⁸⁴ Cooperatives are countercyclical, meaning they often emerge in periods of stagnant economic growth, high unemployment, technological change, and market failure. Cooperatives first emerged during European industrialization, and development has consistently surged during tumultuous periods in the United States.

The Rochdale Pioneers founded the first modern cooperative in 1844 during the immense social and economic change that occurred during the English Industrial Revolution of 1750-1850.⁸⁵ Technological innovations such as the cotton gin and steam engine led to the disappearance of cottage industry in the countryside. A concomitant agricultural revolution led to the consolidation of farmland. These changes displaced thousands of rural peasants and catalyzed a period of mass urbanization. Workers flocked to factories in the city, where the dominant market economy prompted a fundamental reorganization of social life.⁸⁶ In the absence of public intervention to address poor industrial working conditions and low-quality goods, many workers adapted to their new urban industrial reality by coming together. The passage of the Rose Act in 1793 facilitated the proliferation of the self-help societies, guilds, and labor unions that were the precursors to the first modern consumer cooperative in Rochdale, England.

The Rochdale Pioneers were a group of 28 social reformers who were frustrated with dishonest store credit policies and the dearth of high-quality goods available to industrial workers.⁸⁷ After several failed experiments, they established a modest prototype shop on December 21, 1844. Their vision was to provide consumers with high-quality provisions such as flour and candles at a reasonable price through collective ownership. Inspired by English Utopian Socialist Robert Owen, they articulated ten principles to guide their enterprise. Many of these tenets, such as “member equity” and “one member, one vote,” were foundational to the contemporary Statement of the Cooperative Identity that cooperatives around the world continue to observe today.¹ By 1860, the co-op had grown to 3,450 members and the business model began to spread across Europe and overseas.⁸⁸

Benjamin Franklin founded the first cooperative in the United States, the Philadelphia Contributorship for the Insurance of Houses from Loss by Fire, in 1752.⁸⁹ It was not until the vast inequality and social change of the early twentieth century, however, that the U.S. experienced its ‘first wave’ of cooperative development. The period between 1909 and 1938 saw the establishment of the nation’s first credit union, telephone, day care, and large housing cooperatives as well as Recreation Equipment, Inc. (REI) and the Credit Union National Association’s (CUNA) Mutual Insurance Group.⁹⁰ The number of American agricultural co-ops peaked in 1930 thanks to advocacy and promotional efforts by the Grange and the Farm Bureau. Public policy also played a critical role in the new cooperatives that flourished in the wake of the Great Depression. For example, the Rural Electrification Act of 1936 was a piece of New Deal legislation that established the United States Department of Agriculture (USDA) Rural Electrification Administration to finance the extension of electric power to rural America.⁹¹

1 To view the ten original cooperative principles, visit the Rochdale Pioneers’ website at <http://www.rochdalepioneersmuseum.coop/about-us/the-rochdale-principles>.

Interest in cooperatives tapered off during the postwar boom years of the 1950s, but the U.S. again saw a resurgence of collective enterprise during the social turmoil of the late 1960s. The ‘second wave’ of cooperative development was particularly visible with worker and consumer cooperatives.⁹² Countercultural leaders interested in healthy food and equitable economic development founded many of today’s contemporary retail and worker co-ops, such as The Cheese Board Collective in Berkeley (a worker-owned bakery founded in 1971), The Wedge in Minneapolis (a consumer food co-op founded in 1974), and Rainbow Grocery in San Francisco (a worker-owned grocery founded in 1975). Credit unions also underwent massive growth during this time, with a doubling in the number of credit unions and tripling of assets from 1970-80.⁹³

In keeping with this countercyclical pattern, a ‘third wave’ of cooperative development has also emerged in the years leading up to and during the Great Recession. Hundreds of citizen groups around the country are now working to establish their own community-owned grocery stores.⁹⁴ Recent years have also seen a growing interest in worker cooperative development as a strategy to build wealth in disinvested urban areas. The Evergreen Cooperatives in Cleveland have inspired grantmakers’ imaginations in Atlanta, Washington, D.C., Richmond, California and Amarillo, Texas. The Green Worker Co-ops in the Bronx have established a Co-op Academy to train low-income workers in green collar jobs.⁹⁵ A partnership between the Mondragon Cooperative Corporation in Spain and the United Steelworkers Union has inspired union co-op organizing efforts in Pittsburgh and Cincinnati.

