

Putting Democracy To Work

A Practical Guide for
Starting and Managing
Worker-Owned
Businesses

**Frank T. Adams and
Gary B. Hansen**

Revised 3rd Edition

We dedicate this book to our wives, Margaret T. Adams, Helen U. Hansen and Deborah Beckett, who supported us with patience and good humor as this was being written, then revised substantially for this 3rd edition. And we dedicate this revised edition to our grandchildren, Sarah Peeler Adams and Frank Pierce Reynolds, Steven D. Proctor, James H. Proctor, Douglas Proctor, Lisa Proctor, Erin Robson, Colwin Robson, and Soren Robson, in the hope their lives will be enriched by the people, values and practices we describe.

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FOREWARD

BY GAR ALPEROVITZ

A FOUNDING PRINCIPAL, DEMOCRACY COLLABORATE
UNIVERSITY OF MARYLAND

The release of the third edition of *Putting Democracy to Work: A Practical Guide for Starting and Managing Worker-Owned Businesses* comes at an important time in our nation's history. More than ever, Americans are coming to realize that our founding values of liberty, equality, and democracy are fundamentally at risk. Only a few years ago, in 2004, the introduction to my book *America Beyond Capitalism* notes that, "the idea that the American 'system' as a whole is in real trouble ... is difficult, indeed all but impossible, for most people to grasp." Now, this idea is all but commonplace. The question then becomes what to do about it. One place to start to address this question is in the workplace itself, and with this volume.

It has often been argued that democratic worker ownership is impossible. Most famously, writing in the early 20th century, Sidney and Beatrice Webb, two British Fabian Socialists and founders of the Labour Party founders, argued that worker ownership was impractical. Worker [producer] co-ops, the Webbs argued, suffered from a number of flaws: 1] they overvalued [overpriced] their products; 2] they extracted too much profit from their businesses; 3] they paid unsustainably high wages; 4] they failed to innovate and to upgrade technology; 5] they failed to properly empower management; 6] their departments fought among themselves; and, 7] they restricted membership to preserve per-worker profits and thus failed to grow. Their critique has been dark cloud over the formation of worker cooperatives for decades.

But the Webbs underestimated the human capacity for democratic innovation. In fact, worker ownership has spread to a large range of industries since their time, including food production businesses, taxi cab companies, and even manufacturing enterprises. In the United States, the overall cooperative movement has grown enormously. A 2009 University of Wisconsin survey identified more than 29,000 cooperatives and credit unions nationwide, which taken together have more than \$3 trillion in assets, have over 120 million members, generate \$650 billion in annual revenue, and with over 850,000 people on payrolls. At another level of experience is the increasingly well-known example of Mondragón: Working in an obscure corner of then-Fascist Spain, a Catholic priest, José María Arrizmendiarieta, founded what would become a new model of cooperative worker ownership. Today, the Mondragón Cooperative Corporation consists of 111 cooperatives [and 144 additional enterprises] that in 2009 had \$24 billion [US] in sales, and employing 85,000.

But its organizational innovations are as significant, if not more so, than its scale. Among these are a capital account system that retains profits and ensures reinvestment, a sophisticated management and growth model, a strong social mission, tied especially to the welfare of the Basque region and to a network strategy that not only links together the businesses but also

incorporates financial, insurance, and education arms, including support for a 6,000-student university. Mondragón, of course, is not without its own long list of challenges, but it is hard to overstate its importance in showing that meaningful worker ownership *can* coexist with significant operational scale. Many of the innovations it developed [such as internal capital accounts] have been widely adopted by U.S. worker cooperatives.

Worker ownership in the United States also has been home to innovations. Most notably, the employee stock ownership plan [ESOP] company has made the idea of worker ownership—although in many cases not participatory democratic worker ownership—nearly commonplace. The latest estimate from the National Center on Employee Ownership April 2011 indicates that 13.6 million Americans were employee-owners in ESOP companies as of the end of 2008. ESOP Plans can be organized a democratic operations, with each individual having one vote on issues that significantly or extensively change the nature of the firm. They are a distinct minority among ESOP businesses, however. The idea of worker ownership at least in some form, it would appear, is as American as apple pie.

Meanwhile, in the smaller, but more intensively democratic, worker cooperative sector, a different kind of innovation has occurred—the multi-stakeholder cooperative. The idea, pioneered by Cooperative Home Care Associates in the Bronx, with over 1,000 owners, is the largest worker cooperative in the United States. The Women’s Actions to Gain Economic Security [WAGES], a network of Latina women green housecleaning co-ops in the San Francisco Bay area, is to have an outside body [such as a nonprofit organization] “incubate” worker ownership. This model enables the worker co-op mechanism to be used as part of a community economic development strategy in low-income communities. The initial capital, rather than being supplied by the workers, comes from a philanthropic source. Workers then purchase their ownership shares through a payroll deduction. However, the resulting boards reflect a partnership between workers and outside members; the presence of outside members aims to impart a sense of “social mission” in the cooperatives beyond its worker-owners, and, in particular, to encourage expansion so as to include an ever growing circle of worker-owners in the network.

