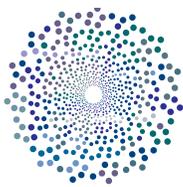




# WORKER COOPERATIVES: PATHWAYS TO SCALE

Hilary Abell



DEMOCRACY  
COLLABORATIVE

The Democracy Collaborative

June 2014



**WORKER COOPERATIVES:  
PATHWAYS TO SCALE**

**Hilary Abell**

The Democracy Collaborative  
June 2014

The Democracy Collaborative  
6930 Carroll Avenue, Suite 501  
Takoma Park, MD 20912

Copyright ©2014 by Hilary Abell and The Democracy Collaborative

This work is licensed under the Attribution-NonCommercial-NoDerivatives License:  
[http://creativecommons.org/licenses/by-nc-nd/4.0/deed.en\\_US](http://creativecommons.org/licenses/by-nc-nd/4.0/deed.en_US)



Cover Photography:

Front (clockwise from upper left): Opportunity Threads, photo: Dana Dillehunt; Namasté Solar, photo: ColoradoBiz Magazine; New Era Windows Cooperative, photo: The Working World; Cooperative Home Care Associates

Back (top to bottom): Equal Exchange; Green City Growers Cooperative, photo: Shawn Escoffery

Design by Kathleen Hayes  
Printed in the USA

# CONTENTS

|   |    |
|---|----|
| List of Tables and Figures  | iv |
| Foreword  | v  |
| Preface   | ix |
| Executive Summary   | 1  |
| 1. Overview of Cooperatives and Worker Ownership  | 3  |
| 2. The Case for Cooperatives  | 11 |
| 3. Worker Cooperatives: Origins and Development Strategies                                | 15 |
| 4. Lessons Learned: Barriers and Success Factors in Worker<br>Co-op Development           | 21 |
| 5. Opportunities to Increase Impact and Scale   | 35 |
| Closing   | 45 |
| Appendix 1. Acknowledgments and Interviewees  | 49 |
| Appendix 2. Learning from Europe: Applying Success<br>Factors to U.S. Worker Cooperatives | 51 |
| Appendix 3. Recommended Reading and Resources   | 54 |
| Notes   | 57 |
| About the Author  | 63 |
| About the Democracy Collaborative   | 65 |

## TABLES AND FIGURES

|   |    |
|---|----|
| Table 1. The Seven Cooperative Principles                           | 3  |
| Table 2. U.S. Cooperatives by Ownership Type                        | 5  |
| Table 3. U.S. Worker Cooperatives with 50-plus Members (2013)       | 6  |
| Table 4. U.S. Worker Cooperatives by Sector (%)                     | 7  |
| Table 5. SWOT Analysis of U.S. Worker Cooperative Sector            | 9  |
| Table 6. Applying Mondragón's Success Factors to U.S. Worker Co-ops | 52 |
| Table 7. Applying European Success Factors to U.S. Worker Co-ops    | 53 |

## FOREWORD

Over the past few years, worker cooperatives, once nearly invisible on the American landscape, have received new attention. The Democracy Collaborative ourselves played a role in this process when we—with our partners at the Ohio Employee Ownership Center and The Cleveland Foundation—helped develop the Evergreen Cooperatives in Cleveland, Ohio. When the Evergreen Cooperative Laundry opened in the fall of 2009 and hired its first ten workers, it captured the public’s imagination. Media coverage came from many corners, including *Time*, *Business Week*, and even *The Economist* and *NBC Nightly News*.

Later that same year, the United Steelworkers union announced an alliance with Spain’s Mondragón Cooperative Corporation, the world’s largest worker cooperative, with more than 80,000 employees. Again, the response was overwhelming, far greater than the Steelworkers had anticipated, even though the first jobs created through this alliance wouldn’t result for another two years.

The wave of interest has continued to grow. Filmmaker Michael Moore, when looking for positive alternatives to our corporate-dominated economy to portray in his documentary *Capitalism: A Love Story*, chose to profile two worker cooperatives. David Brancaccio, known for heading up National Public Radio’s *Marketplace* program, featured worker co-ops in his *Fixing the Future* documentary. More recently, filmmakers Melissa Young and Mark Dworkin released *Shift Change*, a feature-length documentary dedicated exclusively to worker cooperatives, which profiles the Mondragón network in Spain as well as worker co-ops in four U.S. communities.

The media coverage has had a significant impact. Employee ownership is increasingly considered a legitimate community economic development strategy. Across the country, many communities—including Amarillo, Texas; Pittsburgh, Pennsylvania; Washington, DC; Springfield, Massachusetts; Cincinnati, Ohio; the Bronx; and Atlanta, Georgia—have launched local wealth building initiatives inspired by the Evergreen vision or on the related model developed by Mondragón and the Steelworkers. There has even been a political response: for example, the mayor of Richmond, California has publicly committed the city to help foster cooperatively owned businesses, and the New York City Council has provided two grants for worker co-op development.

Yet with all of this attention and activity, a central fact remains—worker cooperatives in the United States are exceedingly rare, with fewer than 5,000 worker-owners nationwide. Moreover, using worker cooperatives as part of a broader community wealth

building strategy focused on stabilizing disinvested, low-income neighborhoods, (a central concern of The Democracy Collaborative), remains even less common.

The benefits that worker cooperatives can provide low-income communities in terms of stabilizing communities, building wealth, and anchoring ownership in place are clear. But challenges remain. If worker cooperatives are ever going to be significant participants in a new economy, then community wealth builders are going to have to become much more adept at building shared-ownership models—which is one reason why this report is so important.

Hilary Abell is no newcomer to worker cooperatives. For eight years, from 2003 to 2011, she served as executive director of Women’s Action to Gain Economic Security (WAGES), a nonprofit organization that has incubated a network of five green house-cleaning worker co-ops that employ over 100 people, most of them Latina immigrants. This past year, she has also served as a consultant designing education and training programs for the Evergreen cooperatives in Cleveland.

Abell’s experience as a practitioner deeply informs this report. As she notes, historically, worker co-ops have started for many different reasons. One path is through labor activism, in which employees tired of working in companies where they have little say simply form their own company. Another path is out of a broader social justice activism—for instance, the Equal Exchange co-op (at which Abell once worked) was formed to create a market for “fair trade” coffee: its cooperative structure was consistent with the cooperative structure of the coffee sourcing cooperatives abroad. Co-ops also begin as conversions of existing businesses. And, of course, many co-ops begin as startups when people pool their financial resources to begin a business in which everyone shares in ownership.

Abell focuses most of her attention on the startup cooperative. She identifies a number of different types: (1) an industry strategy that combines business creation with advocacy; (2) single-industry, franchise-like replication efforts; (3) place-based clusters of co-ops in diverse industries; (4) anchor institution, procurement-linked development; and (5) educational incubators or “co-op academies.” The report then proceeds to outline the challenges faced in developing worker co-ops, as well as the critical success factors. Finally, by drawing on the experiences of the much more successful European worker cooperative movement, as well as successes in other sectors of the cooperative movement in the United States, Abell outlines a strategic approach for growing the worker cooperative movement.

Abell, in short, outlines the promise of worker cooperatives to transform communities, but she does not shy away from identifying the hard work that lies ahead to make this vision a reality. This includes not only improving cooperative development, but also taking on seriously such tasks as building supportive ecosystems of foundations and intermediaries that can support cooperative development, incorporating cooperative

economics into university business school curricula, and creating a more supportive public policy framework.

The pages that follow contain many examples drawn from Abell's interviews with co-op developers and member-owners across the country. In addition to drawing on her own experiences at WAGES and Evergreen, examples include a home health care cooperative in the Bronx that pays living wages and is the nation's largest worker cooperative (Cooperative Home Care Associates), a solar worker cooperative that has become Colorado's largest solar panel installer (Namasté Solar), and a sewing cooperative in North Carolina (Opportunity Threads).

Nationally, worker cooperatives are still a niche sector in the United States, and only a few have grown to a significant scale. Nonetheless, building forward, we believe there is now a real opportunity to develop a much more extensive network of worker cooperative enterprises. This report, by identifying key challenges along with action steps to address those challenges, greatly advances the conversation in the field and helps set the stage for the next phase of worker cooperative development and community wealth building.

Ted Howard and Steve Dubb  
The Democracy Collaborative



## PREFACE

This is an exciting time to be engaged with worker cooperatives. The worker cooperative model has stood the test of time; its foundations have been in place since 1844, when the Rochdale Pioneers developed their creative response to the suffering of displaced workers during the Industrial Revolution. Since 2008, the Great Recession has inspired more and more workers, advocates, and community developers to bring their creativity and energy to the next generation of the cooperative movement, fueling an explosion of co-op-related discussion and initiatives. I have welcomed this growth with a mix of enthusiasm and concern, as I have seen many people and projects learn familiar lessons the hard way, without the benefit of apprenticeship or full access to existing knowledge and experience. In this context, I embarked on this research project to promote deeper understanding and adoption of the worker cooperative model and to help build the field of effective worker co-op development in the United States.

I hope that the reflections, information, and analysis here will be useful to early- to mid-stage practitioners of co-op development, and also to funders, thought leaders, and other field builders whose entrance into this space is so welcome as our movement grows. May it help us do less reinventing of the same old wheel and more innovating to increase business success and community impact.

This paper represents a synthesis of practice, ideas, and perspectives from many sources: the eighteen co-op leaders and community economic development practitioners I interviewed, the colleagues I have learned from in my decade as a co-op developer, and many articles on cooperatives and social enterprise. It draws heavily on my personal experience during eight years as executive director of Women's Action to Gain Economic Security (WAGES) and four years as a worker-owner at Equal Exchange. But it is truly the fruit of many people's labor, love, and hard-won wisdom.

I am deeply grateful to the individuals who supported the development of this paper (they are named in Appendix 1) and to everyone whose work and dedication have built the successful cooperatives whose stories are shared here. It is those co-ops that inspire my continued belief that we have yet to realize the full promise and potential of worker cooperatives in the United States.



# EXECUTIVE SUMMARY

Public interest in cooperatives has surged since the global financial crisis, as people cry out for an alternative to business-as-usual. In spite of their many benefits for individuals, businesses, and society, however, cooperatives are not well understood in the United States. The field of worker co-op development is just beginning to create the infrastructure and knowledge base needed to increase its scale and impact.

This paper aims to help build the field of U.S. worker co-op development by providing a current view of the cooperative landscape and by analyzing factors that inhibit or promote cooperative development. Although informed by the cooperative giants in Europe, this analysis highlights lessons learned through the development and growth of worker co-ops in the United States. Findings include the following:

- Worker cooperatives start through worker initiatives, the conversion of existing businesses, or explicit development efforts. This paper presents a typology of four common origin stories: two initiated by workers themselves, one by owners or employees of existing businesses, and one by co-op developers.
- Five distinct but sometimes overlapping models of co-op development are seen in the United States:
  1. a hybrid “industry transformation” strategy;
  2. “single-industry replication” efforts;
  3. “place-based clusters” of co-ops in diverse industries;
  4. an “institutional engagement” strategy targeting anchor institutions; and
  5. “educational incubators,” often known as “co-op academies.”
- Worker cooperatives provide a variety of benefits. For worker members, benefits include better paying jobs, wealth and skill building, and enhanced control over their work lives. For businesses, benefits include reduced employee turnover and increased profitability and longevity. For society in general, worker cooperatives foster social innovation, expand access to business ownership, and train people in democratic practice. Cooperatives are also positively correlated with health and other social benefits.
- Developing a successful worker cooperative requires overcoming barriers related to culture and education, business expertise, partnerships, financing, management and leadership, entrepreneurship, and organizational democracy.

- Six factors promote successful worker cooperative development:
  1. ongoing training and cultivation of cooperative culture;
  2. design for business success;
  3. effective long-term support;
  4. patient capital;
  5. strong management and social entrepreneurial leadership; and
  6. good governance.
- Data from interviews and European cooperative experience indicate that there are six promising strategies for increasing the impact and scale of worker cooperatives in the United States:
  1. Develop more cooperatives and accelerate the growth of successful ones.
  2. Create sector-wide programs for capacity building, education, and applied research.
  3. Strengthen regional and national co-op federations, associations, and support organizations.
  4. Advocate co-op friendly public policies and tax incentives.
  5. Inspire and facilitate conversions of existing businesses.
  6. Solve the capital problem.

# 1. OVERVIEW OF COOPERATIVES AND WORKER OWNERSHIP

Public interest in cooperatives has surged since the global financial crisis as people cry out for an alternative to business-as-usual. Advocates argue that cooperatives are a better way of doing business because they spread wealth and ownership more equitably, create better jobs, develop members' skills, and invest in and remain in our communities. Although not all cooperatives do all of these things, there is compelling evidence that the cooperative model delivers significant value to participants and to society. This section gives an overview of cooperatives in our global economy and in the United States, with a particular focus on worker cooperatives.

*There is compelling evidence that the cooperative model delivers significant value to participants and to society.*

## COOPERATIVES IN OUR GLOBAL AND NATIONAL ECONOMIES

Cooperatives are businesses that are owned and controlled by their members. They are organized around seven Cooperative Principles (see table 1) and are based on the common values of self-help, self-responsibility, democracy, equality, equity, and solidarity. The Cooperative Principles and Values are established by the International Co-operative Alliance, the global apex organization for cooperatives.

Many people are familiar with consumer cooperatives such as grocery co-ops, which sell affordable, healthy food, and with credit unions, which provide accessible financial services. There are also producer cooperatives, which transform their members' inputs into marketable products and provide market access and greater control over the value

**Table 1. The Seven Cooperative Principles**

| <b>1</b>                      | <b>2</b>                              | <b>3</b>                      | <b>4</b>                  | <b>5</b>                             | <b>6</b>                       | <b>7</b>              |
|-------------------------------|---------------------------------------|-------------------------------|---------------------------|--------------------------------------|--------------------------------|-----------------------|
| Voluntary and open membership | Democratic control (1 member, 1 vote) | Member economic participation | Autonomy and independence | Education, training, and information | Cooperation among cooperatives | Concern for community |

chain than their members could otherwise obtain. Purchasing co-ops buy supplies and services at favorable prices for member businesses. Worker co-ops are businesses owned and controlled by the people who work in them. Multi-stakeholder co-ops often combine these types by incorporating two or more stakeholder groups as members.

Cooperatives comprise a substantial portion of our global and national economies. At least 800 million people around the world are members of cooperatives,<sup>1</sup> and the economic activity of the largest 300 cooperatives in the world (the “Global 300”) equals the ninth largest national economy.<sup>2</sup> France generates the largest share of revenue (28 percent) from the Global 300, followed by the United States (16 percent), Germany (14 percent), Japan (8 percent), the Netherlands (7 percent), the United Kingdom (4 percent), Switzerland (3.5 percent), Italy (2.5 percent), Finland (2.5 percent), Korea (2 percent), and Canada (1.75 percent).

The United States is a major player in the world’s cooperative community, with agriculture/forestry, insurance, banking, and consumer/retail co-ops predominating. Think Ocean Spray, Associated Press, Mutual of Omaha, and Recreational Equipment Inc. (REI). These companies rank among the world’s largest cooperatives and mutual corporations. They are primarily consumer or producer cooperatives and do not necessarily include employees within their membership.

In some ways, these large cooperatives may be indistinguishable from their traditionally structured corporate competitors. Nonetheless, the simple fact that they distribute ownership and control among the consumers or producers who comprise their membership, rather than among outside investors, is significant.

## U.S. COOPERATIVES BY THE NUMBERS

A 2009 study by the University of Wisconsin Center on Cooperatives found that people in the United States hold 350 million memberships in cooperatives.<sup>3</sup> Because some people are members of more than one cooperative, the exact number of individual co-op members nationwide is unknown.

Research makes clear, however, that cooperatives touch people’s daily lives far more than we realize. According to David Thompson, president of the Twin Pines Cooperative Foundation and author of numerous books and articles on cooperatives, if you drink milk or use electricity in rural areas, you are probably using cooperative products or services. Thompson said:

Co-ops play key roles in a number of sectors. For example, dairy cooperatives supply about 80 percent of all milk delivered to plants and dealers in the USA, farm supply co-ops provide about 30 percent of all farm supplies, and 75 percent of the land surface of the USA is served by rural electric cooperatives.<sup>4</sup>

How widespread is the cooperative business model in our economy as a whole? The 2009 University of Wisconsin study is the most comprehensive effort to answer that

question to-date. It found that there are nearly 30,000 cooperative businesses in the United States. They hold more than \$3 trillion in assets, have \$652 billion in revenue, and employ close to one million people who earn \$25 billion in wages (see table 2).<sup>5</sup> Worker cooperatives are the least common type of cooperative, but they often have the greatest impact on their members. The next section looks at how worker cooperatives are started and current models to support their growth and replication.

**There are nearly 30,000 cooperative businesses in the United States. They hold more than \$3 trillion in assets, have \$652 billion in revenue, and employ close to one million people**

## WORKER COOPERATIVES IN THE UNITED STATES

The U.S. Federation of Worker Cooperatives (USFWC), a national organization established in 2004, estimates that there are 300–400 worker-owned cooperatives and democratic workplaces in the United States currently employing 2,500–3,500 worker-owners.<sup>6</sup> Total business assets of these entities are believed to be \$130 million. Many worker cooperatives are small by design; a 2012 study by the USFWC-affiliated Democracy At Work Institute found that 71 percent of worker co-ops have fewer than 15 members.<sup>7</sup> A small size lends itself easily to high engagement and group decision-making, but workplace democracy can also thrive in larger organizations. Twenty-four percent of U.S. worker co-ops were classified as medium-sized, having 15–50 members. There are also numerous examples of larger worker cooperatives around the country, operating in a variety of industries. Table 2 identifies the largest worker cooperatives and networks of worker cooperatives in the United States.