These cases provide some evidence that the macroeconomic and social forces that coalesced during the Great Depression, late 1960s, and Great Recession are critical junctures in the chronicle of U.S. cooperatives. Another key dimension of the story is the importance of cooperatives in historically marginalized communities, where business models of mutual dependence provided an alternative to the exclusionary mainstream economic practices that exacerbated periods of scarcity.

For example, the 1930s was an especially vibrant time for African American cooperative development. The New Deal was highly racialized, prompting many African Americans to create local versions of the federal social supports that helped white Americans cope with unemployment and economic insecurity.⁹⁶ Residents of Gary, Indiana established the Consumer’s Cooperative Trading Company in 1932. The next year it began offering cooperative economics courses, and by 1936 it was the nation’s most successful black-owned grocery.⁹⁷ The Brick Rural Life School in Bricks, North Carolina also taught cooperative economics and organized a credit union, cooperative store, and purchasing group in the mid-1930s.

Cooperative development also dovetailed with civil rights organizing by leveraging economic self-sufficiency into political power. A group of youth founded the Young Negro Cooperative League in December 1930 to further the cause of African American cooperative business ownership across the country. The Black Panthers formed co-ops in the 1960s to provide critical social services in disenfranchised communities, and the Federation of Southern Cooperatives was founded in 1967 to preserve African American-owned land.⁹⁸ Similarly, several nonprofits have promoted cooperatives as a way to grow economic self-sufficiency for low-income and immigrant urban workers. The Community Service Society founded Cooperative Home Care Associates (CHCA) in the Bronx in 1985. CHCA is now widely recognized for creating significant and systemic positive changes in the home health care sector.⁹⁹ Women’s Action to Gain Economic Security (WAGES)¹⁰⁰ in Oakland and the Center for Family Life¹⁰¹ in Brooklyn have both developed cooperative curricula to train Latina and other immigrant women in collective entrepreneurship and business skills.

Although periods of upheaval may not cause cooperative development per se, the broader U.S. historical trend points to some correlation between social and economic stratification and the development of more egalitarian, democratic organizational forms. These social and economic cycles also have spillover effects in the political realm, where policy makers have played a historic role in channeling how cooperative aspirations become manifest in practice.

Major Legal And Regulatory Milestones In U.S. Cooperative History

States took the first steps in public policies to facilitate the establishment of cooperatives. Twelve states had passed cooperative laws based on the Rochdale Principles by 1911. Although many states still have co-op statutes modeled after Wisconsin, Nebraska, and Kentucky on the books, incorporation options can vary significantly by state.¹⁰² Advance Memphis should consult a local ‘co-op literate’ attorney to clarify the statute in Tennessee.

Large agricultural co-ops were caught up in the anti-monopoly fervor of 1890-1910. The federal government prosecuted co-ops that allowed farmers to set common pricing under the Sherman Antitrust Act of 1890. It was not until passage of the Capper-Volstead Act of 1922, often known as the “Cooperative Bill of Rights,” that the federal government articulated clear bipartisan support for cooperative business.¹⁰³ The Smith-Lever Act of 1914 was another significant step towards formalizing the federal infrastructure for cooperative development in rural areas. This legislation established cooperative agricultural

Listing of Legislative Milestones

- 1865 – First state cooperative statute in Michigan
- 1890 – Sherman Antitrust Act
- 1914 – Smith-Lever Act
- 1916 – Farm Loan Act
- 1922 – Capper-Volstead Act
- 1926 – Cooperative Marketing Act
- 1933 – Farm Credit Act
- 1934 – Federal Credit Union Act
- 1936 – Rural Electrification Act
- 1948, 1950, 1961 – Federal Housing Acts
- 1970 – Creation of National Credit Union Share Insurance Fund
- 1978 – Charter of National Cooperative Bank

extension programs at land-grant universities. The Cooperative Marketing Act of 1926 gave the USDA primary responsibility for providing technical assistance and research to promote and develop farmer cooperatives.