In Cleveland, the Evergreen Cooperatives have developed a strategy of linking cooperatives to the procurement of local hospitals and universities, or *anchor institutions*. This is done, in part, for practical reasons – i.e., these are the area’s largest employers and getting their business is important for ensuring the Evergreen Cooperatives’ financial success—but it is also done as a method to hopefully, over time, begin to partially shield the cooperatives from the vicissitudes of the market. Universities and hospitals are different from for-profit corporations in three crucial aspects: 1] they cannot easily move, 2] their funding is largely dependent on the public; and 3] their trustees are ultimately responsible not to shareholders, but rather to upholding the public good. In short, the hope is to create a local, democratic, and highly decentralized quasi- or partial planning system, in which publicly financed institutions - universities and hospitals - implement their commitment to the public good through channeling purchasing into local worker cooperatives. Simply to note: the Evergreen Cooperatives are developing in close cooperation with the Democracy Collaborative, an organization of which I am a founding principal.

These times are exciting for those who have supported, or worked to establish, worker ownership for many decades, but caution is also in order. Worker cooperatives are still marginal in comparison to the economy as a whole. Our nation's fundamental values of liberty, equality, and democracy remain very much at risk. Creating democratic workplaces will not, in isolation, change this. However, by working together and linking our efforts to a broader democratic vision, democratic workplaces can play a vital role, not only in the workplace, but in building an American society that truly provides liberty, equality, and justice for all. *Putting Democracy to Work* has been, and is, a major contribution to this common effort.

PREFACE TO THE THIRD EDITION

This book is distinctively different from the book we wrote for the first edition in 1985 when the number of worker cooperatives was few, and the distance between them was far. Today, there are a lot of worker cooperatives, often in clusters around the country, except in Appalachia, the Southeast and Southwest. Prospects for worker cooperatives are significantly improved. We believe this edition reflects these developments.

Take Hulogosi Communications, our first publisher, one of the nation's earliest worker-owned publishers. If there was another such publisher around, we could not find that business. Besides, Hulogosi' owners were veteran owners of the Hoedads, the very successful tree planters in the Pacific Northwest. During the day, they planted trees, the after cleaning up and eating supper, they debated the finer points of being worker owners. They saw themselves, not just tree planters, but as a post-graduate school teaching a new way to control capital and manage labor.

Their experience of hard work plus harder adherence to the lessons of Mondragon caused Hulogosi' owners to be unusually open to author's suggestions for that day and time. Their shortage of capital, however, caused them to use traditional layout techniques and reliable, but old printing equipment. They were one or two steps away from being craftspeople.

A photo taken for the cover was of their staff plus, a few friends. They seem to be marching triumphantly into the future, faces aglow. And they were all young, white men and women. As authors, we took heat because of that first impression photograph - from many persons, even after the second edition was in circulation with its far more representative photograph taken at Bookpeople. In self-defense we told the truth. We'd never seen the photo amidst a red, white and blue cover and text until author's copies arrived at our homes.

That misstep is quite unlikely today. Increasingly, larger and larger numbers of African-American and Latina/o owners are speakers at the U.S. Federation's business meetings, or are taking leadership roles in that organization. In regional meetings simultaneous translations abound, especially among audience members. Similarly, the several regional organizations look more and more like America. There was no federation in 1987.

Before our pioneering publishers disbanded, they kindly arranged for Berrett-Koehler Publishers in San Francisco to print and to market the second edition. That staff enthused about the book, made suggestions to "beef-up" some chapters, then put their many professional talents to work. To our astonishment, but not theirs, *Fortune Magazine's* Book-of-the-Month Club selected *Putting Democracy to Work* as their featured business text for June, 1995.

How ironic, we thought, when millions of our fellow citizens leave some of their civil rights at the front gate where they work. Imagine our effort to explain how Basque's successfully use democratic rights and responsibilities *at work* to gain financial success for themselves and for their cooperatives. Was *Fortune Magazine* trying to say something we should know? Yet, we were delighted. The State Department sent a courier to China with a bag full of our books, and as we were told, no secret messages. Can we expect royalties, we wondered? The answer was no, and the State Department never paid for the books.

We had to consider: Are we writing for bragging rights?

Fortunately, the answer to this question is a resounding no!! Berrett-Kohler reported several years ago that more than 5,000 copies of the second edition had been sold by them, and it is still available today through Amazon.com and other outlets. Thanks to the efforts of one of Gary's friends, and the generosity of USAID, half a dozen copies of the second edition were made available to the founders of what recently became the nation of Southern Sudan. Other copies have made their way to Russia, Poland and the Czech Republic. In the Czech Republic it was translated into the local language in order to obtain wider circulation.