**Table 2. U.S. Cooperatives by Ownership Type**

| Type       | Number of Firms<br>(% of all co-ops) | Total Assets<br>(millions) | Average Revenue<br>(thousands) | Average #<br>employees |
|------------|--------------------------------------|----------------------------|--------------------------------|------------------------|
| Worker     | 223 (1%)                             | \$128                      | \$983                          | 11                     |
| Producer   | 1494 (5%)                            | \$26,632                   | \$43,793                       | 49                     |
| Purchasing | 724 (2%)                             | \$1,126,848                | \$218,083                      | 180                    |
| Consumer   | 26,844 (92%)                         | \$1,975,805                | \$10,844                       | 24                     |
| Total      | 29,285                               | \$3,129,413                | \$17,573                       | 29                     |

Source: Author compilation based on S. Deller, A. Hoyt, B. Hueth, and R. Sundaram-Stukel, *Research on the Economic Impact of Cooperatives*, Madison: University of Wisconsin, 2009, table 2.2; and G. M. Artz and Y. Kim, “Business Ownership by Workers: Are Worker Cooperatives a Viable Option?” Iowa State University, Department of Economics, Working Paper No. 11020, 2011, table 2.

Note: Employment is reported as full-time employees. In the Wisconsin study, Deller et. al. counted two part-time employees as one full-time employee.

**Table 3. U.S. Worker Cooperatives with 50-plus Members (2013)**

| <b>Name</b>  | <b>Location</b>        | <b>Number of employees</b> | <b>Number of worker-owners</b> |
|--|------------------------|----------------------------|--------------------------------|
| Cooperative Home Care Associates   | Bronx, NY              | 2,300                      | 1,110                          |
| Rainbow Grocery  | San Francisco, CA      | 240                        | 225                            |
| Union Cab  | Madison, WI            | 230                        | 230                            |
| Alexandria Union Cab Co.   | Alexandria, VA         | 230                        | 230                            |
| Home Care Associates   | Philadelphia, PA       | 225                        | 55                             |
| Association of Arizmendi Cooperatives (7 co-ops: 6 bakeries, 1 support organization) | San Francisco Bay Area | 160                        | 160                            |
| Equal Exchange   | Canton, MA             | 140                        | 105                            |
| Alvarado St. Bakery  | Petaluma, CA           | 100                        | 90                             |
| Home Green Home Cleaning Co-op Network (5 co-ops)*                                   | San Francisco Bay Area | 100                        | 90                             |
| Namasté Solar  | Boulder and Denver, CO | 85                         | 50                             |
| Evergreen Cooperatives (3 co-ops)*   | Cleveland, OH          | 77                         | 30                             |
| Cooperative Care   | Wautoma, WI            | 56                         | 36                             |
| Isthmus Engineering  | Madison, WI            | 53                         | 31                             |
| Childspace Daycare Centers (4 co-ops: 3 centers, 1 support organization)             | Philadelphia, PA       | 50                         | 18                             |

Source: Author compilation based on interviews and personal correspondence.

\*The Home Green Home Cleaning Co-op Network comprises the five co-ops developed by Women's Action to Gain Economic Security (WAGES). The Evergreen Cooperatives are Evergreen Cooperative Laundry, Evergreen Energy Solutions, and Green City Growers.

## INDUSTRY CONCENTRATIONS

The Democracy At Work Institute’s 2012 survey provides the most reliable census of the number, size, sectoral and industry concentrations, and growth trends of worker cooperatives.<sup>8</sup> In a survey of 253 worker co-ops, the study found that the majority operate in the service (35 percent) or retail (23 percent) sectors. Manufacturing and arts and media represent 11 percent and 10 percent respectively. The remaining sectors each represent only 1–4 percent of the total.

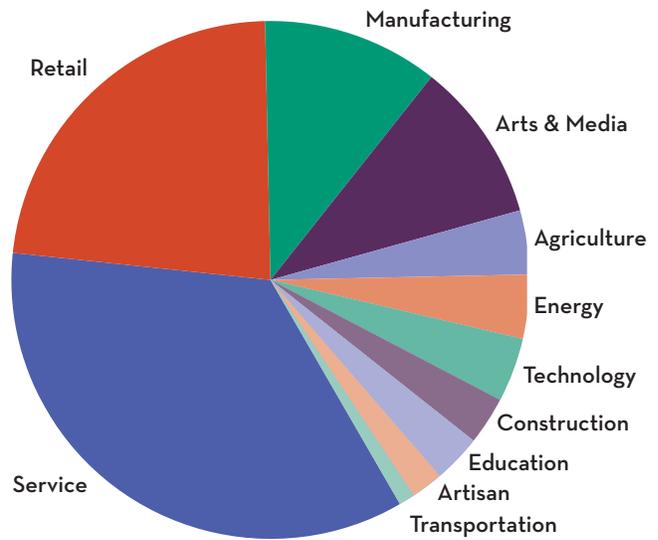
*The majority of worker co-ops operate in the service or retail sectors.*

Taking a closer look, the study found that worker co-ops are most concentrated in the following industries:

- **Service industries:** health and wellness (10 percent of all worker co-ops), including home health care; cleaning (7 percent); and education and childcare (5 percent).

**Table 4. U.S. Worker Cooperatives by Sector (%)**

| Sector         | Number of worker co-ops | Percent of total |
|----------------|-------------------------|------------------|
| Service        | 88                      | 35%              |
| Retail         | 59                      | 23%              |
| Manufacturing  | 27                      | 11%              |
| Arts & Media   | 26                      | 10%              |
| Agriculture    | 11                      | 4%               |
| Energy         | 9                       | 4%               |
| Technology     | 10                      | 4%               |
| Construction   | 7                       | 3%               |
| Education      | 7                       | 3%               |
| Artisan        | 6                       | 2%               |
| Transportation | 3                       | 1%               |
| <b>Total</b>   | <b>253</b>              | <b>100%</b>      |



- **Retail industries:** restaurants and cafes (7 percent); bakeries (6 percent); and groceries (6 percent).
- **Manufacturing industries:** About half of the worker co-ops in manufacturing are in food production or processing (5 percent of total), with other small concentrations in printing, textiles, and heavy manufacturing (machining, metalworks).
- **Other:** Other notable industries include books and publishing (8 percent of total), transportation (both retail and service: 7 percent of total), and technology (both service and manufacturing: 5 percent of total).

The Institute's study draws some interesting conclusions about trends among worker cooperatives, including their staying power (31 percent have been operating for more than twenty years), and the current explosion of startups (55 percent were started in 2000 or later). The study also identified notable shifts in industry concentrations among the newer wave of worker cooperatives. The most notable growth industries among worker co-ops are cleaning, restaurants and cafés, technology, and food production and processing.

*Fifty-five percent of today's worker co-ops were started in 2000 or later.*

## GEOGRAPHIC CONCENTRATIONS

Certain geographic concentrations of worker co-ops are notable, with higher levels of activity in the San Francisco Bay Area, Boston, Portland (Oregon), Madison, Minneapolis, Seattle, and, more recently, New York City. Emerging clusters of worker co-op activity can also be found in the Pioneer Valley in Massachusetts, Austin (Texas), Chicago, and western North Carolina. In each of these areas, small organizations or networks have formed that promote the cooperative model and bring co-ops together for mutual learning and, occasionally, joint marketing.

## U.S. WORKER CO-OP SECTOR: SWOT ANALYSIS

The following analysis of the worker cooperative sector's strengths, weaknesses, opportunities, and threats represents a synthesis of comments and opinions offered during interviews for this study, as well as my own perspective. It is not a consensus or a comprehensive picture of the sector; it is intended rather to contribute to thoughtful analysis and strategy development.

## EMPLOYEE STOCK OWNERSHIP PLANS

The larger-scale activity around worker ownership in the United States has been with Employee Stock Ownership Plans (ESOPs), a legal form created in the mid-1970s. Approximately 12,000 ESOP companies in the United States have 11 million participants, including both current employees and retirees, and \$870 billion in assets.<sup>9</sup> ESOPs

**Table 5. SWOT Analysis of US Worker Cooperative Sector**

|   |   |
|---|---|
| <p><b>STRENGTHS</b> <span style="float: right; font-size: 2em;">S</span></p> <ul style="list-style-type: none"> <li>• Committed core of practitioners</li> <li>• A few strong models and lessons learned</li> <li>• Resourcefulness</li> <li>• Broad appeal of self-help concept across ideological spectrum</li> <li>• Increasing diversity of practitioners (low-income, nonprofit, variety of industries)</li> <li>• Potential to leverage commonalities and benefit from scale achieved by ESOPs and other kinds of co-ops</li> <li>• Replication efforts in food, manufactured housing, and teacher co-ops and related development resources</li> <li>• High energy for growing the sector and sharing knowledge among co-ops (e.g., Democracy at Work Network and many others)</li> </ul> | <p><b>WEAKNESSES</b> <span style="float: right; font-size: 2em;">W</span></p> <ul style="list-style-type: none"> <li>• Lots of small, under-resourced organizations</li> <li>• Lack of large-scale patient capital</li> <li>• Limited collaboration between new and experienced practitioners</li> <li>• No overarching strategy for growth of the movement</li> <li>• Complexity of model</li> <li>• Ideological divide/purism</li> <li>• Under-resourced national and regional umbrella groups</li> <li>• Demographic homogeneity (general disconnect from communities of color, with some notable exceptions)</li> <li>• Limited engagement with business sector and with larger co-op sectors (e.g., food co-ops, purchasing co-ops, credit unions)</li> <li>• Lack of business experience among many co-op developers</li> </ul> |
| <p><b>OPPORTUNITIES</b> <span style="float: right; font-size: 2em;">O</span></p> <ul style="list-style-type: none"> <li>• Current zeitgeist creating broad interest in socially and environmentally beneficial business models</li> <li>• High unemployment of workers at all skill levels</li> <li>• Upcoming wave of business succession</li> <li>• Ambitious co-op development projects under way or planned</li> <li>• Diversification of business financing options (e.g., crowdfunding)</li> <li>• Emergence of multi-stakeholder co-ops</li> <li>• Heavyweights like Mondragón, unions, universities, and foundations interested in promoting co-ops in United States</li> <li>• Growing but still modest infrastructure in co-op movement</li> </ul>                                    | <p><b>THREATS</b> <span style="float: right; font-size: 2em;">T</span></p> <ul style="list-style-type: none"> <li>• Common perceptions that democratic management impedes growth and that co-ops are “for hippies”</li> <li>• Current interest in the model could generate misguided expectations (overexposure)</li> <li>• Concentration of ownership and capital in the broader markets</li> </ul>  |

are commonly used for succession planning, financing growth, employee rewards, and matching 401(k) deferrals. ESOP legislation provides substantial tax benefits for exiting owners, for the company itself, and for employees.<sup>10</sup>

Like consumer and producer co-ops, which are also more widespread than worker co-ops, ESOPs share important commonalities with and differences from worker co-ops (see sidebar). The ESOP model addresses part of what the worker co-op model aims to do—enable workers to share in the wealth generated by their companies—while remaining silent on democratic governance. It is rare for employees to be formally involved in ESOP governance, and in most ESOPs, employees own less than half of the company. An estimated 30–40 percent of the 12,000 total ESOP firms in the United States are 100 percent employee-owned,<sup>11</sup> making them more similar to worker cooperatives in their ownership structure.

***ESOPs demonstrate the potential for employee ownership to be practiced at a much larger scale.***

ESOPs are included in this paper because they demonstrate the potential for employee ownership to be practiced at a much larger scale, and because their impact has been widely studied, whereas the impact of worker cooperatives has not.

### ***Practical Distinctions between ESOPs and Worker Co-ops***

People considering worker or employee ownership for their enterprise should analyze the conceptual differences and the practical pros and cons of the ESOP and worker co-op models in light of their own goals. Worker co-ops require more attention to democratic processes and, when executed well, may have greater social benefits. Both models have tax advantages, some of which may be easier to access or more extensive for ESOPs.<sup>12</sup> But worker co-ops usually cost less than ESOPs to set up and maintain. ESOPs tend to be executed with larger companies, and co-ops with smaller ones. The minimum number of employees appropriate for an ESOP is commonly estimated to be in the range of 50–75, but the choice of ESOP or co-op for a given enterprise depends on a variety of factors and not necessarily on size. It should not be assumed that co-ops are inappropriate for larger-scale enterprises, as many large worker co-ops have been successful both here and in countries where they are better supported by infrastructure and policy frameworks. According to Tim Huet, co-founder of the Arizmendi Association, “By growing larger, you can become more democratic if you invest your resources well.”<sup>13</sup>

## 2. THE CASE FOR COOPERATIVES

As businesses owned and controlled by their members, cooperatives provide a range of benefits directly to their membership. In addition, cooperative enterprises generate more community wealth, ground successful businesses in their communities (since they are owned by members, they are unlikely to be sold and moved out of the area), and lead the way toward a healthy planet and a thriving, democratic society. Many co-ops are leaders in their industries in terms of offering quality products or services and in improving working conditions as well as social responsibility and environmental practices in their fields.

Anecdotal evidence for these claims abounds, and substantial research has been done on cooperatives in other countries and on ESOPs in the United States. More research is clearly needed on U.S. worker cooperatives in particular. It is important to analyze the existing evidence (both empirical and anecdotal) of the benefits of worker cooperatives for two reasons: to be clear about why they are worth pursuing, and to dispel what seems to be a persistent myth that democratic or participatory businesses are impractical or less profitable than their conventional counterparts.

*More research is clearly needed on U.S. worker cooperatives.*

So, what benefits does the worker cooperative model offer to individuals, businesses, and society?

### BENEFITS FOR MEMBERS

Worker-owned cooperatives provide a wide range of benefits for their members, including the following:

**Above market pay and benefits.** At Cooperative Home Care Associates (CHCA) and the Women's Action to Gain Economic Security (WAGES) co-ops, for instance, above-average hourly pay coupled with fuller work schedules led to increased earnings. At CHCA, workers' schedules average 36 hours per week compared with the industry norm of 25–30. In the mature cooperatives supported by WAGES, members' family incomes increased 70–80 percent on average, and many members have health insurance and paid time off for the first time in their lives.<sup>14</sup>

*In the mature cooperatives supported by WAGES, members' family incomes increased 70–80 percent on average.*

**Access to shared business ownership and asset building** through retained earnings (patronage dividends) and other financial products or programs.

**Skill building and professional development** through member training programs, participation in governance, and other worker-owner responsibilities. The business, communication, finance, decision-making, and other professional and life skills obtained through worker ownership are transferable to other work settings or personal situations. TeamWorks founder David Smathers Moore said:

I'm interested in the opportunities that co-ops provide for human development and better relationships within companies. This happens within traditional companies, but it can be a more central value in co-ops: career advancement, personal and professional development, genuinely positive relationships, and a culture that supports that.<sup>15</sup>

**A voice in key decisions and enhanced control over working conditions.** Worker co-ops can be structured in many different ways, with more or fewer decisions made by management, boards, or the full membership, and with varying degrees of worker participation. What is universal is that decision-making roles are defined, and members have majority control over the highest decision-making body.

*“There’s something intangible [about the co-op experience], and also deeply moving. I’d call it ‘human dignity.’”*

Molly Hemstreet,  
Opportunity Threads

**Dignity.** In addition to enhancing income, assets, skills and participation, co-ops provide intangible benefits. According to Molly Hemstreet, co-founder of Opportunity Threads cooperative in North Carolina, “Co-ops are not a panacea; they’re not necessarily for everybody. But for the people involved, [the experience] lights a fire under them. There’s no going back. There’s something intangible, and also deeply moving. I’d call it ‘human dignity.’”<sup>16</sup>

## BENEFITS FOR BUSINESSES

Giving workers an ownership stake and an authentic voice in the workplace also promotes business success.