Recognizing that access to credit is a serious barrier for cooperatives, Congress also enacted several policies to support co-op capitalization. The Farm Loan Act of 1916 and Farm Credit Act of 1933 provided federal loans for producer cooperative land purchase and operations.¹⁰⁴ Three Federal Housing Acts from 1948-61 were critical in the establishment of large housing co-ops by insuring long-term mortgage loans for non-profit housing cooperatives. Congress also chartered the National Cooperative Bank (NCB) in 1978 to provide financing for cooperatives not eligible to borrow from the Rural Electrification Administration or the Farm Credit System. The Bank privatized in 1981 and now provides financing for cooperatives across many sectors.¹⁰⁵

The credit unions enjoyed similar federal support for their work making financial services accessible to a broader range of Americans. The Federal Union Act of 1934 was another piece of New Deal legislation that created a national system to charter and supervise federal credit unions. The National Credit Union Administration became an independent federal agency in 1970. That year, Congress also created the National Credit Union Share Insurance Fund to safeguard credit union share deposits.¹⁰⁶

The Contemporary And Evolving Policy Context

Federal legislation that provided favorable tax treatment for employee stock ownerships plans (ESOPs) in the 1970s was a key milestone in the policy context for worker cooperatives in the U.S.¹⁰⁷ The U.S. Employee Retirement Income Securities Act of 1974 eliminated capital gains taxes for business owners who sold at least 30 percent of their business to employees (the “1042 rollover”). The legislation prompted a wave of ESOP conversions. An estimated 10,000 firms¹⁰⁸ employing 20 percent of U.S. workers now enjoy some form of employee ownership.¹⁰⁹ Many studies examining the relationship between ownership and firm productivity have found that the impact varies significantly with employees’ financial stake in the company and the extent of their effective decision-making power.¹¹⁰ Nonetheless, the widespread adoption of ESOPs may have ‘primed the pump’ for more explicitly democratic forms of employee ownership, such as worker co-ops.

U.S. cooperatives began to more formally flex their political muscle by establishing advocacy groups, such as the National Cooperative Business Association (NCBA), in the early twentieth century.¹¹¹ Given the important historic role of cooperative economic development in rural areas, many of NCBA's efforts have focused on the heartland. One recent victory was the creation of the USDA's Rural Cooperative Development Grant (RCDG) program in the early 1990s.¹¹²

The RCDG program currently provides the only federal funding available for cooperative economic development in the U.S. It awards annual competitive grants to cooperative development centers in approximately 35 states, with over \$11 million in allocations in FY2010.¹¹³ Although the program requires a 25 percent non-federal match, many centers rely heavily on RCDG funding to provide technical assistance for entrepreneurs interested in starting or expanding rural cooperative businesses. The program's emphasis on rural development poses challenges for centers that encounter a significant need for urban cooperative technical assistance provision but have limited resources to do so.

Cooperation Works! is a network of cooperative development centers that launched a campaign to address this problem through legislation that would allocate federal resources for urban cooperative development. The National Cooperative Development Act (NCDA) would establish a new National Cooperative Development Center within the U.S. Department of Housing and Urban Development (HUD) and appropriate \$25 million to provide funding and technical assistance to support cooperative economic development in underserved rural and urban areas.¹¹⁴ The champion of the Campaign for Cooperation is Congressman Chaka Fattah (D-PA-2), whose Philadelphia district is home to a politically savvy and organized cooperative constituency including Weaver's Way food co-op and Childspace daycare centers. Fattah introduced the bill (HR 376) in December 2011 but the effort has yet to gain traction in Congress. Although cooperatives development traditionally enjoys wide bipartisan support, to date none of the twelve bill co-sponsors are Republicans.¹¹⁵

Another policy dynamic appears to be heightened awareness of cooperatives in both international and domestic political circles. The USDA recently funded the first "Study on the Economic Impact of Cooperatives," which the University of Wisconsin published in 2009. The study found that the U.S. has over 29,000 cooperatives that own more than \$3 trillion in assets, generate over \$500 billion in revenue, and pay \$25 billion in wages.¹¹⁶ Cooperative advocates have frequently cited these findings in political efforts at every level of government. A second round of research is forthcoming.