**Enhanced growth and productivity.** Most of the data on growth and productivity focus not on worker cooperatives but on other types of employee-owned companies. A large body of evidence demonstrates that employee ownership strengthens business performance. One study compared the performance of hundreds of companies before and after they introduced an ESOP to that of similar companies that were not employee-owned to determine the effect of the ESOP. It found that ESOP company sales, employment, and productivity grew more than 2 percent faster per year than would have been expected before the ESOP was introduced.<sup>17</sup>

Similarly, a 2010 report by the CASS business school in London found that employee-owned enterprises reported productivity levels that were 9–19 percent higher than levels in traditionally structured similar businesses.<sup>18</sup>

In 2012, Joseph Blasi and Edward Kruse of the Rutgers University School of Management and Labor Relations, together with Richard Freeman of the National Bureau of Economic Research and Harvard University, released an analysis of shared capitalist

practices among 780 companies that applied to be one of the “100 Best Companies to Work for in America” named annually by *Fortune* magazine. These companies represent roughly one fifth of the total stock value of all public companies. Reviewing the financial data, Blasi, Kruse and Freeman found that “high shared capitalism and high employee empowerment [are] linked to significantly higher Return on Equity for public companies.”<sup>19</sup>

The only sizeable study of participation and productivity in U.S. worker cooperatives was done on the plywood cooperatives in the Pacific Northwest (more than 20 of them thrived from the 1930s through the 1970s). These worker cooperatives were found to be 6-14 percent more efficient in their output compared to conventional mills.<sup>20</sup>

***Worker cooperatives in the plywood industry were found to be 6-14 percent more efficient than conventional mills.***

Another example of increased productivity comes from the consumer food co-op sector. As reported by *CNNMoney* in 2010, the Park Slope Food Coop, the largest consumer-owned single-store co-op in the United States, generates more than \$6,500 per square foot each year. By comparison, Trader Joe’s averages \$1,750 in sales per square foot, which is more than double those of Whole Foods.<sup>21</sup>

**Reduced employee turnover.** Quantitative data from both WAGES and CHCA, as well as anecdotal evidence from many worker co-ops, show that co-ops have substantially lower employee turnover than their industry averages. For example, a 2013 CHCA study demonstrated that its annual employee turnover is 15 percent, compared with industry norms of 40-60 percent.<sup>22</sup>

***CHCA’s annual employee turnover is 15 percent, compared with industry norms of 40-60 percent.***

**Longevity.** In addition to productivity and employee retention, business longevity is a hallmark of employee-owned and cooperative enterprises. A 2005 study in the United States found that 100 percent employee-owned companies were roughly one third as likely to fail when compared with all public companies.<sup>23</sup> Also, a study from British Columbia confirms that cooperatives of all kinds (not worker co-ops specifically) are more resilient and have greater longevity than conventionally structured businesses. The five-year survival rate of cooperatives in two Canadian studies was 64-67 percent, compared with 40-50 percent for conventional business startups in Canada.<sup>24</sup>

## **BENEFITS FOR SOCIETY**

Interviewees for this study cited the following contributions that worker cooperatives bring to society.

**Better business practices and social innovation.** Co-ops can provide a corporate ideal to emulate, demonstrating to competitors and policymakers that “high road” employment practices are both possible and profitable. CHCA, for example, has been both a steadily growing cooperative as well as a laboratory for its nonprofit partner, Paraprofessional Healthcare Institute (PHI), to develop and disseminate workplace

practices that create better jobs, leading to higher quality care. PHI influences policy in the home health care industry nationally and in many states across the country.

**Co-ops provide an entrance into business ownership for many people who would not likely start or own a business by themselves.**

**Democracy training.** Because most people spend the majority of their time working, the practice of democracy in the workplace provides valuable training that workers then bring to their community. Blake Jones, co-founder and CEO of Namasté Solar said, “Cooperatives have the potential to be fantastic training grounds for great citizens.”<sup>25</sup>

**Access to business ownership.** Co-ops provide an entrance into business ownership for many people who would not likely start or own a business by themselves. Risks and rewards are shared, so barriers to entry are lower than for individual business ownership. Co-ops engage more people in generating self-sustaining value for themselves and for society, teaching people to fish *and* to take care of the river.

**Correlation with other social benefits.** Cooperatives often provide social services for their members or refer them to services, create a sense of social cohesion, and engage actively with other community organizations and initiatives. A study of three towns in Northern Italy generated compelling data showing that the town with the highest percentage of people employed in worker cooperatives had higher indices of social well-being in areas including health, education, crime, social participation and perception of their social environment.<sup>26</sup>

**Co-ops can help bridge the racial wealth gap in the United States.**

Co-op scholar Jessica Gordon Nembhard has written extensively on the social benefits of cooperatives, specifically for low-income communities and people of color. She highlights the ability of co-ops to help bridge the well-documented racial wealth gap and shows that cooperative businesses, co-op housing, and credit unions can diversify assets and enhance family stability for low-income people and people of color.<sup>27</sup> She argues that co-ops enhance civic engagement in the following ways:

- Co-op members are more active in political life than the general population.
- Co-op members come to expect the transparency and accountability they get from their cooperatives from other institutions and in the public arena.
- Co-ops often catalyze systemic political change.<sup>28</sup>

Given the growing inequity in our economy, the case for cooperatives is compelling: we have good reason to believe that cooperatives can and do create better jobs, provide high quality products and services, promote business productivity and longevity, and make our communities more equitable and vibrant. Although not every cooperative will deliver all of these benefits, co-ops in general and worker co-ops in particular have much to offer their members and society. The next two sections analyze how worker co-ops get started and the key barriers and success factors that influence their development.

### 3. WORKER COOPERATIVES: ORIGINS AND DEVELOPMENT STRATEGIES

There are four common “origin stories” for worker co-ops, which I name Lemons to Lemonade, Build a Better World, Pass It On, and Start It Up. In the first two, workers themselves provide the impetus; in the third, departing business owners or their employees initiate a co-op conversion; and in the fourth, a third party (usually a non-profit or co-op developer) takes the lead. Individual co-ops or co-op development initiatives may fall into more than one category.

#### FOUR ORIGIN STORIES

**Lemons to Lemonade.** Many co-ops have arisen as a self-help response to economic crises, whether in the broader society or in a given enterprise. The first modern cooperative—the Rochdale Society of Equitable Pioneers, founded in England in 1844—was itself a response to unemployment and poverty brought on by the industrial revolution. In the United States, the single largest wave of co-op development occurred during the Great Depression, and the largest co-op movements in Europe arose from political crisis: the Spanish civil war in the case of Mondragón (see sidebar), and World War II in the case of Emilia-Romagna, Italy.

*Many co-ops have arisen as a self-help response to economic crises.*

One of this century’s most vigorous worker co-op movements is the recovered factories movement in Argentina, in which workers took over hundreds of factories after owners abandoned them during Argentina’s 2001 economic crisis.<sup>30</sup> In the United States, Union Cab and Collective Copies were both formed by workers in the aftermath of unionization drives against bad employers. New Era Windows Cooperative was formed by workers who twice occupied their factory after the owners threatened to shut it down; the workers organized and purchased the business, re-opening in 2013.

**Build a Better World.** Some worker cooperatives are initiated by workers who have a shared desire to make the world a better place, both through a cooperative business structure and through the products or services they provide. Examples include Equal Exchange, a leader in the U.S. Fair Trade movement; Namasté Solar, a fast-growing co-op in the solar industry; and Childspace, a leader in quality daycare; among many others. This model is particularly successful when the product or service itself is values-driven, but at times the co-op structure itself is the mission.

## About Mondragón

The Mondragón Cooperative Corporation is a conglomerate of 289 companies, including 110 worker cooperatives, employing more than 80,000 workers.<sup>29</sup> Headquartered in the Basque region of Spain, Mondragón has four business lines: finance, manufacturing, retail, and knowledge (research & development).

The first Mondragón cooperatives were founded by graduates of a technical school started by Father José María Arizmendiarieta in the 1940s in the aftermath of the Spanish Civil War. Today, Mondragón is the tenth largest industrial group in Spain and exports to 156 countries.

Mondragón is widely known as the world's largest network of worker cooperatives. Cooperators from across the globe visit Mondragón every year to learn about co-ops, innovation, and social entrepreneurship. Thanks to Mondragón, the Basque region in Spain ranks with Northern Italy, France, and Quebec as having the world's densest concentrations of worker co-ops.

**Pass It On.** Some worker co-ops are conversions of successful businesses that were built with a conventional business structure. In most cases, original owners or founders decide to sell to their employees when they are well established or preparing to retire. Some examples are The Cheeseboard Collective, South Mountain Builders and Select Machine.<sup>31</sup> Also, the majority of ESOPs are initiated in ownership-succession situations. By selling to employees in an ESOP or co-op conversion, the seller can generally defer payment of capital gains taxes.

**Start It Up.** This model of cooperative incubation and development has been the driver of the largest worker co-ops benefitting low-income members, with the developer generally being a nonprofit organization.<sup>32</sup> This is the case with Cooperative Home Care Associates (incubated by Community Service Society); the Home Green Home Cleaning Co-op Network (five co-ops developed by WAGES); the Evergreen Cooperatives (initiated by The Democracy Collaborative, The Cleveland Foundation, and the Ohio Employee Ownership Center); and a group of co-ops started by the Center for Family Life in Brooklyn. The Arizmendi Cooperatives in the San Francisco Bay Area are also developer-initiated by the Arizmendi Support Collective and the Association of Arizmendi Cooperatives.

**Cooperative incubation and development has been the driver of the largest worker co-ops benefitting low-income members.**

Given this paper's aim to help build the field of worker co-op development, the next section elaborates on five distinct approaches to the Start It Up development strategy and some of the initiatives and players in each one.

## APPROACHES TO WORKER CO-OP DEVELOPMENT

In the United States, five trends can be seen in co-op development efforts that seek to create better jobs and build wealth for low-income people. Some initiatives use more than one strategy, and there is substantial overlap between the third and fourth strategies discussed below.

1. **Industry transformation strategy.** This hybrid approach combines the creation of a model cooperative with policy advocacy, consulting, and organizing for “high-road” employment practices to transform job quality in a specific industry.
2. **Single industry replication.** This franchise-like strategy leverages industry and co-op development expertise to create multiple networked co-ops in a single industry.
3. **Place-based clusters strategy.** This method develops multiple co-ops in diverse industries within a single geographic area, with the goal of creating good jobs while strengthening the local economy and community.
4. **Institutional engagement.** A common feature of the place-based clusters, this strategy leverages the support and purchasing power of anchor institutions to build co-ops that create local jobs.
5. **Educational incubator or co-op academy strategy.** This approach brings together cohorts of teams in a community-based classroom environment to learn cooperative and business skills, with the goal of launching new worker co-ops after graduating.

A description and examples of each approach follow.

Examples of the **industry transformation strategy** include CHCA and PHI; as well as Restaurant Opportunities Center and the two COLORS restaurants it created. In addition, Manufacturing Renaissance created Austin Polytechnic Academy in Chicago inspired by Mondragón’s beginnings in education and often points to Mondragón’s example in its campaign for advanced manufacturing in the United States.

Cooperative Home Care Associates stands out as one worker cooperative that has achieved significant scale and profoundly influenced its industry. The Community Service Society founded CHCA in the Bronx in 1985. Today, CHCA employs 2,300 people and has inspired large-scale positive change in the home care industry through synergies with sister businesses, high road employment practices, and policy interventions.<sup>33</sup> CHCA leaders have helped incubate several sister co-ops; one of these, Home Care Associates in Philadelphia, is now the fifth largest worker co-op in the United States, with 225 employees. CHCA has also inspired numerous efforts to use cooperative business structures in the home care industry, including several rural home care co-ops and Partners in Personal Assistance, a multi-stakeholder cooperative based in Ann Arbor, Michigan.

*CHCA employs 2,300 people today and has inspired large-scale positive change in the home care industry through synergies of sister businesses, high road employment practices, and policy interventions.*

Steven Dawson, founder of and strategic advisor to Paraprofessional Healthcare Institute, a nonprofit entity spawned by CHCA to encourage broader adoption of the cooperative's hallmark practices, describes their overall strategy as follows:

Our goal has been higher quality jobs, greater respect on the job, higher income, health insurance, everything that makes for a sustainable life. A large, strong cooperative enterprise [such as CHCA] is an idealized image of this. [Although we had modest success replicating smaller sister co-ops], we felt we could have greater impact on our end goal if we leveraged the co-op experience [to influence other employers and create better public policy]. That is, the cooperative is a means to an end, not an end in itself—and we have leveraged CHCA's success to influence other, non-co-op employers. This impacts many, many more people.<sup>34</sup>

*“We have leveraged CHCA's success to influence other, non-co-op employers. This impacts many, many more people.”*

Steven Dawson, PHI

The second strategy, **single industry replication**, involves developing multiple cooperatives in the same industry that operate in contiguous service areas. Arizmendi and WAGES have successfully employed this strategy on a moderate scale. Arizmendi has achieved above-market wages and ownership for bakery workers in its six sister bakery-pizzerias covering much of the San Francisco Bay Area. WAGES has developed five green housecleaning co-ops in the Bay Area, which provide significantly higher earnings, enhanced job security and working conditions, and skill-building opportunities for low-income immigrant women worker-owners. This franchise-like co-op development approach could be applied in multiple service or retail sectors.

Several organizations have tried the third strategy, **place-based clusters** of co-ops in diverse industries, with varying degrees of success. The Center for Family Life in Brooklyn,<sup>35</sup> the Center for Participatory Change in North Carolina, and the Evergreen Cooperative Initiative in Cleveland have each developed several co-ops since the late 2000s and continue to grow their initiatives.

The Union Co-op movement is another approach to place-based co-op development. Initiated when Mondragón signed an agreement with the United Steelworkers in 2009, the movement now boasts ten working groups in cities around the country. One of these, the Cincinnati Union Co-op Initiative, has launched Our Harvest Food Hub Cooperative, which currently employs ten unionized workers on its incubator farm.<sup>36</sup>

*The franchise-like approach used by Arizmendi and WAGES could be applied in multiple service or retail sectors.*

The most visible and ambitious test case for the place-based cluster model is the Evergreen Cooperative Initiative. With major funding from The Cleveland Foundation and other sources, Evergreen has launched three cooperatives in unrelated industries and plans many more. At the end of 2013, the Evergreen cooperatives had nearly 80 employees in the three co-ops now operating: 12 at Evergreen Energy Solutions (formerly Ohio Cooperative Solar), 41 at the Evergreen Cooperative Laundry, and 24 at Green City Growers, a commercial greenhouse that opened in December 2012.<sup>37</sup>

Ted Howard, a founding leader of the initiative and executive director of The Democracy Collaborative, describes Evergreen’s aspirations and strategy as follows:

Evergreen is more than a business development strategy. Our goal is to stabilize a seriously disinvested and distressed set of neighborhoods in Cleveland’s core inner city and transform them into extraordinary places to live and work. The Evergreen co-ops are a vehicle to help us achieve this community-building goal. Our strategy leverages the economic power of the city’s place-based anchor institutions. By driving procurement locally and linking these spending streams to Evergreen companies, we believe we can build a network of community-based cooperative businesses that hire locally, creating living wage jobs with benefits and wealth building for workers and for the community.<sup>38</sup>

Because of the scale of its ambition and resources, its anchor institution strategy, and its inspirational story, the Evergreen case is being watched closely not only by cooperative enthusiasts, but also by community development practitioners and policymakers seeking solutions to high unemployment and poverty in inner cities. It raises issues that all economic development projects must address, such as the social return on investment, cost per job created, and the ability of each business to sustain itself and thrive once the parent organization is less involved. Evergreen is still at an early developmental stage, working to demonstrate its long-term sustainability.

The **institutional engagement** strategy is a way to engage anchor institutions in cooperative development and to get large contracts to fuel business growth and job creation. Anchor engagement can be combined with other strategies. The University of Winnipeg in Manitoba is housing a social enterprise food service that operates four restaurants on campus, which they plan to convert to cooperative ownership.<sup>39</sup> Anchor institutions also figure prominently in the Bronx Cooperative Development Initiative and in the Evergreen Cooperatives strategy described above. Institutions like The Cleveland Foundation, University Hospitals, Cleveland Clinic, Case Western Reserve University, and others have helped with capital access and direct funding and are also prime candidates for purchasing co-op products and services. Their representatives are strong champions and board members for the initiative.

The **co-op academy** approach is growing in popularity and is primarily educational, though many call themselves incubators. The Green Worker Cooperatives Coop Academy in the Bronx and Cooperation Texas’ Cooperative Business Institute have been operating the longest, and new programs such as the COLORS Co-op Academy are in their early phases. These programs generally combine several months of classroom training with mentoring and access to business resources. Although a number of small worker co-ops have emerged from these academies, the educational program itself is generally insufficient to spur businesses to launch, and organizers are increasingly moving to providing support after the initial academy phase.

*“Our goal is to stabilize distressed neighborhoods in Cleveland and transform them into extraordinary places to live and work. The Evergreen co-ops are a vehicle to achieve this community-building goal.”*

Ted Howard, The Democracy Collaborative

What could we achieve if we combined the best elements of these five approaches to fuel worker co-op development in the United States? Place-based, industry-specific, and anchor strategies could be combined in local and regional initiatives, and educational academies could create a pipeline of smaller co-ops, whose growth could be accelerated.

## 4. LESSONS LEARNED: BARRIERS AND SUCCESS FACTORS IN WORKER CO-OP DEVELOPMENT

Co-op development is rich in benefits, resource intensive, and, particularly with respect to worker cooperatives, a little known field in the United States. It is therefore highly recommended that strategies and programs aiming to increase the pace and effectiveness of co-op development in this country be based on effective practices and lessons learned, even as they aim to break new ground.

### BARRIERS TO WORKER CO-OP DEVELOPMENT

The many benefits of co-ops for workers, communities, and society are described in Section 2 above. Considering the value of the model, one could ask, “If worker co-ops are so great, why aren’t there more of them?” The short answer is that worker co-ops are complex, labor intensive, and sometimes expensive to develop. When done well, however, the return on investment is considerable, and the benefits are largely self-sustaining once the co-op reaches maturity.

The complexity of worker co-ops, coupled with a lack of policy and infrastructure supports and a general lack of familiarity with the model, mean that relatively few people take on the challenge. That seems to be changing, at least for the moment, as more people and organizations consider engaging with the co-op model. I believe that many of the barriers to worker co-op development can be surmounted over time or successfully addressed through a well-designed initiative and through coordinated efforts to bring the movement to scale.

This section offers a closer look at some of the barriers to co-op development in seven areas: culture and education, business expertise, partnerships, financing, management and leadership, entrepreneurship, and organizational democracy.<sup>40</sup>

*When done well, co-op development has a considerable return on investment, and the benefits are largely self-sustaining once the co-op reaches maturity.*

*Many of the barriers to co-op development can be successfully addressed through a well-designed initiative and through coordinated efforts to bring the movement to scale.*

## Culture and Education

Our national narrative emphasizes self-reliance in a way that sometimes pits the individual against the community, as if their efforts and successes were mutually exclusive. Many scholars and experienced practitioners in the cooperative movement emphasize that this cultural factor must be taken very seriously. On a practical level, this means that the dominant culture must be consciously counteracted through training and education and that a collaborative internal culture must be developed and actively fostered throughout the life of a cooperative enterprise.<sup>41</sup>

***A collaborative internal culture must be developed and actively fostered throughout the life of a cooperative enterprise.***

In contemporary capitalism, shareholders are considered the primary—and in many cases, the only—stakeholder relevant to business decisions. Models that prioritize multiple stakeholders, or a double- or triple-bottom line, are just beginning to gain mainstream acceptance.<sup>42</sup>

The cooperative model is rarely taught in schools, nor is it visibly present in most communities or in the mainstream media. Students of social science, law, and industrial relations occasionally get exposure to the cooperative model, but cooperative businesses are almost invisible in business school curricula.<sup>43</sup> With so little explicit exposure to cooperatives, many people have misconceptions about them, and some do not realize that co-ops are businesses. The notion that all co-ops are self-managed collectives, for example, is a common misunderstanding.

## Business Expertise

Lack of business experience is a key barrier that limits the startup and growth of worker co-ops. Many worker co-ops are initiated by workers who have relevant job and industry expertise but lack business management experience. Similarly, co-op development projects are often initiated by nonprofits with no previous experience launching or running businesses. Whether due to limited funds to pay for business advice or co-op enthusiasts' penchant for the do-it-yourself approach, far too many co-op founders and developers undertake this work without the benefit of the business expertise that comes only from experience.

***Far too many co-op founders and developers undertake this work without the benefit of the business expertise that comes only from experience.***

Melissa Hoover, executive director of the U.S. Federation of Worker Cooperatives (USFWC), and Newell Lessell, then-director of the ICA Group, both confirmed the notion that insufficient business expertise is a significant barrier for small worker co-ops, often more than financing. This is one reason why having non-members with business expertise on a co-op board is highly recommended, and why social enterprises often have business advisory boards. This fact is also a motivating factor behind co-op initiatives such as the Democracy at Work Network (also known as DAWN), a peer advisor network formed by USFWC to provide business and model-related advising to other co-ops.

Lack of business experience may also be a reason why more cooperatives do not seek to grow aggressively, given that their members have not grown businesses before. In addition, some co-op members prefer to keep their businesses small to maintain an intimate culture and facilitate participation.

## Partnerships

In co-op development, as in many social enterprise projects, there is often a critically important partnership between the co-op or social enterprise and its incubator, developer, or sponsor organization (usually a nonprofit). In some cases, three entities are involved, with a local nonprofit acting as the incubator or local host and contracting with another entity that specializes in co-op development. Especially when three partners are involved, and even with two, unsound partnership choices and poorly defined organizational roles can be significant barriers in worker co-op development.

Many nonprofits underestimate the resources and time needed to develop a successful co-op to the point where it will thrive, or at least be prepared to weather challenges on its own. If the sponsoring organization removes its technical assistance and organizing support prematurely, it can backfire both for the nonprofit and for co-op members.

The nonprofits that are most likely to succeed at social enterprises or co-op development are the ones that already have the entrepreneurial skills and business-like culture that are needed to make small businesses thrive, or that recognize that the culture and skills needed to run their other programs may be different from what they'll need to incubate businesses.<sup>44</sup>

Newell Lessell has worked with a variety of community development corporations (CDC) on co-op or community enterprise projects. He reported:

In our experience, the best [partner] has been a mid-sized, stable CDC with good follow-through. Doing the work from afar is hard, so you need a good local partner. Some community-based organizations that want to get involved [with co-ops] aren't a good fit because they're too much about "process" to make real-time business decisions effectively.<sup>45</sup>

***Many nonprofits underestimate the resources and time needed to develop a successful co-op to the point where it will thrive, or at least be prepared to weather challenges on its own.***

## Financing

Another limiting factor for cooperatives is a lack of startup funding and patient, or long-term, capital. In addition, mainstream lenders are reluctant to lend to cooperatives, so loans can be harder to access.

Although many small businesses, including some worker co-ops, initially get financing from a founder or from friends and family, this is not an option for many low- or moderate-income business owners or for many cooperative startups. As Brahm Ahmadi,

founder and CEO of People’s Community Market in West Oakland (California), stated, “The dilemma for low-income communities interested in co-ops is that they can’t get significant amounts of capital from their membership base.”<sup>46</sup>

For this reason, People’s Community Market (PCM) pursued private investments, Program-Related Investments (PRIs) from foundations, and institutional loans for almost a year, without success, before conducting its groundbreaking direct public offering in 2013.<sup>47</sup> Ahmadi sees financing as a key barrier for co-ops. “The availability of social

venture financing is a myth; none of it is going to early-stage companies or startups.” He said. “Plus, investors are skeptical of the co-op structure.”<sup>48</sup> PCM’s direct public offering has now raised more than \$1.1 million, a clear indicator of the potential that crowdfunding holds to alleviate these funding challenges.

***“The availability of social venture financing is a myth; none of it is going to early-stage companies or startups. Plus, investors are skeptical of the co-op structure.”***

**Brahm Ahmadi,  
People’s Community Market**

Loans can also be challenging for worker co-ops to secure. In general, banks are reluctant to lend to cooperatives because the model is not well understood, and accountability is perceived as too diffuse. Some community development financial institutions (CDFIs) will lend to co-ops in underserved markets; the WAGES cooperatives, for example, have received loans from Opportunity Fund, a California CDFI. Any borrower, including co-ops, must meet high standards to qualify for CDFI loans, but

it can be done. For startups, however, loan guarantees may be necessary.

Loan funds that are explicitly intended for worker co-ops report having unused funds in their loan pools. The ICA Group’s Local Enterprise Assistance Fund (LEAF), for example, supports co-ops and community enterprises. According to Newell Lessell, however, “LEAF is underutilized. We don’t get many applications from worker co-ops, and many of those that do apply are not creditworthy.”<sup>49</sup> In other words, small co-ops that need outside funding may be able to find it if they have sound business plans and meet other common loan criteria.

## **Management and Leadership**

Cooperatives thrive with shared leadership and participatory management practices that are less common—although increasingly embraced in theory—in conventional businesses. Blake Jones of Namasté Solar described how he sees management and leadership in cooperatives:

Co-ops require a different kind of leadership than conventional companies. Leadership needs to be much more sophisticated; you have to truly lead and convince people, help them understand the “why.” When you’re a manager or a boss in a command-and-control structure, you don’t have to explain why. But in a co-op, if you don’t have enough of what we call “leadership mo-jo” in enough people, you’re going to have a hard time getting anything done.<sup>50</sup>

## **Management, Governance and Participation in Worker Co-ops**

Co-ops can have many different management structures, ranging from fairly traditional hierarchies to horizontal collectives in which management-type decisions are made by committees. Similarly, cooperative governance can be representative or direct.<sup>51</sup> Representation often takes the form of member control of the board of directors, which then hires management. Even if management roles are structured hierarchically, the organizational culture and leadership styles in cooperatives are generally more participatory.

The business author Jim Collins studied a similar phenomenon in high-performing nonprofit organizations and wrote about it in his monograph *Good to Great for the Social Sector*. Social sector organizations (his preferred term for nonprofits), he finds, have “more diffuse and less clear executive power. True leadership [is] more prevalent, when defined as getting people to follow when they have the freedom not to.”<sup>52</sup> As mission-driven organizations, often populated by people with egalitarian ideals, nonprofit and cooperative organizations tend to share the management and leadership dynamics Collins describes.

The challenge for worker cooperatives is two-fold. First, ambivalence about management and leadership is quite common. As Arizmendi co-founder Tim Huet observed, “Leadership is a bad word in our movement.”<sup>53</sup> Co-op managers and others in leadership positions must continually prove themselves not only through business performance but also through strong relationships with co-op members and a high engagement culture.

As a result, finding, developing, and supporting successful leaders and managers for worker cooperatives is not easy.

## **Entrepreneurship**

Then there is the question of entrepreneurship. Entrepreneurial skills—defined as identifying opportunities, allocating resources, managing risk, and creating value—are essential for cooperatives.<sup>54</sup> But these skills take a special form in co-ops, which cooperators affectionately refer to as “co-opreneurship,” so the classic entrepreneurial personality and the prevailing approach to entrepreneurship training do not necessarily meet cooperatives’ needs. The “cowboy” style of entrepreneurship, represented by celebrity entrepreneurs like Steve Jobs and Richard Branson, for example, would not be effective in a cooperative environment.

## Organizational Democracy

Co-op members usually need to learn and practice new decision-making and collaboration skills, often in a fast-paced business environment. It is often the case that decision-making is more time-consuming in cooperatives or any participatory environment. As Blake Jones describes, however, democratic decision-making can be efficient when it comes to implementing those decisions:

**“When you look at both making and implementing decisions, co-ops can actually be more nimble.”**

**Blake Jones, Namasté Solar**

I *do* think it takes more time in a democratic process to make decisions. But when you look at both making and implementing decisions, co-ops or democratic workplaces can actually be more nimble. [In the process of making the decision, you are] getting people to buy in, to believe, to be behind it.<sup>55</sup>

WAGES and CHCA, for example, have taken controversial decisions made at the board level back to the co-op membership or to a subsequent board meeting for further discussion before making a final decision. This has led to a higher level of comfort with and easier adoption of the decision, and ultimately higher morale and productivity. Similarly, *Making Mondragón* details how some of the most significant policy decisions in the cooperative complex’s history were thoroughly vetted with members through the Social Councils, then re-drafted, before being approved by the governing bodies.<sup>56</sup>

**Organizational democracy requires leadership, good process design, and skilled facilitation.**

Another barrier is that organizational democracy requires leadership, good process design, and skilled facilitation. Designing democratic processes and training co-op members to participate in them effectively is an important element of co-op development. Gradual systems of bringing more decisions, and a greater variety of decisions, to the worker-owners over time have often been successful in a co-op conversion or development context.

Conflict management is needed in any organization but becomes especially important in co-ops, as people have higher expectations of being heard and are sometimes reluctant to exclude enthusiastic participants who may not be a good fit. Rosemary Mahoney, then with CoopMetrics, said, “I always advise people to make purchasing co-ops by invitation only—to screen for the ‘jerk factor.’”<sup>57</sup> Co-ops provide unique opportunities for people to learn and practice constructive communication and conflict resolution skills.

The good news is that human beings cooperate well when their environment supports cooperation. Long-time co-op lender and consultant Margaret Lund wrote:

As [2009 Nobel Prize winner] Elinor Ostrom observes, the majority of people are what she calls “conditional cooperators,” they will work together if conditions are right. This aligns well with my own observations that a certain number of us will always be cooperators, a certain number of us will never be, but the vast majority of people lie in the middle. Our job [as cooperative members and developers] . . . is to make our case to this middle ground. This means to make our enterprises as accessible and inviting as possible and

be living proof. . . through our thought and practice, that individual and collective good are not mutually exclusive, nor even incompatible, but actually inextricably aligned.<sup>58</sup>

## SUCCESS FACTORS IN WORKER CO-OP DEVELOPMENT

This country's most successful worker co-op development initiatives have overcome these barriers using some or all of the following success factors as their foundation. The worker co-op replication efforts with the strongest track records—CHCA, WAGES, and Arizmendi—have been achieved by organizations that know the industry they are working in extremely well, have strong social entrepreneurs at the helm, and drive the development process for each new co-op for several years. Each of these initiatives has generated more full-time jobs than other co-op projects in their industries. Success factors from European worker co-ops, which inspired many U.S. initiatives, are embedded in many of these strategies and discussed explicitly in Section 5. Drawing on both U.S. and European lessons learned, six success factors rise to the top:

1. Ongoing Training and Cultivation of Cooperative Culture
2. Design for Business Success
3. Effective Long-Term Support
4. Patient Capital
5. Strong Management and Social Entrepreneurial Leadership
6. Good Governance

### Ongoing Training and Cultivation of Cooperative Culture

A 2011 study of co-op survival rates in British Columbia notes that member engagement, training and support, and planning were key factors in co-op survival, supporting the importance of the fifth Cooperative Principle, “Education, Training, and Information.”<sup>59</sup> In-depth, highly participatory training programs led by experienced trainers are, in fact, a distinguishing characteristic of the most successful U.S. co-op development initiatives. These programs have great curricula and training methods and play a critical role in fostering teamwork and building trust. Their long-term value, however, is greatly enhanced by the fact that they continue over time and are reinforced through day-to-day efforts to cultivate worker participation and build a healthy cooperative culture. In other words, these co-ops see training as a companion to other business and management processes and understand what has now been well-documented in the training field: that adult learners retain only 10 percent of what they learn in lectures and more than 60 percent of what they learn by doing.<sup>60</sup> At CHCA, for example, employees and supervisors are trained in PHI's Coaching Approach to Communication, learning techniques that they practice every day on the job. This coaching approach is the

*Time for member meetings and continuous education must be built into the cooperative's business operations calendar from day one, since these critical aspects will otherwise take a back seat to day-to-day operational concerns.*

foundation of supervision at CHCA and a key to the co-op's high engagement culture.

Practical aspects like scheduling also play a role in a training program's success. Time for member meetings and continuous education must be built into the cooperative's business operations calendar from day one, since these critical aspects will otherwise take a back seat to day-to-day operational concerns. Natural Home Cleaning, for example, the largest of the co-ops developed by WAGES, reserves every other Thursday morning for member meetings and trainings and never serves clients during that time. The largest Arizmendi co-op also closes to customers on Monday

afternoons to hold member meetings.

### **Design for Business Success**

Many co-op developers have never launched or run businesses. Although business experience is not a pre-requisite to success in co-op development, an entrepreneurial mindset, a keen business instinct, and the ability to design and lead an enterprise to business success are essential.

The leading worker co-op development initiatives are designed for business success in one or more of the following ways: by integrating business development and human development, maintaining a laser-like focus on clear priorities, developing shared business services, and focusing on a single industry to magnify their impact.

**Integrated Business Development and Human Development.** Excelling at and integrating both the business side and the human side of cooperative development is essential for success. A strong, viable business plan, a well-designed and ongoing training program, and a good governance system that fits with the logic of the business should be in place before a cooperative opens for business. Over time, successful co-op developers will maintain a strong dual focus on developing people's skills and contributions to the cooperative while continuously improving business processes and attaining business objectives. Where many see these things as distinct or even contradictory, effective co-op developers and leaders intuitively understand them to be deeply interconnected.

*Successful co-op developers will maintain a strong dual focus on developing people's skills and contributions to the cooperative while continuously improving business processes and attaining business objectives.*

**Laser-Like Focus On Clear Priorities.** As co-ops often have multiple business and social objectives, a laser-like focus on how they align or detract from one other, and which objective drives the others, is essential. WAGES, for example, established a clear hierarchy of objectives to guide strategic decisions. The creation of high-quality jobs was a primary objective; certain baseline commitments, such as a dignified pay floor and high-bar environmental standards, were a foundation for program design. But other aspects, like training curricula, co-op governance models, and decisions about policies and

business strategy, were based on what will best serve the primary objectives of job creation and business growth.

**Shared Business Services.** Arizmendi, WAGES, and Evergreen have all developed some level of shared business services, covering human resources, financial management, branding, and purchasing functions, to reduce administrative burdens for each member cooperative. All three initiatives also provide centralized marketing and training programs. These shared services provide expertise for the less time-sensitive but equally critical support functions and enable cooperatives to focus on the challenges of launching and growing their day-to-day operations.

**Industry Focus.** Focusing on a single industry or sector enables a co-op developer to benefit from economies of scale, minimize the need for industry-specific learning with each new cooperative, and avoid re-inventing the wheel. WAGES chose the green housecleaning industry because of its growing market, relatively high profit margin, low barriers to entry for low-income women, and health and environmental benefits. CHCA and Childspace chose industries (home health care and childcare) that employ a lot of people in low-quality jobs, and where improving job quality would create a competitive advantage in the marketplace.<sup>61</sup> Mondragón has chosen industries where existing co-ops could purchase a major portion of a new co-op's products or services.

It is not surprising that co-op development has found success in industry-specific initiatives, much as workforce development programs have had great impact through sectoral strategies. Similarly, the concentration of worker co-ops in certain industries is a common factor among the worker co-op movements that have scaled in European countries.

Since the late 2000s, several new co-op development projects have chosen a different path, developing multiple co-ops in diverse industries. Clearly an industry-specific strategy is not the only path to success, but with the diversified initiatives still in their early stages, the industry-specific approach stands out as a success factor to-date.

*Co-op development has found success in industry-specific initiatives, much as workforce development programs have had great impact through sectoral strategies.*

### ***Reducing Business Risk in Co-op Development***

With roughly half of all businesses failing within five years, worker co-ops take on an ambitious challenge: the inherent risk of entrepreneurship combined with the high cost of failure when many people's livelihoods and dreams are on the line. When co-op developers focus on a single industry, they remove some of the barriers to business success. Also, finding the right management talent for cooperatives is not easy, so co-op managers often acquire industry knowledge on the job. When co-op developers branch out into multiple industries, they must rely more heavily on industry advisory boards and managers with industry expertise.