The United Nations' designation of 2012 as the "International Year of the Cooperative" also provided a forum for cooperatives to raise their profile through media, outreach, scholarship, and advocacy campaigns around the world. Thousands of people gathered in Quebec City in October for the International Summit of Cooperatives, which included presentations by co-op academics, over 130 keynote speakers, round tables, full meetings, and the adoption of a youth declaration on the sustainable prosperity and future of cooperatives.¹¹⁷ Although the Obama administration has not taken meaningful steps toward federal changes in cooperative economic development strategy, the White House Cooperative Summit in May 2012 highlighted the potential opening of a policy window around cooperatives as a job-creation strategy. Over 150 cooperative leaders participated in the Summit, which included briefings and case study presentations of successful cooperatives. The Evergreen Cooperatives in Cleveland also seem to have catalyzed an unusual level of curiosity in the potential of worker co-op development in disinvested neighborhoods. Bus tours from the DC Grantmakers Association and other high-profile leaders have highlighted philanthropic interest in Evergreen, prompting some to question whether Evergreen-type worker co-ops will be 'the next community development corporations.'

Finally, as during the Roaring Twenties, several popular movements for more egalitarian ownership of wealth have drawn an explicit link between anti-inequality policy and cooperative ownership. Occupy Wall Street was a particularly visible boost for credit unions. Americans transferred over \$50 million in assets from major financial institutions to credit unions and local banks on Move Your Money/Bank Transfer Day on November 5, 2011. According to CUNA, more than 650,000 new credit union accounts were created at the height of the Occupy Wall Street protests in October-November 2011.¹¹⁸ Even high-profile celebrities such as Arianna Huffington have taken a public stand to create political pressure to support local banks and credit unions.¹¹⁹

APPENDIX B: SEVEN COOPERATIVE PRINCIPLES¹²⁰

Cooperatives around the world generally operate according to the same core principles and values, adopted by the International Co-operative Alliance in 1995. Cooperatives trace the roots of these principles to the first modern cooperative founded in Rochdale, England in 1844.

1. Voluntary and Open Membership

Cooperatives are voluntary organizations, open to all people able to use its services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2. Democratic Member Control

Cooperatives are democratic organizations controlled by their members—those who buy the goods or use the services of the cooperative—who actively participate in setting policies and making decisions.

3. Members' Economic Participation

Members contribute equally to, and democratically control, the capital of the cooperative. This benefits members in proportion to the business they conduct with the cooperative rather than on the capital invested.

4. Autonomy and Independence

Cooperatives are autonomous, self-help organizations controlled by their members. If the co-op enters into agreements with other organizations or raises capital from external sources, it is done so based on terms that ensure democratic control by the members and maintains the cooperative's autonomy.

5. Education, Training, and Information

Cooperatives provide education and training for members, elected representatives, managers and employees so they can contribute effectively to the development of their cooperative. Members also inform the general public about the nature and benefits of cooperatives.

6. Cooperation Among Cooperatives

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.

7. Concern for Community

While focusing on member needs, cooperatives work for the sustainable development of communities through policies and programs accepted by the members.

APPENDIX C: LOGOS OF FAMILIAR COOPS



What Is a Worker Cooperative?

A worker cooperative is a business entity that is owned and controlled by the people who work in it. Worker cooperatives thrive in many industries and regions.