## Effective Long-Term Support

***Co-op development services should be carried out in a way that builds capacity for sustainability and requires the co-op to absorb more of the costs of these services over time.***

Providing the right kind of support over a long enough period of time is a critical success factor in co-op development. This goes well beyond initial training, business planning, and links to sources of capital, advisors, and professional services. While a common formula in business incubation, this approach is not sufficient for co-op development. A full suite of co-op development services includes: training and development of ongoing workplace participation processes; technical assistance not only for business planning but also for operations and marketing; governance support; and management services. As businesses must ultimately sustain themselves, co-op development services should be carried out in a way that builds capacity for sustainability and requires the co-op to absorb more of the costs of these services over time.

***A developer does a disservice to co-op members if it is too idealistic or unrealistic about how and when the balance of responsibilities transitions from the developer to the members.***

The relationships between the developer, the co-op, and any other local partners must be carefully designed (usually by the developer) and understood and agreed to by all. Developers define their services, clarify requirements of the co-op, identify developmental milestones, and maintain control over some strategic components of the project during an agreed-upon period of time. This sets the co-op up for success and enables worker-owners to increase their responsibilities gradually. Rather than negotiating these issues when a project is under way, clear expectations are set in advance; the developer can always decide to relinquish control sooner, but it is difficult to go in the other direction.

A developer does a disservice to co-op members if it is too idealistic or unrealistic about how and when the balance of responsibilities transitions from the developer to the members. A timeframe of at least five years from feasibility analysis to conclusion of incubation services is generally recommended in co-op development projects that expect to create sustainable businesses and high quality jobs. Depending on the co-op's needs, targeted ongoing support should be considered even after the co-op is self-sustaining. In the cases of both CHCA/PHI and WAGES, the nonprofit has continued to provide post-incubation training services to cooperatives and to recruit outside board members with critical expertise.

## Patient Capital

Access to patient capital is a key success factor for individual cooperatives and co-op development initiatives, as demonstrated by Murray's 2011 British Columbia study and the experience of leading U.S. cooperatives. The Canadian study shows that member financing—the most patient kind—led to the greatest longevity: co-ops founded with member shares or loans from members were most likely to have survived, and those founded with grant money were second most likely.<sup>62</sup> Co-ops founded with loans from financial institutions or individuals who were not co-op members dissolved at higher-than-average rates.

Equal Exchange, a leading U.S. worker co-op, fueled its growth through an innovative form of patient capital: non-voting equity. Equal Exchange's Class B shareholders have no vote but do receive a modest annual dividend, which is not guaranteed but has been consistently provided for more than twenty years (only worker-owners can be Class A shareholders with voting rights). In 2012, Namasté Solar also adopted this approach with great success.

For successful nonprofit co-op developers and support organizations, patient capital has come in the form of hard-won grants, especially multiyear foundation grants. Even with the scale it has achieved, for example, CHCA still receives grant-funded organizational development and training assistance through its nonprofit partner, PHI. WAGES has also provided grant-funded training to both mature and incubating cooperatives. In addition, some small co-ops in low-income communities, such as Opportunity Threads, have used grants as a transitional subsidy for their general operations in the early years.

*In a Canadian study, co-ops founded with member financing—the most patient kind—were most likely to survive, and those founded with grant money were second most likely.*

### **Strong Management and Social Entrepreneurial Leadership**

Many of the successful U.S. co-op development efforts share common characteristics in their approach to management and in their leadership. These are: empowering executive managers within their democratic structure, finding managers with co-op experience, distributing leadership and having social entrepreneurs at the helm.

**Strong Management.** Drawing in part on Mondragón's example, Equal Exchange, CHCA, WAGES, and Evergreen all share the value of strong management, with "strong" meaning both skilled *and* invested with management-level authority. In WAGES' early years, it conceived of professional management as necessary during the startup phase but ideally transitional. It soon realized the downsides, however, of promoting members who were ill-prepared for management jobs: the individuals were often overwhelmed and subject to intense scrutiny from their former peers, and the members were frustrated because their shared goal of creating a thriving business was not being achieved. Empowering a permanent general manager position within the context of a participatory and democratic structure became a key ingredient of success.

*For WAGES, empowering a permanent general manager position within a participatory and democratic structure became a key ingredient of success.*

This is not to deny the need to balance strong management with authentic employee participation. As Ted Howard said of Evergreen's experience:

The key thing is to get an extraordinary and excellent businessperson who can make the tough decisions that it takes to get a company up and running. There needs to be enough affinity with the cooperative spirit and form, they need to be able to work and listen in a participatory mode; they need to be able to do all that, but at the end of the day, they need to be able to make the business work as a business.<sup>63</sup>

**Key leaders at CHCA, Childspace, Natural Home Cleaning, and Opportunity Threads all had experience as co-op developers before taking on managerial roles at their co-ops.**

**Cooperative Fit.** There has been a lively debate in the field about which quality is more important in co-op executives or general managers: industry expertise or a cultural fit with the cooperative model. These are real trade-offs that co-op developers and co-op members make in hiring situations. The question has no definitive answer, but it points to a critical success factor: worker co-ops need both skill sets strongly represented within a leadership team. If there is a single senior executive, he or she must possess or be able to acquire enough of both skill sets to lead effectively.

Key leaders at CHCA, Childspace, Natural Home Cleaning (WAGES' largest co-op), and Opportunity Threads all had direct experience as co-op developers before taking on managerial roles at their co-ops. Murray's study of co-op survival rates in British Columbia also found that cooperatives whose managers had co-op experience were most likely to survive: more than half of the co-ops that were still operating had managers with co-op experience as compared with none of the co-ops that failed.<sup>64</sup>

Although prior co-op experience is a success factor, it is not essential. Well-managed nonprofit organizations and businesses with strong cultures of employee participation also produce participative managers who may have a natural affinity for cooperative leadership and be able to learn the technical side of co-ops easily.

***"[In co-op development] you may have one strong entrepreneur, but the vision has to be held by more than one person."***

**Cindy Coker, SEED Winnipeg**

**Distributed Leadership.** In successful co-op development initiatives, formal leaders share leadership with one another and with informal leaders in the co-op. According to Cindy Coker, co-founder of Childspace and now executive director of SEED Winnipeg, "The leadership really needs to come from more than one person. You may have one strong entrepreneur, but the vision has to be held by more than one person."<sup>65</sup> Good co-op leaders also have deep skills in relationship building, engaging their co-workers at all levels of the organization as problem solvers, co-creators, and informal leaders.

**Social Entrepreneurs.** "Successful CED [Community Economic Development] enterprise creation requires a social entrepreneur," wrote Sherman Kreiner, a seasoned practitioner of employee ownership and CED, in his article about the cooperatives Childspace and CHCA. He continued:

I believe that professional management is a critical success factor . . . but it is only half of the leadership equation. Surpin, Powell, and Coker [founding leaders at Childspace and CHCA] were critical to the success of their businesses. They are often characterized as "unique." I more like to think of them as "special" in that they bring a vision and sense of entrepreneurship that few people have. . . . They are driven to make multiple bottom-line businesses successful; that is, businesses that combine financial with non-financial objectives.<sup>66</sup>

The importance of this kind of leadership cannot be underestimated. The challenge, however, is that such people are not easy to find.

### ***The Leadership Challenge for Worker Co-ops***

Identifying, developing, and supporting successful leaders is a key challenge for the co-op movement. Many people interviewed in this research share my view that leadership development—both for people in management and governance roles and for worker-owners generally—must be prioritized in order to grow the worker co-op sector in the United States.

### **Good Governance**

As with any nonprofit or for-profit corporation, robust governance processes and good board leadership are essential for growth- and impact-oriented cooperatives. Murray's study of survival rates among British Columbia co-ops, for example, points to board expertise as a key factor: the surviving co-ops had significantly more business, finance, and co-op experience among their board members than did the co-ops that closed. One way to gain this expertise is to have nonmembers fill a minority of seats on the board. Many co-ops, including Equal Exchange, CHCA and Natural Home Cleaning, have cited the presence of nonmembers on their boards of directors as a key element of their long-term success.

Selection and training of board members is also critical. Nonmember directors must be carefully chosen, whether by the developer (WAGES), the co-op's membership (Equal Exchange), or the board itself (CHCA), both for expertise and fit. Member directors must be cultivated and prepared for this key leadership role and chosen by members in a competitive election.

***Many co-ops cite the presence of nonmembers on their boards of directors as a key element in their long-term success.***



## 5. OPPORTUNITIES TO INCREASE IMPACT AND SCALE

The lessons learned from the U.S. context provide sound guidelines for co-op development initiatives and worker co-op startups. To imagine a substantially larger worker co-op sector, however, and to design a strategy to achieve that vision, it is important to learn from success in places where worker co-ops are thriving on a much larger scale. Therefore, this section reviews the key success factors for the largest worker co-op sectors in Europe as identified by Hazel Corcoran and David Wilson in a 2010 study published by the Canadian Worker Co-operative Federation.<sup>67</sup> Informed by this analysis, it then explores six priority strategies to propel the U.S. co-op sector to the next level of impact.

### LESSONS FROM EUROPE

Corcoran and Wilson's study on success factors for the robust worker cooperative sectors in Spain (Mondragón), Northern Italy, and France identified the following common elements that transcended regional and other differences:

1. Sufficient capital accessible to worker co-ops;
2. Technical assistance provided in the startup phase;
3. A mandatory indivisible reserve for worker co-ops eligible for government support;
4. Significant federation and consortia structures that support, guide, direct, and help educate the worker cooperatives;
5. Significant concentrations by industry;
6. A strong sense of solidarity and inter-cooperation; and
7. Scale—a size and strength sufficient to enable the worker co-op movements to be taken seriously by governments, the broader cooperative sector, and others.

*“[For U.S. co-ops,] Mondragón should be seen as an aspiration, not a blueprint.”*

**Steven Dawson, PHI**

Clearly, European cooperatives evolved in a substantially different cultural and historical context from the U.S. cooperative movement. For this reason, as Steven Dawson said, “Mondragón should be seen as an aspiration, not a blueprint.”<sup>68</sup> When combined with an understanding of our own cooperative sector, however, consideration of European

success factors can help us envision a path to greater scale in the United States. The charts in Appendix 2 present these European success factors along with ideas from interviewees about how they might be applied here. A synthesis of those ideas follows.

## POTENTIAL U.S. APPLICATIONS

Although some of the European success factors—such as industry concentrations and technical assistance for startups—have also been at play in the United States, others—such as infrastructure and scale—have not.

Much of the infrastructure listed above—access to capital, technical assistance, federation or consortia structures, and cooperation among cooperatives (factors 1, 2, 4 and 6)—could be built up systematically. Initiatives can be developed or expanded in strategic industries (factor 5), and effective practices such as the indivisible reserve (factor 3) could be made more widespread and eventually enacted as policy.

If co-ops and their allies joined together to undertake such initiatives, we could be on our way to achieving a scale that could fuel the sector’s continued growth (factor 7).

The following high-level strategies deserve consideration by the U.S. cooperative movement and others interested in creating a more equitable economy:

1. Develop more worker cooperatives and accelerate the growth of successful ones.
2. Create sector-wide programs to build capacity over time.
3. Strengthen regional and national co-op federations, associations, and support organizations.
4. Advocate co-op-friendly public policies and tax incentives.
5. Inspire and facilitate conversions of existing businesses.
6. Solve the capital problem.

### Develop More Worker Co-ops and Accelerate the Growth of Successful Ones

Only with growth in number and size will worker cooperatives move out of niche status to influence policy, investment, and our broader economy. In order for more worker co-ops to succeed, many more must be started, with the knowledge that some will fail. In its first decades, Mondragón’s Cooperative Bank (*La Caja Laboral*) provided not only essential financing but also co-op development expertise through its Entrepreneurial Division.<sup>69</sup> As David Smathers Moore said, “To have an institution in the U.S. that could do what the *Caja Laboral* did in the early years of Mondragón, that’s the holy grail.”<sup>70</sup> This would likely mean having more successful cooperative incubators and developers.

**Only with growth in number and size will worker cooperatives move out of niche status to influence policy, investment, and our broader economy.**

Business incubators and accelerators are an increasingly popular strategy for business development. Incubator and accelerator models represent an opportunity to bring well-established best practices and business expertise in a strategically designed package of services to the worker co-op sector on a broader scale. Business incubators and accelerators tend to work with a portfolio of organizations, either in a single industry or in diverse industries. Many focus on a specific geographic region, while some work without geographic boundaries. Often, accelerators bring classes of entrepreneurs together for a three- or six-month residential “boot camp” to jumpstart their businesses.

Many best practices in business incubation have been documented, and some additional capacities would need to be added to address the cooperative element. A large study funded the Economic Development Administration of the U.S. Department of Commerce confirmed the importance of staff and advisors having relevant business expertise, among other incubator best practices:

The findings provide empirical evidence that business incubation best practices are positively correlated to incubator success. Specifically, practices related to the composition of advisory boards, hiring qualified staffs that spend sufficient time with clients, and tracking incubator outcomes result in more successful incubation programs, clients, and graduates.<sup>71</sup>

If well designed, such programs will facilitate access to appropriate financing and ensure adequate business expertise at both the incubator and enterprise levels. The possibility of co-locating cooperative incubators and accelerators within existing incubators/accelerators to leverage their expertise and supplement it with co-op specific capacities should be considered.

## Create Sector-Wide Programs

Few regional or national programs exist to build capacity among worker cooperative developers and leaders. A compelling example of the potential impact of sector-wide programs comes from the array of programs that are currently fueling a wave of new consumer food cooperatives in the grocery industry and helping co-ops compete with Whole Foods. These include:

- Co-op developer training through a week-long CooperationWorks! program.
- Launch of the Food Co-op Initiative with a national goal of creating hundreds of new food co-ops in the ten year period from 2005–2015.
- Establishment of the CDS Consulting Co-op, comprising consultants who specialize in food co-ops and in specific technical assistance areas, including board leadership development, business development and expansion planning, store planning and design, human resources, and more.
- Development of an easy-to-use, fully detailed, and comprehensive set of online templates, manuals, and how-to guides for the common aspects of food co-op development.

*Thanks to sector-wide programs and the initiative of community members, some 200 new food co-ops are now in development around the United States.*

Thanks to these programs and the initiative of community members, some 200 new food cooperatives are currently in development around the United States.

Programs like these would be fairly straightforward to implement for worker cooperatives and could help propel the movement to the next level. The following ideas for specific capacity building, applied research, and educational programs arose during interviews for this paper.

### **Leadership and strategy development**

- Develop leadership and training programs for worker co-op developers, leaders, and managers, building on best practices for robust leadership development, such as long-term cohorts, applied learning projects, and mixing hard and soft skills training.
- Convene in-person or online meetings of co-op practitioners and others to develop a vision for the future of the co-op movement and for a cohesive strategy to build a larger-scale worker cooperative sector as part of the growing ecosystem of market-based strategies for social change.

### **Applied research and education**

- Fund and promote applied research to substantiate claims about the benefits of cooperatives, to disseminate effective practices, and to make the case for broader private and public investment in cooperative models.
- Develop academic institutional support for the field. For example, the Rutgers School of Management and Labor Relations has established a fellowship and professorship program in employee ownership and shared capitalism, named after its donors J. Robert and Mary Ann Beyster. A similar program at a U.S. business school devoted specifically to worker co-ops would be very valuable.<sup>72</sup>
- Educate and engage new constituencies, such as policymakers, foundations, local governments, and social enterprises, around the cooperative model to gain broader acceptance and a wider pool of resources and allies.
- Conduct a public relations campaign to educate the public and engage mainstream media in highlighting successful cooperatives.

### **Strengthen Co-op Federations, Associations, and Support Organizations**

Although there are numerous regional networks of worker cooperatives, a national federation, and a variety of development and support organizations around the country, these groups have limited resources and many are run by volunteers. The United States Federation of Worker Cooperatives, for example, is still a young organization. Since its founding in 2004, it has developed some valuable programs on a very small budget, including its document library, biannual national conference, and the Democracy At Work Network of peer advisors in co-op development. Since 2012, a pool of small

grants has enabled USFWC to expand its staff and begin planning for more robust programming. In 2013, launching its plans for strategic research and capacity building for the sector, it incorporated the Democracy at Work Institute, which recently received its first major funding. Although the Federation's policy-related work is in its early stages, a new partnership with the American Sustainable Business Council has helped it make inroads to the Small Business Administration and the Department of Labor.

## Advocate Co-op-Friendly Public Policies

A more supportive policy infrastructure will be important for the field of cooperative development and the worker co-op sector as they grow. A robust policy infrastructure would include sufficient public funding for high-quality technical assistance to enable worker co-ops to take advantage of existing policy supports, such as the 1042 rollover, which has been used successfully for ESOP conversions. Further analysis is also needed to identify which policies could have the greatest impact and a reasonable chance of being passed.

*A more supportive policy infrastructure will be important for the field of cooperative development and the worker co-op sector as they grow.*

The National Cooperative Business Association (NCBA) is the primary national entity doing policy advocacy related to co-ops.<sup>73</sup> Worker co-op proponents who have been active in policy issues in their states and nationally include the Twin Pines Cooperative Foundation, the ICA Group, Ownership Associates, Cutting Edge Capital, and the Sustainable Economies Law Center. The worker co-op movement, however, does not yet have an overarching political strategy or policy agenda.

The following co-op related policy initiatives have been proposed at the national level in recent years:

- The National Cooperative Development Act, introduced by Congressman Chaka Fattah (D-PA) in 2011, would establish a National Cooperative Development Center to provide capital, training, and other resources to foster cooperative development.
- In 2012, Senator Bernie Sanders (D-VT) introduced two bills supporting employee ownership: the WORK Act to create an Office of Employee Ownership and Participation within the U.S. Department of Labor, and a bill to establish a National Employee Ownership Bank.
- The Democracy Collaborative, working with the office of U.S. Senator Sherrod Brown (D-OH) has drafted legislation, not yet introduced, that would create matching funds for the development of anchor institution-linked co-op development strategies ("Community Wealth Building Act").

Advocacy for cooperatives may have the greatest momentum, however, at the state and municipal levels.

- In states such as California and Wisconsin, advocates are working to pass new legislation specific to worker co-ops, as has been done in seven other states starting

with Massachusetts in the 1980s. Most states do not have worker co-op legislation, so many worker co-ops are organized using consumer cooperative law, making the process more cumbersome.

- In Massachusetts, State Senator Paul Mark has introduced a bill to give employees first right to make a purchase offer when their employers put their companies up for sale.
- In several cities, co-op proponents have been working with city economic development departments and city councils to prioritize co-op development. In 2012, the City Council of New York City, for example, appropriated \$147,000 to fund a Worker Cooperative Development Initiative that is currently underway and just received its second year of funding.
- A specific area of interest for advocates is government and institutional procurement. Inspired by the work with anchor institutions, many are considering ways to establish purchasing preferences for goods and services from cooperatives.

Another way that public policy could contribute to cooperative development is by funding much needed research into questions such as these:

- What is the impact of existing co-ops in the United States?
- Which models of co-op development have been effective so far, and why?
- What has worked or not worked about cooperative-friendly policies that have already been tried in the United States (e.g., the National Cooperative Bank)?

Many of the people I interviewed were interested in exploring ways to create greater tax incentives for worker cooperatives. Some were also enthusiastic about aligning the hodgepodge of state laws for incorporating cooperatives into a single common statute across all states. The success of worker co-ops in Quebec, for example, is greatly facilitated by having a common legal statute that defines more aspects of business structure and governance up front, thereby limiting the number of unique decisions co-op founders must make to get started.

The goal of co-op-related policy advocacy, according to Margaret Lund, should be to “make it easier and more normal to develop businesses using a cooperative structure, to consciously maximize the advantages and minimize the disadvantages.”<sup>74</sup> Lund pointed out that the rapid growth of ESOPs that began in the 1970s was spurred by legislation championed by Senator Russell Long. Who knows what we could achieve for cooperatives if we united around a legislative agenda?

## Inspire and Facilitate Conversions of Existing Businesses

With baby boomers aging, our society is anticipating a massive wave of businesses changing hands or closing when their owners retire in the coming years. Many see this as an opportunity to convert such businesses to cooperatives or ESOPs. Hazel

Corcoran, executive director of the Canadian Worker Co-operative Federation, made the case:

There is currently a crisis on a couple of levels: the financial/economic crisis, as well as the business succession crisis. But with the succession crisis there is also a huge opportunity here to inject democracy and values into the economy so that it works for human beings, and not for capital. The current situation is very similar to the times of the 1930s and '40s, [when] so many of our current co-ops were born. As the same harsh economic circumstances are here today, we see the strong possibility of new growth.<sup>75</sup>

In the United States, more than 20 million small businesses employ half of the American work force, and surprisingly few business owners have a succession plan. According to Mark Kugar, senior vice president of business banking at M&I, “Fewer than half of those expecting to retire in five years and one-third of those expecting to retire in the next 10 years have actually named a successor.”<sup>76</sup>

Business succession has been a major factor in the growth of the worker co-op sector in France, and in ESOP conversions in this country, and U.S. organizations are starting to take notice. In 2014, the U.S. Federation of Worker Cooperatives and a local coalition in the San Francisco Bay Area will begin raising awareness about co-op conversions within the business community. For a conversion to be considered, “you need both seller and buyer [the existing employees] to be seriously interested in the co-op model, which is rare,”<sup>77</sup> according to Newell Lessell. It will become less rare, however, if the idea of cooperatives becomes more “normal” and professional service providers begin to include cooperatives in their toolkits. As Alex Moss of Praxis Consulting Group said, “Nobody’s selling it. What changed in the ESOP world is that [CPAs and lawyers] started to advise business owners to convert and showed them the advantages.”<sup>78</sup> The Ohio Employee Ownership Center has had some success “selling” ESOPs to retiring business owners in Ohio, and the state has one of the most vibrant networks of ESOP companies in the country. A robust campaign focused on co-op conversions has yet to be done, but the U.S. Federation of Worker Cooperatives is encouraged by a small but increasing number of specific conversion cases that could inspire others.

*Business succession has been a major factor in the growth of the worker co-op sector in France, and in ESOP conversions in this country, and U.S. organizations are starting to take notice.*

## Solve the Capital Problem

To achieve scale, much larger quantities of capital will need to be made available to co-op developers and to worker co-ops, along with technical assistance to prepare them to access and utilize funding effectively. A four-pronged approach is recommended:

1. **Expand the ecosystem of patient capital available to worker cooperatives.** All possible patient capital vehicles should be encouraged, including:

- Long-term institutional investments through impact investors and foundations (via Program-Related Investment and Mission-Related Investments)
- Individual patient investors through Direct Public Offerings and creative non-voting shareholder structures
- Grants and donations
- Low-interest or forgivable loans through co-op-focused loan funds, CDFIs, or other sources.

2. **Promote practices that enable co-ops to fund their own expansion.** Whether through voluntary or legally mandated efforts, when co-ops put their money behind the principle of “cooperation among cooperatives,” they can finance their sector’s growth. For example:

*In Europe, indivisible reserve policies have enabled co-ops to finance their own growth and fund the startup of new cooperatives.*

- In European countries where worker co-ops thrive, co-ops retain 15-50 percent of their profits in indivisible reserves, and the practice is required by law or incentivized through tax breaks. These policies have enabled co-ops to finance their own growth and fund the startup of new cooperatives. In Italy, individual cooperatives retain most of their profits in “indivisible reserves” to capitalize their business, rather than paying profits out to members.<sup>79</sup>

- Inspired by Mondragón’s “solidarity fund,” some co-op networks require members to give a percentage of their profits or revenues to a central fund for development of new and growing co-ops. For example, in 2013, the Valley Alliance of Worker Cooperatives, a network of eleven worker co-ops in the Pioneer Valley of Massachusetts, established the VAWC Inter-Cooperative Development Fund, to which each coop contributes 5 percent of its annual surplus.

3. **Expand the pool of foundation and government grants for co-op development.** Grant funding from private foundations and from the U.S. Department of Agriculture has been a key success factor for co-ops benefitting low-income communities in the United States.

*The pool of patient capital for co-op development could be expanded by galvanizing more foundations to invest in the co-op model.*

- A few grantmakers, such as the Surdna Foundation and the Catholic Campaign for Human Development, are specifically interested in cooperatives and have supported them through their grantmaking portfolios for economic development or asset building for low-income populations.<sup>80</sup> The pool of patient capital for co-op development could be expanded by leveraging this experience to galvanize a broader range of foundations to invest in the co-op model.

- Community foundations are one newly interested constituency. As Ted Howard from The Democracy Collaborative pointed out, “There’s growing interest in cooperatives among community foundations, and it’s obvious why: because co-ops aren’t going to leave the community.”<sup>81</sup>

- Several worker co-ops also make grants for co-op development. Rainbow Grocery, for example, recently re-focused its cash grants program to “foster the development of living wage, democratic workplaces in the Bay Area.”<sup>82</sup>

4. **Enhance and expand technical assistance for worker co-ops** to prepare them to access and appropriately utilize capital in all forms.

All six of these strategies will be needed to take the U.S. worker co-op movement to scale, and cooperators will need to join with each other and with allies across many disciplines and philosophical perspectives to make change happen at this level.



## CLOSING

Looking back twenty years to when I was a worker-owner at Equal Exchange, I remember what being a co-op member meant to me: pride in and passion for my work, learning business and leadership skills, taking part in strategic decision-making, and building something with others to drive social change. The year-end patronage dividends seeded my first adult savings account and gave me a safety net when I needed it. And my worker-owner experience sparked an enduring respect for the power of the cooperative model.

Among the co-op members I have known in various worker and farmer cooperatives connected to WAGES, Evergreen, and Equal Exchange, I see similar aspirations: a deep desire to share responsibility and ownership, to be treated with dignity and respect, to earn a decent living, to progress on the job and in their lives, and to strengthen their families and communities. For these workers, their cooperative has been the means to realize all of these goals.

Today, corporate profits are at an all-time high and employee wages are at their lowest ever as a percent of GDP.<sup>83</sup> For workers, cooperatives open the door to business ownership and shift the balance back toward stability and sustainability. For the world, they embody the hope that we can reverse the downward spiral in wealth distribution, concentration of ownership, and wage stagnation to build an economy that truly serves people and communities.

Given the current groundswell of interest in cooperatives, we have a window of opportunity in the United States to propel the co-op sector to the next level. Our national and regional networks of worker cooperatives are increasing in their strength and dynamism. In several regions, diverse stakeholders are coming together to explore a variety of pathways to worker ownership, from small and medium-scale cooperative startups to conversions of existing businesses, many of which will be changing hands in the years ahead.

The next step is to catalyze more investment—both human and financial—in co-ops and to build the infrastructure and capacity needed to create thriving worker-owned businesses in much greater numbers. If we do not act strategically to seize this opportunity, the model's credibility and growth potential may be diminished.

So we must ask ourselves: what needs to happen now that will enable us to say twenty years in the future that the transformative potential of the cooperative model has been substantially realized in the United States? That worker ownership is normal rather

***Cooperatives embody the hope that we can reverse the downward spiral in wealth distribution, concentration of ownership, and wage stagnation to build an economy that truly serves people and communities.***

than niche? That living and working conditions in many communities are measurably better thanks to the felt presence of cooperatives and worker-owned businesses?

*Attempts to seriously analyze the challenges facing the worker co-op sector and to work together toward larger scale change are still modest.*

We must start by recognizing where we are today. The worker co-op sector has many strengths, including staying power, deep commitment, and lots of new initiatives sprouting up around the country. Its growth has been hindered, however, by the barriers discussed in this paper and by the lack of a clear, coordinated strategy for growth. Many in the worker co-op movement promote the model as a way to democratize and transform the economy. But attempts to seriously analyze the challenges facing our sector and to work together toward larger scale change are still modest.

To address the gap between our current capacity and our aspirations, the cooperative movement and its allies need breakthroughs in three areas: ecosystem development and field-building strategy at the systems level, and capacity building for individual enterprises and co-op development initiatives.

**Ecosystem development.** Significant growth in the worker co-op sector will require systems change, specifically the development of a friendlier ecosystem for worker co-op development. Most important in the near term are to increase the patient capital available to worker cooperatives and co-op development initiatives (grants, loans, and equity) and to infuse these efforts with business expertise and proven co-op development strategies. Over the medium term, we need to identify and pursue a policy agenda based on the highest potential opportunities and integrate the worker co-op model into the existing economic development infrastructure that supports entrepreneurship, job creation, and business growth. And ultimately, we must include curricula about cooperatives in education at all levels, especially economics classes and business schools, so that co-ops become a normal option to consider when shaping economic policy and forming or selling businesses.

*Effective field building will require critical analysis, thriving communities of practice to build upon lessons learned, coordinated strategy development, and new alliances.*

**Field-building strategy.** Effective field building will require critical analysis, thriving communities of practice to build upon lessons learned, coordinated strategy development, and new alliances. Although the do-it-yourself ethos has many benefits for cooperatives (and is part of their essence), it can limit pursuit of outside expertise and cross-sectoral collaboration. To build the field of worker co-op development, movement leaders will need to forge new partnerships, including some that may be uncomfortable or unfamiliar. Foundations, unions, local anchor institutions, ESOPs, B Corporations, larger co-op sectors, social enterprise leaders, and economic development entities are all examples of emerging and potential allies that could bring new resources, expertise, and business opportunities.

**Capacity building.** At the enterprise level, worker co-op developers and worker cooperatives themselves must improve their ability to develop scalable businesses and attract more driven social entrepreneurs to the sector. Capacity building is essential to

achieve our aspirations of scale and avoid unnecessary failures. The human cost of failure can be particularly high for worker co-ops because of the great hopes and intensive “sweat equity” that workers invest. While failure of some enterprises is necessary and inevitable, worker co-op developers should be careful to design their initiatives for success and, when they fail, to “fail smart.” Most critical is having skilled business leaders, trainers, and managers, and sufficient resources to make long-term commitments to the co-ops they help create.

*Capacity building is essential to achieve our aspirations of scale and avoid unnecessary failures.*

My perspective on these success factors comes from a decade’s experience in co-op development. During eight years at WAGES, I interacted with several co-ops outside our network that floundered for lack of business acumen and failed to achieve their goals. The five co-ops in the WAGES network all did well, but the degree of business and job growth correlated very closely with the success factors. The oldest surviving cleaning co-op, for example, took ten years to reach \$1 million in annual sales, while the largest, founded five years later, hit the million dollar milestone in half that time. The similarities and differences between these two sister co-ops are highly instructive.

The profile of the worker-owners, their initial training, and the prospective client base of these co-ops positioned them for success in both cases. Worker-owners were passionately engaged in making their businesses succeed, and they did! Many of the women in both co-ops are now primary breadwinners for their families, working just one job instead of two, and nearly all have increased their skills, their time with family, and their general well-being.

The newer co-op, however, grew faster and more sustainably, creating jobs with co-ownership and health benefits for more women, while the older one experienced more conflict and plateaued its growth within a few years. Three key factors facilitated the newer co-op’s success: (1) an experienced manager who provided day-to-day leadership and optimized operational efficiency to increase workers’ earnings; (2) outside board members who brought leadership, business, and organizational development expertise; and (3) sustained guidance and training from WAGES for five years.

Of course, the story of these two cooperatives is richer and more complex than this brief narrative, but the impact of the success factors is clear. The thirty-five worker-owners of Natural Home Cleaning, the fast-growing co-op, have increased their family incomes (the metric most indicative of family economic status) by 70–80 percent on average, within one to two years of joining the cooperative. With better pay, robust profit sharing and health benefits, they have moved beyond the instability and indignities of low-wage work in the United States.

In ten or twenty years, a robust worker co-op sector could include hundreds more businesses like Natural Home Cleaning, Equal Exchange, Cooperative Home Care Associates, Namasté Solar, Evergreen Energy Solutions, Isthmus Engineering, and other large or fast-growing worker co-ops. Regions with clusters of worker co-ops today could

reach a tipping point at which co-ops, ESOPs, and other mission-driven businesses support each other's success, and the economic development infrastructure encourages cooperative and community ownership in its many forms. Strong local economies like these will be the building blocks of a healthier national economy, in which communities begin to regain their economic self-determination, and wealth is shared with all who work hard to create it.

# APPENDIX 1.

## ACKNOWLEDGMENTS AND INTERVIEWEES

I am deeply grateful to Ted Howard and The Democracy Collaborative for publishing and promoting this paper and to the We See Beauty Foundation for funding the initial research and first draft. I would also like to thank the editorial, design and promotion team of Steve Dubb, Kris Rusch, Kathleen Hayes, and John Duda.

The following individuals generously gave of their time to be interviewed. The affiliations listed here were current when interviews were conducted in 2012, though some have since changed.

- Brahm Ahmadi, People's Community Market
- Cindy Coker, SEED Winnipeg
- Steven Dawson, Paraprofessional Healthcare Institute
- Noemi Giszpenc, Cooperative Development Institute
- Molly Hemstreet, Opportunity Threads
- Melissa Hoover, U.S. Federation of Worker Cooperatives and Arizmendi Association (now with USFWC and Democracy At Work Institute)
- Ted Howard, The Democracy Collaborative and Evergreen Cooperatives Initiative
- Tim Huet, Arizmendi Association of Cooperatives
- Nick Iuviene, Bronx Cooperative Development Initiative/MIT CoLab
- Miriam Joffe-Block, MBA Candidate at Georgetown University's McDonough School of Business (now with One Pacific Coast Bank)
- Blake Jones, Namasté Solar
- Newell Lessell, ICA Group (now with Chroma Technology)
- Margaret Lund, Co-opera Co.
- Rosemary Mahoney, CoopMetrics (now with Mahoney Consulting)
- Ivette Meléndez and Teresa Pérez, Women's Action to Gain Economic Security
- Alex Moss, Praxis Consulting Group
- David Smathers Moore, TeamWorks Cooperative Network

I am grateful to each one of them for their time, insights and tireless work. Thanks also to David Thompson of the Twin Pines Cooperative Foundation, who always shares his knowledge freely.

Steven Dawson, Sandra Santana-Mora, and Alison Lingane have my deepest appreciation for their encouragement and insights during multiple rounds of review and strategy conversations about how to make this paper most useful to the field. Many others also took time to review drafts and helped me refine the paper's message and presentation. They are: Georganne Artz, Allison Basile, Jose García, Bob Giel, Noemi Giszpenc, Molly Hemstreet, Ted Howard, Tim Huet, Margaret Lund, Amy Morris, Bob Noble, Julie Noblitt, and Lisa Voss. In addition, I gained useful feedback on this analysis at the USFWC's Co-op Development Intensive in June 2012 and the CCT Forum in January 2013. Many thanks to all who participated!