Worker-Owned

In a worker cooperative, workers own the business together. They usually invest with a buy-in amount of money when they begin working. At the end of each year, worker-owners are paid a portion of the money the business makes after expenses. In conventional businesses this money is called profit, while in co-ops it is called surplus. It can be distributed based on hours worked, seniority, or other criteria.

Worker-Controlled

In a worker cooperative, decisions are made democratically, by the people who do the work (usually following the principle of “one worker, one vote”) instead of by one person or one group of people. Worker-control can take many forms. Some examples of ways to make decisions democratically include:

- an elected board of directors
- elected managers
- decisions made by consensus
- decisions made by majority vote
- any combination of the above

What Kinds Of Businesses Are Worker Co-Ops?

Any business can be a worker-owned and -controlled business. Worker co-ops have been successful in many different sectors and industries. Some examples are:

- **Service** – housecleaning, restaurants, taxis, childcare
- **Retail** – grocery stores, bakeries, bookstores, bike shops
- **Health care** – nursing, home health care, clinics
- **Skilled trades** – printing, plumbing, woodworking, contracting
- **Manufacturing and engineering** – machine parts, fabricating
- **Technology** – web hosting, networking, voice and data systems
- **Education** – charter schools, teacher/student/parent-run schools
- **Media and the arts** – designers, galleries, performers, publishers

Worker Co-ops In The United States

Democratic workplaces exist across the United States, and the number of worker-owned cooperatives is growing steadily. The majority of worker cooperatives in the United States are small businesses. There are over 300 democratic workplaces in the US, employing over 3,500 people and generating over \$400 million in annual revenues.

For a full list of U.S. worker cooperatives and democratic workplaces, download the Democracy at Work Directory 2008: http://www.american.coop/sites/default/files/Democracy_at_Work_Directory_2008.pdf

How Are Worker Co-Ops Similar To “Regular” Businesses?

In many ways, worker co-ops operate just like conventional businesses: they develop a product or service and offer it for sale to the public, with the goal of making enough money to support the business and its owners. They incorporate with the state, get a business license, pay state and federal taxes, have payroll and benefits, and do all the things that businesses do.

What Makes A Co-op Different? Why Choose A Co-op?

Worker cooperatives can create long-term stable jobs using more sustainable business practices, generate tax dollars to support community needs, and be connected and accountable to their community. In a worker cooperative, workers own their jobs and thus have not only a direct stake in the local environment but also the power to decide to do business in a way that consistently creates community benefit.

The benefits include:

- **Quality Jobs** – Co-ops can provide more equitable wages, better working conditions, greater workplace satisfaction, and more permanence than other businesses.
- **Stable Businesses** – Worker-owned co-ops are less likely to lay off members during economic downturns. And because most co-ops are owned by members of the same community, there is virtually no danger of them relocating, except due to business failure. Cooperatives are instead inclined to maintain and improve their businesses, continuing to serve the members and communities where they exist.
- **Community Wealth Creation** – By definition, cooperatives keep their profits in the communities where they exist. Cooperative businesses re-invest capital in their local communities by distributing profit with the local owners, doing business with other local businesses, and through charitable efforts. Cooperative businesses can also serve as anchor businesses, encouraging additional economic development.

Some worker cooperatives have what's called a "multiple bottom line" – that is, they evaluate their success by looking not only at the money they make, but also at things like their sustainability as a business, their contribution to the community, and their workers' happiness and longevity of tenure.

APPENDIX E: THE HISTORY OF MONDRAGON

When recently ordained priest Jose Maria Arizmendiarieta arrived in 1941 in Mondragon (“Arrasate,” in Basque), a town devastated by the Spanish Civil War, he immediately began organizing the community to rebuild and provide badly needed social services. Influenced by Catholic social teaching, Arizmendiarieta led efforts to establish a technical school and with his guidance, five of his former students formed a worker-owned cooperative, Fagor (originally Ulgor), which produced kitchen appliances. The 1950s and 60s in Spain were a propitious time for consumer industry as the post-war economic recovery created strong consumer demand, and the Franco dictatorship’s protectionist policies insulated Spanish firms from competition. Father Arizmendiarieta recommended that the cooperatives reinvest 70-80% of their surpluses, reserving only a minor portion to build workers’ equity stakes. Worker-owners that left or retired were only allowed to withdraw their equity stake over several years.^{123, 124}