## **APPENDIX 2.**

# **LEARNING FROM EUROPE: APPLYING SUCCESS FACTORS TO U.S. WORKER COOPERATIVES**

During interviews for this paper, I asked leaders in the worker co-op sector to share what they would like to see happen to make worker ownership and cooperatives a more powerful force in this country. The following charts compare their collective ideas to success factors for Mondragón (table 6) and to the common success factors for Mondragón and the worker co-op sectors in France and Italy as articulated by Hazel Corcoran and David Wilson (table 7).

**Table 6. Applying Mondragón’s Success Factors to U.S. Worker Co-ops**

| Mondragón success factors        | Possibilities in The United States   |
|----------------------------------|--|
| Technical/co-op school           | Formalized education for cooperators: universities or professional education programs tailor programs for co-ops; community-level education programs for worker co-op leaders; technical education to increase U.S. workforce for advanced manufacturing, which could lend itself to new cooperative startups. |
| Industry focus “complementarity” | Develop co-op clusters along the value chain of one industry or multiple co-ops in same industry in contiguous markets.  |
| Visionary leadership             | Embrace new leaders and visionaries in the sector and support existing ones; develop leadership programs and visioning processes.  |
| Co-op Bank, R&D                  | Create and strengthen co-op developers, incubators, and spin-offs and integrate incubation services, technical assistance, and financing; build capital ecosystem for worker co-ops; support research and development in co-op clusters or key industries.   |
| Solidarity fund                  | Create mechanism for co-ops to contribute to future co-op development (via secondary level co-ops, co-op developers, or national federation); support development of capital ecosystem for worker co-ops.  |
| Common structure                 | Apply same structure to co-ops in a cluster; Propose state or national legislation for common co-op statutes.  |
| Strong participatory management  | Share management group across co-ops; develop management training programs for co-op leaders; get co-op model included in business curricula to generate interest among people with business training in the co-op model.  |

Source: Mondragón success factors are the author’s distillation.

**Table 7. Applying European Success Factors to U.S. Worker Co-ops**

| <b>Common success factors for European worker co-ops</b> | <b>Possibilities in The United States</b>  |
|--|--|
| Sufficient capital                                       | Build patient capital ecosystem with emphasis on equity, grants, and long-term, low-cost loans. Increase technical assistance to make worker co-ops “investment ready.”  |
| Technical Assistance for startups                        | Build co-op incubators and development programs; enhance network of regional centers for cooperatives; build technical assistance capacity at U.S. Federation of Worker Cooperatives (USFWC).  |
| Mandatory “indivisible reserve”                          | Legislative action to create incentives for collective reserves in co-ops; promote voluntary practice of maintaining collective reserves in co-ops to build the policy case.   |
| Strong co-op federations, consortia                      | Build capacity, budget, and programs of U.S. Federation of Worker Cooperatives, including technical assistance and policy advocacy; strengthen involvement of worker co-ops in National Cooperative Business Association (NCBA); strengthen regional co-op networks.   |
| Industry concentrations                                  | Identify several industries that are ripe for co-op development; promote multi-co-op initiatives in these sectors.   |
| Solidarity and inter-cooperation                         | “Cooperation among cooperatives” (inter-cooperation) is popular among worker co-ops. Develop strategic approaches to make this more effective.   |
| Scale  | This is clearly a chicken or egg question: how do you get to scale without having critical mass? For the U.S. worker co-op movement, a recommended starting place is to strengthen the USFWC and NCBA, develop worker co-op sector-wide management education programs, and make business incubation and acceleration programs available to co-ops. |

Source: European success factors are drawn from H. Corcoran and D. Wilson, *The Worker Co-operative Movements in Italy, Mondragón, and France: Context, Success Factors, and Lessons*, Calgary, AB, Canada: Canadian Worker Co-operative Federation, May 2010.

## APPENDIX 3.

# RECOMMENDED READING AND RESOURCES

There are many great online portals today with a wealth of information on worker cooperatives. The following are the articles and books that were most influential in the writing of this paper, along with some recommended resources for learning about worker cooperatives.

### ARTICLES

Corcoran, Hazel, and David Wilson. *The Worker Co-operative Movements in Italy, Mondragón, and France: Context, Success Factors, and Lessons*. Canadian Worker Co-operative Federation, May 2010. Available at <http://www.canadianworker.coop/europe>.

Dawson, Steven, and Sherman Kreiner. *Cooperative Home Care Associates: History and Lessons*. Home Care Associates Training Institute, January 1993.

Erdal, David. "Employee Ownership is Good for Your Health," *Journal of Cooperative Thought and Practice*, vol. 1, no. 1, 2012, pages 3-6. Available at <http://www.oeoekent.org/download/cooperatives/journal-of-cooperative-thought-and-practice-vol1-no1.pdf>.

Hoyt, Ann. "And Then There Were Seven: Cooperative Principles Updated," *Cooperative Grocer*, January/February 1996. Available at <http://www.uwcc.wisc.edu/staff/hoyt/princart.html>.

Kreiner, Sherman. "Sectoral Strategies in CED: Critical Factors in the Success of CHCA and Childspace," *Making Waves*, vol. 14, no. 3, 2002. Available at <http://communityrenewal.ca/sectoral-strategies-ced>.

Murray, Carol. *Co-op Survival Rates in British Columbia*, BALTA (The BC-Alberta Social Economy Research Alliance), June 2011. Available at <http://bccca.coop/content/publications>.

## BOOKS

Glasser, Ruth, and Jeremy Brecher. *We Are the Roots*, Davis, CA: University of California Center for Cooperatives, 2002. Available at <http://ageconsearch.umn.edu/bitstream/143131/2/roots.pdf>.

Thompson, David J. *Weavers of Dreams: Founders of the Modern Cooperative Movement*, second edition, Davis, CA: Twin Pines Press, 2012.

Whyte, William Foote, and Kathleen King Whyte. *Making Mondragón: The Growth and Dynamics of the Worker Cooperative Complex*, Ithaca, NY: Cornell University, 1991.

## WEBSITES

American Worker Cooperative: <http://american.coop>

Community-Wealth.org, worker co-op section:  
<http://community-wealth.org/content/worker-cooperatives>

Curriculum Library on Employee Ownership (Aspen Institute):  
<http://www.caseplace.org/>

Democracy At Work Institute: <http://institute.usworker.coop/>

Grassroots Economic Organizing: <http://www.geo.coop/>



## NOTES

1. Stirling Smith, *Promoting Cooperatives: A Guide to ILO Recommendation 193*, Manchester, UK and Geneva, Switzerland: Cooperative College, the International Labor Organization and the International Cooperative Alliance,” page 19, available at [http://www.ilo.org/wcmsp5/groups/public/---ed\\_emp/---emp\\_ent/---coop/documents/instructionalmaterial/wcms\\_160221.pdf](http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---coop/documents/instructionalmaterial/wcms_160221.pdf), accessed February 8, 2014.
2. Anthony Murray, “Global 300 Cooperatives Generate \$1.6 Trillion Revenue,” *Co-operative News*, October 31, 2011, available at: <http://www.thenews.coop/article/global-300-co-operatives-generate-16-trillion-revenue/>, accessed February 4, 2014.
3. Steven Deller, Ann Hoyt, Brent Hueth, and Reka Sundaram-Stukel, *Research on the Economic Impacts of Cooperatives*, Madison, WI: University of Wisconsin Center for Cooperatives, March 2009, page 2. These 350 million co-op memberships generate \$79 billion in annual dividends and patronage refunds.
4. David Thompson, personal correspondence, June 10, 2013.
5. Deller et al., *Research*, page 11; and Georganne M. Artz and Younjun Kim, *Business Ownership by Workers: Are Worker Cooperatives a Viable Option?* Ames, Iowa: Iowa State University, Department of Economics, Working Paper No. 11020, November 2011, page 7.
6. Melissa Hoover, personal correspondence, October 22, 2013. These numbers are higher than the University of Wisconsin study suggests likely due to several factors: under-reporting in the Wisconsin study, new business startups since the Wisconsin study was conducted, and the inclusion in the USFWC estimate of organizations that are not worker cooperatives but practice workplace democracy, such as democratic ESOPs and nonprofit organizations and marketing co-ops with a committed practice of worker control.
7. Melissa Hoover, *Preliminary Census of Worker Cooperatives in the United States*, San Francisco, CA: Democracy At Work Institute, December 2012, page 2, available at: [http://institute.usworker.coop/sites/default/files/resources/Census\\_of\\_Worker\\_Cooperatives\\_2012.pdf](http://institute.usworker.coop/sites/default/files/resources/Census_of_Worker_Cooperatives_2012.pdf), accessed February 8, 2014. This preliminary study was done for internal purposes, and the Federation has already initiated a more rigorous and formal study of the worker co-op sector, which will be the first of its kind.
8. Hoover, *Preliminary Census*.
9. National Center for Employee Ownership [NCEO], *A Statistical Profile of Employee Ownership*, Oakland, CA: NCEO, January 2014, available at: <http://www.nceo.org/articles/statistical-profile-employee-ownership>, accessed February 9, 2014.
10. NCEO, *A Statistical Profile*. Many of these same tax advantages are available for cooperatives. ESOPs have tax advantages for employees and for the company. Co-ops can often refrain from paying corporate taxes on patronage dividends allocated to members, but members will be taxed on this income.
11. NCEO, *A Statistical Profile*.
12. Further information is available from CPAs, lawyers, and consultants who work with ESOPs and co-ops. Resources are also available online. The article “Selling to Your Employees Through a Worker Cooperative—and Sheltering Your Capital Gain” explains how the 1042 rollover mechanism commonly used for ESOP conversions can be applied to worker cooperatives. See Eric Britton & Mark Stewart, “Selling to Your Employees Through a Worker Cooperative—and Sheltering Your Capital Gain,” Kent, OH: Ohio Employee Ownership Center, no date, available at: <http://dept.kent.edu/oeoc/oeoclibrary/Coop1042Rollover.htm>, accessed February 15, 2014.
13. Tim Huet, interview by author, January 2012.
14. Women’s Action to Gain Economic Security [WAGES], “Economic Empowerment,” Oakland, CA: WAGES, no date, available at: <http://www.wagescooperatives.org/economic-empowerment>, accessed February 10, 2014. WAGES also reported a 158 percent increase in individual incomes among new co-op

- members at mature cooperatives in 2012. See WAGES, *2012 Year In Review*, 2013, available at: <http://wagescooperatives.org/sites/wagescooperatives.org/files/FINAL%20Year%20in%20Review.pdf>, accessed February 10, 2014.
15. David Smathers Moore, interview by author, February 2012.
  16. Molly Hemstreet, interview by author, March 2012.
  17. NCEO, "Largest Study Yet Shows ESOPs Improve Performance and Employee Benefits," Oakland, CA: NCEO, available at: <http://www.nceo.org/articles/esops-improve-performance-employee-benefits>, accessed February 9, 2014.
  18. Baxendale, "Why Employee Ownership?" London, UK: Baxendale, 2013, available at: <http://www.baxipartnership.co.uk/why-employee-ownership>, accessed February 9, 2014.
  19. Joseph Blasi and Douglas Kruse, *What Did We Learn About Employee Ownership in the Last Year That Is New?* Washington, DC, presentation to the ESOP Association, May 10, 2012, slide 17, available at: <http://esopassociationblog.files.wordpress.com/2012/07/blasi-guest-post-presentation-link.pdf>, accessed February 9, 2014.
  20. Ben Craig, and John Pencavel, "Participation and Productivity: A Comparison of Worker Cooperatives and Conventional Firms in the Plywood Industry," *Brookings papers: Microeconomics*, 1995, pages 121-160, cited in Artz and Kim, *Business Ownership by Workers*, page 17.
  21. Beth Kowitt, "The Rise of the Grocery Co-op," *Fortune*, September 19, 2010, available at: [http://money.cnn.com/2010/09/16/news/companies/grocery\\_coop\\_Brooklyn.fortune/index.htm](http://money.cnn.com/2010/09/16/news/companies/grocery_coop_Brooklyn.fortune/index.htm), accessed February 9, 2014.
  22. Peggy Powell, personal correspondence, November 12, 2013. An early case study of CHCA shows that CHCA's low turnover rates go back to its early years. From 1985 to 1992, annual turnover dropped from 27 percent to 11 percent. See Steven Dawson and Sherman Kreiner, *Cooperative Home Care Associates: History and Lessons*, New York, NY: Home Care Associates Training Institute, 1993.
  23. Andrew Robinson, and Hao Zhang, "Employee Share Ownership: Safeguarding Investments in Human Capital," *British Journal of Industrial Relations*, vol. 43, no. 3, pages 469-488, as cited in Artz and Kim, *Business Ownership by Workers*, page 19.
  24. Carol Murray, *Co-op Survival Rates in British Columbia*, Port Alberni, BC, Canada: BC-Alberta Social Economy Research Alliance, June 2011, page 2.
  25. Blake Jones, interview by author, April 2012.
  26. David Erdal, "Employee Ownership is Good for Your Health," *Journal of Cooperative Thought and Practice*, vol. 11, no. 1, 2012, available at: <http://www.oeockent.org/download/cooperatives/journal-of-cooperative-thought-and-practice-vol1-no1.pdf.pdf>, accessed February 10, 2014.
  27. Jessica Gordon Nembhard, "When Traditional Asset Building is Not Enough: A Comment on 'Enabling Families to Weather Emergencies and Develop,'" Washington, DC: The Urban Institute, July 16, 2008, available at: <http://www.urban.org/publications/411735.html>, accessed February 9, 2014. See also: Jessica Gordon Nembhard, *Collective Courage: A History of African American Cooperative Economic Thought and Practice*, University Park, PA: Pennsylvania State Press, 2014.
  28. Jessica Gordon Nembhard, "Non-Traditional Analyses of Cooperative Economic Impact," *Review of International Cooperation*, vol. 97, no. 1, 2004, pages 6-21, cited in Direct Care Alliance [DCA], *How to Start and Manage A Worker-Owned Home Care Cooperative*, New York, NY: DCA, 2011.
  29. Mondragón Cooperative Corporation [MCC], "Companies and Cooperatives," MCC, no date, available at: <http://www.mondragon-corporation.com/eng/our-businesses/our-companies/>, accessed April 4, 2014.
  30. For a recent study of the Empresas Recuperadas por sus Trabajadores (also known as ERTs, meaning worker-recuperated enterprises), see Marcelo Vieta, "The emergence of the empresas recuperadas por sus trabajadores: A political economic and sociological appraisal of two decades of self-management in Argentina," Euricse Working Paper n. 55|13, Trento, Italy: European Research Institute on Cooperative and Social Enterprises, May 20, 2013. Vieta finds in his study that some 9,500 workers now manage 200 ERTs in Argentina.

31. Select Machine is a nationally prominent example of a worker co-op created using the 1042 rollover provision of the Internal Revenue Code, a provision commonly used for ESOP conversions. For more information, see Britton and Stewart, "Selling to Your Employees Through a Worker Cooperative," and John Logue, *The 1042 Rollover Cooperative in Practice: A Case Study of How Select Machine Became a Co-op*, paper prepared for Northcountry Cooperative Development Fund/The Cooperative Foundation Forum, January 2006, available at: [http://dept.kent.edu/oeoc/oeoclibrary/1042\\_rollover\\_co-ops\\_MN\\_case\\_study.htm](http://dept.kent.edu/oeoc/oeoclibrary/1042_rollover_co-ops_MN_case_study.htm), accessed February 9, 2014.
32. For a more nuanced discussion of worker co-op development models that outlines how development services and support are delivered and funded, see Jessica Gordon Nembhard, Michael Johnson, Jim Johnson, Len Krimerman, and Ajowa Nzinga Ifateyo "Worker Cooperative Development Models and Approaches: A Brief Overview," *Grassroots Economic Organizing (GEO) Newsletter*, vol. 2, issue 8, available at: <http://geo.coop/node/627>, accessed February 9, 2014.
33. Major contracts with the Visiting Nurses Association in the early years, with their sister company Independence Care Systems (ICS), and most recently, with the City of New York, were the primary factors that enabled CHCA to create large numbers of new jobs. With the creation of ICS, CHCA essentially created its own market to help fuel the co-op's growth.
34. Steven Dawson, interview by author, March 2012.
35. The Center for Family Life (CFL) launched the Sí Se Puede cleaning co-op in 2006 and two other co-ops since then. Between Sí Se Puede, BeyondCare (a childcare co-op), and Golden Steps (an elder care co-op), there are now more than 100 members (source: Vanessa Bransburg, personal correspondence, January 25, 2014). These co-ops are not included in this paper's worker cooperative census because they are technically structured as marketing co-ops. Nonetheless, CFL is an important player in the co-op movement and also the host of the New York City Worker Cooperative Development Initiative.
36. Cincinnati Union Co-op Initiative [CUCI], "Co-op Initiatives," CUCI, no date, available at: <http://www.cincinnatiunioncoop.org/coop-initiatives/>, accessed March 31, 2014.
37. John McMicken, personal correspondence, January 3, 2014.
38. Ted Howard, personal correspondence, October 17, 2013.
39. Regarding the development process of Diversity Foods, see University of Winnipeg, "Diversity Food Services Facts," Winnipeg, MB, Canada: University of Winnipeg, no date, available at: <http://www.uwinnipeg.ca/index/news-diversity-fast-facts>, accessed February 10, 2014.
40. Tim Huet of Arizmendi has shared his unpublished list of "Alleged Barriers to Cooperative Operation/Development," which was helpful in my analysis. See also the "Avoiding Potential Pitfalls" section of Galen Rapp and Gerald Ely, *How to Start a Cooperative*, Washington, DC: US Department of Agriculture, September 1996, available at: [www.rurdev.usda.gov/rbs/pub/cir7/cir7rpt.htm#Avoiding%20Potential%20Pitfalls](http://www.rurdev.usda.gov/rbs/pub/cir7/cir7rpt.htm#Avoiding%20Potential%20Pitfalls), accessed February 10, 2014.
41. Steven Dawson and Sherman Kreiner make the case that organizational culture is ultimately more important than structure: "CHCA recognized that, compared to legal structure, organizational culture has a greater influence over how employees understand and act on the concept of 'owning the firm.' CHCA also recognized that employees would not embrace and internalize a participative, democratic culture unless they first experienced a positive work environment. At CHCA this positive work experience included such diverse yet essential elements as managers demonstrating respect for employees, managers demanding high standards of work quality, and the company demonstrating reasonably positive prospects for business success" (page 30). See Dawson and Kreiner, *Cooperative Home Care Associates: History and Lessons*. For a thorough exploration of the organizational culture at CHCA, see also Ruth Glasser and Jeremy Brecher, *We Are the Roots: The Organizational Culture of a Home Care Cooperative*, Davis, CA: University of California Center for Cooperatives, 2002.
42. The notions of corporate responsibility or citizenship and of "triple bottom line" businesses (companies that prioritize "people, planet, and profit") have been gaining popularity since the 1990s. Both the resurgence of interest in employee participation and worker ownership, and the emergence of new concepts such as the B Corp and Benefit Corporations, signal that business, government, and the general public are opening to the idea of community wealth and shared value in new ways. There is increasing crossover among these sectors, with leading co-ops (CHCA, HCA, and Namasté Solar) recently getting

certified as B Corps. In B Lab's 2013 "Best of" rankings, in fact, these co-ops were 3 of only 18 mid-sized B corps (17 percent) that ranked among the top 10 percent in the "Overall Impact" and "Worker Impact" categories for companies of their size. Their scores are among the very highest. See *B. Corp Best for the World: 2013 Overall Impact: Midsized Businesses*, Wayne, PA: B Lab, 2013, available at: <http://bestfortheworld.bcorporation.net/2013-best-for-the-world-overall-honorees.html>, accessed February 15, 2014.