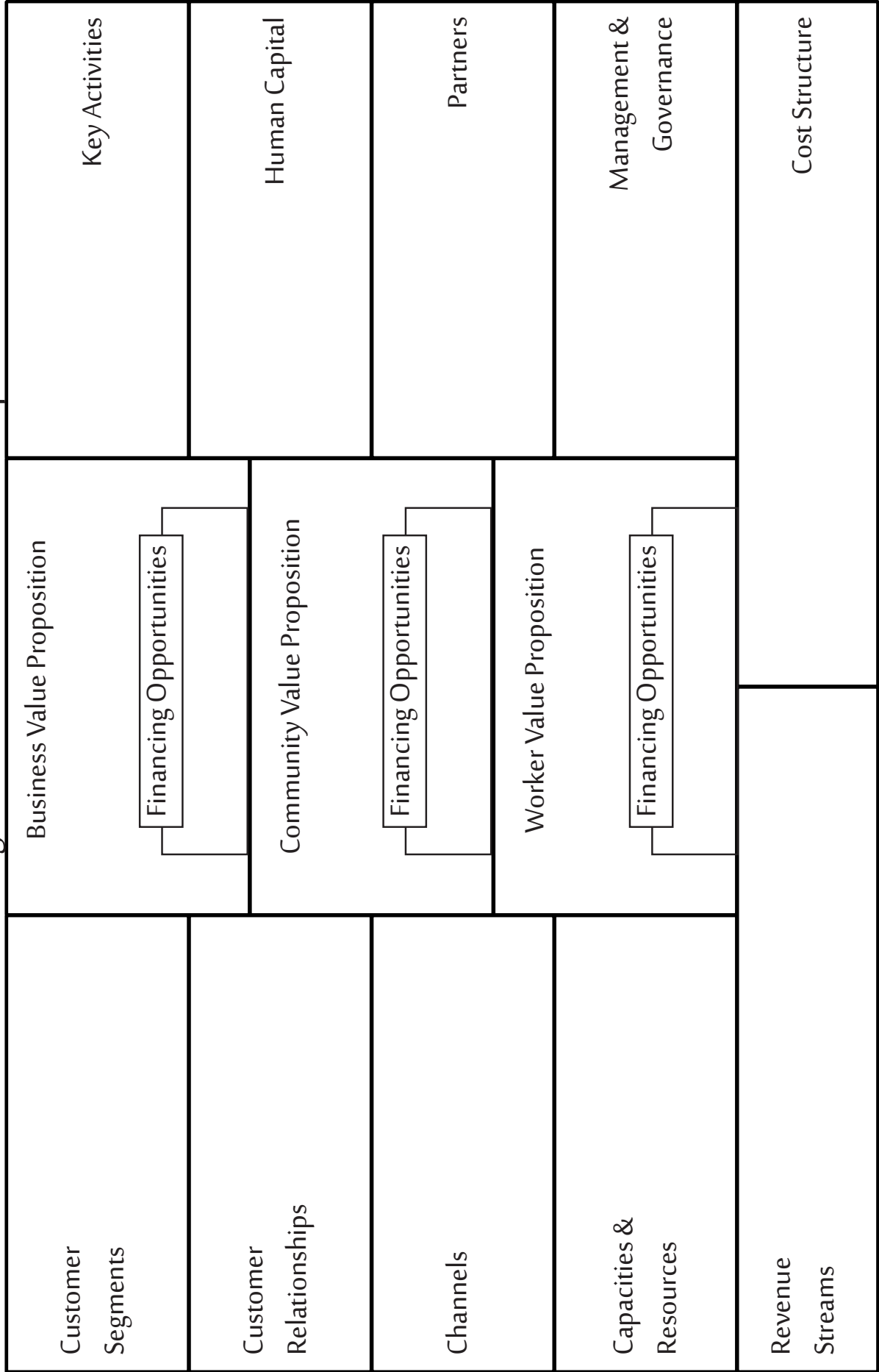
In 1958 in response to the Spanish government denial of unemployment insurance and other government benefits to Fagor’s worker-owners, Mondragon’s founders decide to create their own social security system. In fact, Mondragon was able to run Lagun Aro more efficiently than the government’s programs and used the savings as seed capital for a bank, Caja Laboral Popular. Depositors were attracted by both its competitive interest rate and the knowledge that their deposits would be lent to the co-ops to create local jobs.

Using the combined savings of the local community and Fagor’s workers, Caja Laboral financed new cooperatives and as the number of cooperatives grew in the 1960s it became the de facto governing body of a budding Mondragon network. Caja Laboral and Lagun Aro were the first “second-order” cooperatives (cooperatives that “provide business technical and educational services to its member coops).”¹²⁵ Caja Laboral was Mondragon’s prototypical cooperative development agency. Its “Entrepreneurial Division” served as an incubator, guiding the process of forming new cooperatives and providing managerial and financial assistance to help them grow. They also helped restructure cooperatives in trouble. More importantly, Caja Laboral encouraged intercooperation, advising the cooperatives that in order to compete with larger corporations they would have to band together to reduce costs by exploiting economies of scale.¹²⁶ “Because of such creative strategies, Mondragon’s record of business creation is remarkable. Of the 103 cooperatives founded in the first three decades of the Mondragon Experience, from 1956 to 1986, only three closed.” Mondragon even added workers during the severe recession of the late 70s. It was at this time, indeed, that Mondragon strict “no lay-offs” policy was first seriously tested. In response, Mondragon developed its famous practice of re-training worker-owners from cooperatives that need to downsize and then transferring them to those cooperatives in the network that are growing.¹²⁷

When Spain entered the European Economic Community, Mondragon realized it would have to reorganize in order to meet the challenges of greater regional—and later global—competition. After years of deliberation, management decided to create the Mondragon Cooperative Corporation to coordinate and lead the network of cooperatives. The Mondragon network has continued to grow, but in response to the challenges of neoliberal globalization, Mondragon has had to adopt controversial practices to keep costs down and increase labor flexibility. In order to match the cost advantages of global production chains enjoyed by their competitors, the Mondragon cooperatives have acquired manufacturing subsidiaries in Mexico, China, Brazil, Thailand and other emerging markets. This global expansion has been controversial, as many worker-owners worry that in order to remain competitive, Mondragon may lose its democratic and cooperative character since it has proven difficult to cooperativize the foreign manufacturing subsidiaries and the large international Eroski supermarket chain. Mondragon’s cooperatives are also increasingly relying on temporary workers. These “partial members” get a share of the cooperative’s profits but do not build equity and have no job guarantee. During downturns, like the ongoing European economic crisis, the cooperatives have laid off most of their temporary workers. Mondragon’s current challenge is to continue to grow and renew its commitment to cooperative principles by converting all of its foreign and temporary workers into worker-owners.¹²⁸

APPENDIX F: COOPERATIVE PLANNING CANVAS

Business Planning Canvas: Worker-Owned Cooperatives



Created by a Graduate Policy Workshop at the Woodrow Wilson School of Public & International Affairs, Princeton University, 2013. Adapted from BusinessModelGeneration.com