43. The Shared Capitalism program at Rutgers University's School of Management and Labor Relations includes a professorship and numerous fellowships focusing on shared capitalism and employee ownership. In business schools, some progress has been made in recent years: Equal Exchange developed a Co-op Curriculum for Babson College, a leader in entrepreneurship, and a case study of Namasté Solar is now available through the Harvard Business Review. See Anne T. Lawrence and Anthony I. Mathews, *Case: Namasté Solar*, London, ON, Canada: Ivey Publishing, June 11, 2010.

44. A report on franchises owned by nonprofit organizations identified seven characteristics of a successful local partner, which apply also to nonprofits involved in co-op development. They are: demonstrated success in their current field of work; willingness to prioritize financial returns; ability to assemble an advisory board with business or industry expertise; access to sufficient funds; willingness to hire the right talent; experience with earned income ventures; and having an existing job-training program. See Community Wealth Ventures, *Nonprofit Owned-Franchises: A Strategic Business Approach*, Washington, DC: CWV, 2004. Pages 25-27 provide additional insight into the criteria and recommendations for nonprofits.

45. Newell Lessell, interview by author, April 2012.

46. Brahm Ahmadi, interview by author, January 2012.

47. People's Community Market conducted one of the country's first Direct Public Offerings, raising \$1.1 million in equity from California residents, primarily unaccredited investors. PCM originally intended to open as a worker co-op but now plans to convert to the cooperative structure once initial investors are paid off. They will institute Certified Employee Owner trainings and other elements of worker ownership in stages before the formal conversion. For up-to-date figures, see People's Community Market's organizational website at: <http://peoplescommunitymarket.com>, accessed March 31, 2014. For a more detailed earlier report on their fundraising, see; Market Wired, "People's Community Market Raises \$650,000 From Unaccredited Investors In Direct Public Offering," *Yahoo!Finance*, July 24, 2013, available at <http://finance.yahoo.com/news/peoples-community-market-raises-650-112700801.html>, accessed February 10, 2014.

48. Brahm Ahmadi, interview by author, January 2012.

49. Newell Lessell, interview by author, April 2012.

50. Blake Jones, interview by author, April 2012.

51. "Direct democracy" can be practiced in cooperatives' General Assemblies and, on a day-to-day basis, in businesses structured as collectives. Worker collectives are a kind of worker cooperative in which all members participate together in business decisions and/or responsibilities are divided horizontally in a non-hierarchical committee or team structure. The Arizmendi Bakeries and Rainbow Grocery are examples of relatively large and successful collectives. Worker co-ops that have been most successful at job creation and income enhancement in low-income communities, however, typically do not use a collective structure.

52. Jim Collins, *Good to Great and the Social Sectors: A Monograph to Accompany Good to Great*, New York, NY: Harper Collins, September 2011, page 32.

53. Tim Huet, interview by author, January 2012.

54. Greg Watson inspired this definition of entrepreneurship. See Greg Watson, "Definition of Entrepreneurship," *Entrepreneurship, Education, and Ethics 2002-2014*, available at: <http://www.gregwatson.com/entrepreneurship-definition>, accessed February 10, 2014.

55. Blake Jones, interview by author, April 2012.

56. William Foote Whyte, and Kathleen King Whyte, *Making Mondragón: The Growth and Dynamics of the Worker Cooperative Complex*, Ithaca, NY: Cornell University Press, 1991.

57. Rosemary Mahoney, interview by author, March 2012.

58. M. Lund, "Some Field Observations on the Applicability of Elinor Ostrom's Work to Contemporary Cooperative Practice," *Grassroots Economic Organizing (GEO) Newsletter*, vol. 2, issue 9, 2011, available at: <http://geo.coop/node/678>, accessed February 5, 2014.
59. Murray, *Co-op Survival Rates*, page 2.
60. Pierre Gurdjian, Thomas Halbeisen, and Kevin Lane, "Why Leadership-Development Programs Fail," *McKinsey Quarterly*, January 2014, available at [http://www.mckinsey.com/Insights/Leading\\_in\\_the\\_21st\\_century/Why\\_leadership-development\\_programs\\_fail?cid=other-eml-alt-mkq-mck-oth-1401](http://www.mckinsey.com/Insights/Leading_in_the_21st_century/Why_leadership-development_programs_fail?cid=other-eml-alt-mkq-mck-oth-1401), accessed February 12, 2014.
61. Sherman Kreiner has written that: "in most occupational labor markets employing low-income people . . . the general wisdom is that businesses can only compete on the backs of their workers. Most service sector businesses reflect this model. . . . [But] according to [the model used by CHCA and Childspace], in sectors where quality of service can serve as a basis for market differentiation and increased market share . . . it will be determined by job quality more than any other factor." This same argument can be made for other services and for high quality products as well. See Sherman Kreiner, "Sectoral Strategies in CED: Critical Factors in the Success of CHCA and Childspace," *Making Waves*, vol. 14, no. 3, 2002, page 2, available at: <http://communityrenewal.ca/sectoral-strategies-ced>, accessed February 9, 2014.
62. Murray, *Co-op Survival Rates*, page 20. A 2010 study on social enterprise also documented the importance of grant funding. The study found that foundation grants were the largest source of capital for social enterprises, and that only 9 percent of social enterprises had used equity or debt financing. Individual donors have become the second source of social enterprise financing in recent years. See Community Wealth Ventures, The Social Enterprise Alliance and The Center for the Advancement of Social Entrepreneurship, *Social Enterprise: A Portrait of the Field*, Washington, DC, and Durham, NC: Community Wealth Ventures, The Social Enterprise Alliance, and The Center for the Advancement of Social Entrepreneurship, April 2010, pages 9–10, available at: <http://community-wealth.org/content/social-enterprise-portrait-field>, accessed February 11, 2014.
63. Ted Howard, interview by author, July 2012.
64. Murray, *Co-op Survival Rates*, page 22.
65. Cindy Coker, interview by author, March 2013.
66. Kreiner, *Sectoral Strategies in CED*, page 7.
67. Hazel Corcoran and David Wilson, *The Worker Co-operative Movements in Italy, Mondragón, and France: Context, Success Factors, and Lessons*, Calgary, AB, Canada: Canadian Worker Co-operative Federation, May 2010.
68. Steven Dawson, interview by author, March 2012.
69. Mondragón University professor Fred Freundlich wrote: "The Caja Laboral . . . was created specifically to offer patient capital, to cater generally to the financial needs of both new cooperative enterprises and other cooperatives experiencing difficulties. The Caja fulfilled another key supporting role . . . through a unique internal organization called the 'Entrepreneurial Division.' This division's job was to provide extensive management and technical consulting to new and expanding ventures and to troubled firms in the network. The assistance of the Entrepreneurial Divisions was crucial to the long-term success of many enterprises in the group." See Fred Freundlich, "The Mondragón Cooperative Corporation (MCC): An Introduction," Ownership Associates, Inc. Paper presented at Shared Capitalism: Mapping the Research Agenda, A conference sponsored by the National Bureau of Economic Research, May 22–23, 1998, available at <http://ownershipassociates.com/mcc-intro.shtm>, accessed February 11, 2014.
70. David Smathers Moore, interview by author, February 2012.
71. David A. Lewis, Elsie Harper-Anderson, and Lawrence A. Molnar, *Incubating Success: Incubation Best Practices That Lead to Successful New Ventures*, Washington, DC: U.S. Department of Commerce, Economic Development Administration, 2011, page 9, available at: <http://www.edaincubator.org/materials.html>, accessed February 11, 2014.
72. In Canada, the business school at the University of Winnipeg recently established a Chair in Co-operative Enterprises, jointly funded by the provincial co-op movement and the Province of Manitoba. See University of Winnipeg, Manitoba's First "Chair in Co-operative Enterprises," *University of Winnipeg*

News, Winnipeg, MB: University of Winnipeg, November 20, 2012, available at: <https://www.uwinnipeg.ca/index/uw-news-action/story.918/title-manitoba-s-first-chair-in-co-operative-enterprises>, accessed February 15, 2014. There are also endowed chairs in cooperative enterprise at business schools in Quebec. In the United States, rural electric and agricultural cooperatives have contributed to endowed chair positions, such as the E. Fred Koller Endowed Chair in agribusiness management and information systems at the University of Minnesota.

73. The long form of NCBA is “NCBA-CLUSA International” (National Cooperative Business Association-Cooperative League of the USA International).

74. Margaret Lund, interview by author, March 2012.

75. Hazel Corcoran, Canadian Worker Co-operative Federation, closing comments to 2011 Business Succession and Employee Ownership Conference, Quebec City, QC, Canada: October 13, 2011, available at: <http://coopzone.coop/files/Closing%20comments.pdf>, accessed February 11, 2014.

76. Mark Kugar as quoted in A. McGrory-Dixon, “Small Business Owners Should Start Succession Planning Earlier,” *BenefitsPro*, January 24, 2012, available at: <http://www.benefitspro.com/2012/01/24/small-business-owners-should-start-succession-plan>, accessed February 11, 2014.

77. Newell Lessell, interview with author, April 2012.

78. Alex Moss, interview with author, July 2012.

79. More analysis of the indivisible reserve and solidarity fund practices can be found in Corcoran and Wilson, *The Worker Co-operative Movements in Italy, Mondragón, and France*, 2010.

80. Generally, such grants are possible because the co-op members fit within the “charitable class” that the foundation was set up to serve. A broader case could be made, however, that the societal benefits of cooperatives deserve charitable recognition (e.g., tax-deductible status) as well.

81. Ted Howard, interview with author, June 2013.

82. Jeff Ray, “Rainbow Grocery has a new Cooperative Grant Program!” San Francisco, CA: Rainbow Grocery, October 29, 2013, available at: <http://www.rainbow.coop/cooperative-grant-program-just-launched>, accessed February 11, 2014.

83. Robert Reich, “The Year of the Great Redistribution,” Nation of Change, January 5, 2014, available at <http://www.nationofchange.org/year-great-redistribution-1388931380>, accessed February 11, 2014.

## ABOUT THE AUTHOR

Hilary Abell is co-founder of Project Equity, a San Francisco Bay Area initiative with a mission to build economic resiliency in low-income communities by increasing worker ownership. She has worked in nonprofit organizations and cooperatives for more than twenty years, advancing co-op development, fair trade, and community empowerment. As executive director of Women's Action to Gain Economic Security (WAGES) from 2003 to 2011, Hilary led the organization through a period of major growth, resulting in a network of five worker-owned green cleaning businesses that sustain 100 high quality jobs in Bay Area communities. While launching Project Equity, Hilary is pursuing her MBA at Presidio Graduate School and continues her consulting practice. Her clients include leading cooperative developers, such as the Evergreen Cooperative Initiative, and local nonprofits.



## ABOUT THE DEMOCRACY COLLABORATIVE

Since 1999, The Democracy Collaborative has worked to build the deep knowledge, theoretical analysis, practical tools, network of relationships and innovative models representing a new paradigm of economic development in the United States. The hallmarks of this new approach include refocusing public and private resources to expand individual and family assets, broadening ownership over capital, restoring community banks and other local economic institutions, and returning wealth to communities as an essential strategy to end generational poverty, create quality jobs with family-supporting wages, stabilize communities and their environment, and address our nation's growing wealth inequality. This is **Community Wealth Building**.

The Democracy Collaborative (TDC) is the premiere innovator and field builder in the practice of Community Wealth Building, transcending underlying approaches and connecting these into an overall strategy. As the leading national voice on research, advisory and innovation for the movement of Community Wealth Building, the Collaborative promotes new models and efficient practices, informs public policy and establishes metrics for moving this work forward rapidly.

TDC sustains a wide range of projects involving research, training, policy development, and community-focused work designed to promote an asset-based paradigm and increase support for the field across-the-board. Our research, strategy and policy website—[www.Community-Wealth.org](http://www.Community-Wealth.org)—is updated regularly and is a comprehensive source for information about the community wealth building movement nationwide.

TDC is also recognized nationally as a primary architect of the Evergreen Cooperative Initiative in Cleveland, Ohio. The Evergreen Cooperative Initiative is a comprehensive community building and economic development strategy designed to transform Cleveland's Greater University Circle by breaking down barriers between the area's "anchor institutions" and its surrounding low-income neighborhoods (43,000 residents with a median household income below \$18,500; 40% of the population lives below the poverty line). The Democracy Collaborative designed the original wealth building and economic inclusion strategy that formed the basis for Evergreen; TDC's senior leadership continues to be heavily involved with the Initiative.

The goal of this anchor-based effort is to create jobs and build wealth among residents in order to stabilize and revitalize the neighborhoods of Greater University Circle and similar areas of Cleveland. The Initiative represents a "learning laboratory" and the essential building blocks of a new model of urban economic development, emphasizing as it does (1) leveraging existing place-based economic assets (primarily anchor institutions such as hospitals and universities) for community benefit (in particular, low- and moderate-income neighborhoods and their residents) and (2) green business development based upon cooperative and other broader ownership forms that reinforce core values of equity, asset building and anchoring capital in order to stabilize place.



*Worker Cooperatives: Pathways to Scale* outlines the promise of worker cooperatives to transform communities and identifies the hard work needed to make this vision a reality.

By analyzing barriers and success factors in worker co-op development, this report illustrates what it will take to develop worker cooperatives at a larger scale. In addition to ramping up effective co-op development, scaling requires stronger leadership and infrastructure within the field, building the ecosystem of patient capital, and creating a more supportive public policy framework.

Hilary Abell is a seasoned co-op development practitioner and a former worker-owner herself. This report highlights lessons from her interviews with leaders in worker ownership around the country and from her own experience working with WAGES, Equal Exchange, and the Evergreen Cooperatives. Other co-ops whose work informs this report include Cooperative Home Care Associates, the nation's largest worker cooperative with 2,300 employees; Namasté Solar, Colorado's largest solar panel installer; and Opportunity Threads, an innovative cut-and-sew cooperative in North Carolina.

Worker cooperatives stand at the cusp of a new stage of development. By identifying key challenges, along with action steps to address those challenges, *Worker Cooperatives: Pathways to Scale* advances the conversation about worker co-ops in the United States today and helps set the stage for the next phase of community wealth building.

Given the renewed interest in worker coops—particularly as a strategy for economic revival in low-income communities—Hilary Abell's *Worker Cooperatives: Pathways to Scale* provides an excellent analysis of the strengths and challenges of this form of shared ownership and self-determination. I recommend it as essential reading to anyone who wants to learn from the hard-won lessons of those who have worked decades to create a more democratic economy.

—Steven Dawson  
Strategic Advisor to Cooperative Home Care  
Associates and Paraprofessional Healthcare Institute

Now is the time to invest in scaled development of worker cooperatives. We see a window of opportunity to catalyze growth of both individual enterprises and the sector as a whole. *Worker Cooperatives: Pathways to Scale* provides critical information and analysis to help shape the strategy we need to take the worker cooperative movement to the next level.

—Melissa Hoover  
Executive Director  
U.S. Federation of Worker Cooperatives