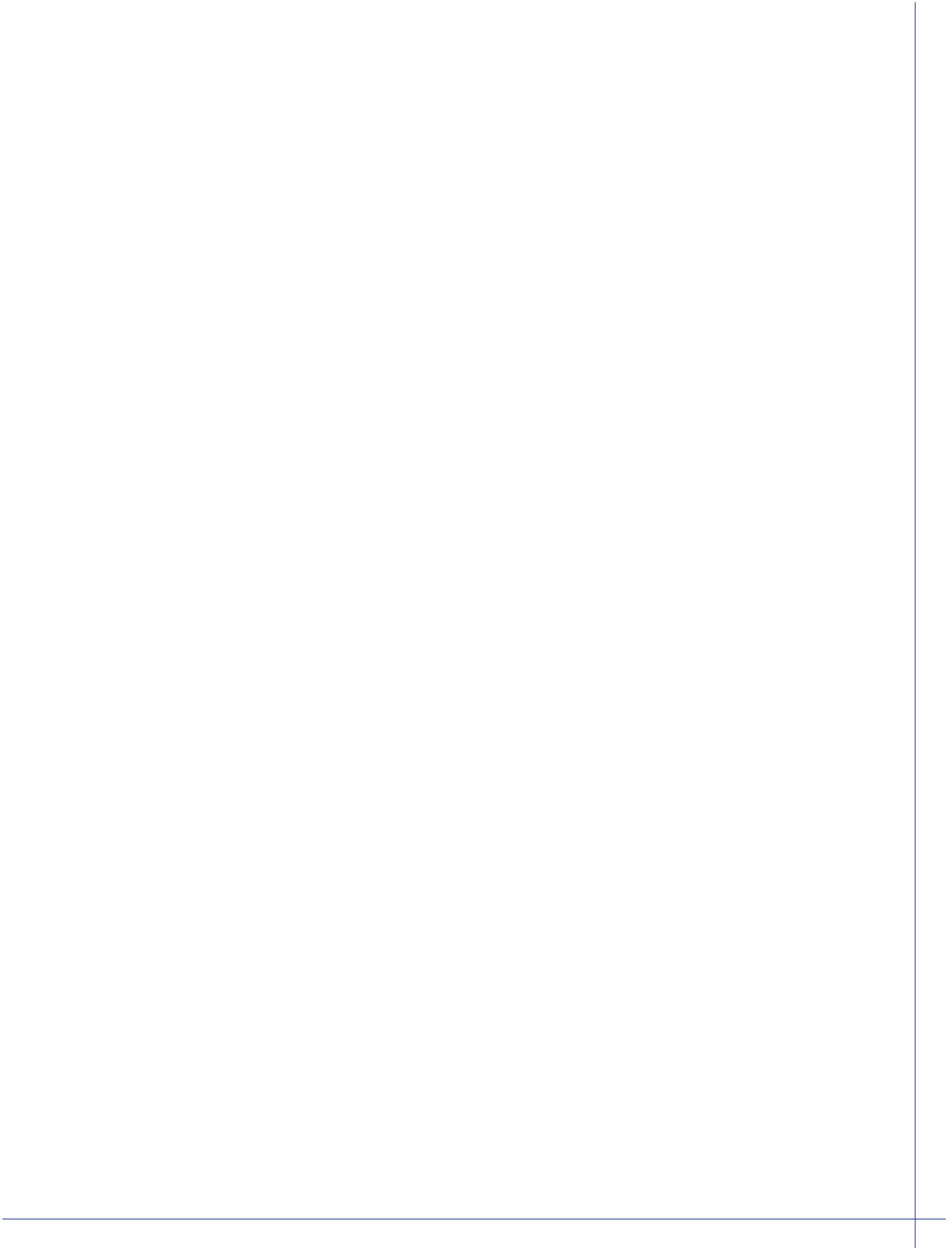
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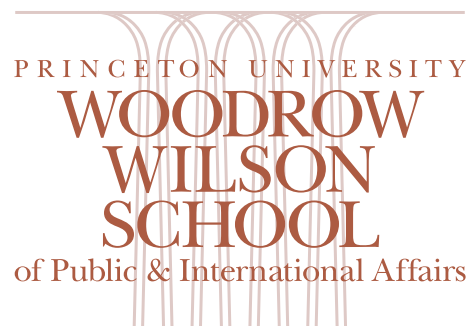
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THE WOODROW WILSON SCHOOL'S GRADUATE POLICY WORKSHOP