Now there are other worker-owned publishing houses. And progressive ones, too, that consider manuscripts such as this. Authors are quaintly old-fashioned in the minds of this second generation of publishing owners if an electronic book is beyond a writer's imaginings. Gary and I know about electronic books, of course. but until lately they are published by the big publishers for the large audiences, the Amazon.com market, for example, not by obscure authors writing about what many citizens consider arcane, an irrelevant dream – if they even know or think about worker cooperatives at all.

Most of the first edition was written on IBM Selectrics. Gradually, as we wrote and exchanged packets of text - chapters, in whole or in part, the computer set in on us like the machines and varied programs were doing everywhere. Then e-mail. We soon came to regard the men and women who wrote fact, fiction, poem, or plays by hand, on one sheet of paper at a time were artisans. Spiral-bound notepapers with each page lined, we assumed, to keep the author's handwriting in check. Crafters.

Worker cooperatives were in flux, as a result of growth, mostly, but also from failure to test and to refine decision-making, or to elect boards with fresh ideas about governance, or how to divest themselves of an authoritarian manager. Cooperators, on their own, were connecting slowly with counterparts to talk about sharing ideas or outcomes together, or to federate as a way for one cooperative to learn from another, groups of always excited equals, peer learning.

We, too, in our roles as authors *and* consultants – Gary in Eastern Europe, Africa, or Asia, and Frank throughout the United States – learn with and from the cooperative owners and other organizations that we work for. We have more to learn from the cooperators than we can teach. Yet, peer learning makes for lively learning. We, like each owner, make mental notes comparing what practices were in place within another cooperative we work for. Or we think back to practices within a cooperative in the Mondragon Experiment.

Even with the growth of viable, useful federations, and of loan funds set up particularly for worker cooperatives, few cooperatives in the United States are closely connected for peer learning to routinely take place, save mostly in three parts of the country: in New England's Pioneer Valley, in Minnesota's Twin Cities, and in the Bay Area on the Pacific Coast. Is the United States too much space for peer learning to cohere and to be a significant educational force as it has in the Mondragon Cooperative Corporation, grown now to multinational status?

Americans continue learning through experience on their job and about the job of ownership. Websites and e-mail put a dent in the business of sending delegations of worker owners to share know-how with counterparts in France, in Italy, in Argentina, or certainly to Mondragon. Or to Rochdale, the hometown of the worker cooperative. But when worker owners do gather, they huddle with the like-minded intently sharing knowledge. Peers continue to learn together.

With computers came e-mail. Gary could be in Poland or Bulgaria, easy to reach by this new tool. An item on every e-mail or telephone call was generated by the computer. We prepared disks, yes, but always kept paper copies of the content stacked neatly in the still indispensable 8 x 11 flimsy card board box. It was as if those paggers were the rock of our salvation. A wisp of this author's soul still ships with the floppy disks, the 3.5 disks, the CDs, and now the thumb drives and cloud computing. E-mailing and clouds prompt even greater anxiety! So backup copies of computer files and pages in a box remain precious.

This third edition then is written not to enhance the authors' egos. Our shelf life is too short for ego gratification. We write once again to encourage existing and prospective cooperative owners to connect and to exchange ideas and experiences, using this book as but one of many similar sources. And we hope it will appear in several languages, including a Mexican-Spanish edition, perhaps with a cover photograph of young, well-fed men and women, and all Hispanics marching triumphantly into the future,

Frank T. Adams
Knoxville, Tennessee

Gary B. Hansen
Ogden, Utah

ABOUT THE AUTHORS

Frank T. Adams has consulted for workers throughout the United States since 1976, but mostly in the South, as they sought to become business owners either through starting a firm, converting a thriving business, or buying one out of bankruptcy. He has written numerous articles on worker cooperatives, democratic Employee Stock Ownership Plans, and democratic decision-making. He has a Master's Degree in the Arts of Teaching and a Ph.D. in the Philosophy of Education.

Gary B. Hansen retired as Professor of Economics from Utah State University in 1998, after 31 years as a member of the faculty. During and after this time he also served as a consultant to the U.S. Dept. of Labor, where he helped develop and implement America's "dislocated worker adjustment system," and also designed and helped implement community economic development programs for national and local governments in seven nations in Central and Eastern Europe after the fall of the Iron Curtain. He was a visiting scholar on worker cooperatives at the International Labor Office in Geneva, Switzerland. In that capacity, and subsequently as a consultant, he traveled throughout the world explaining and promoting ideas at the heart of this book. He received his Ph.D. from Cornell University and was a Fulbright Scholar at the London School of Economics.

They collaborated on the first edition of *Putting Democracy to Work* in 1987. That volume was published by Hologosi Communications, Inc., at the time the only publishing house owned and managed by its staff. The second edition was published by Berrett-Koehler Publishers, Inc. in 1992. Too, they have collaborated on handbooks, *ESOPs*, *Unions & the Rank and File*, and *ESOPs and You*. Both have visited with owners in Mondragon, Spain.

Thomas A. Beckett, author of Chapter 7, a detailed examination of legal options available for potential owners seeking to incorporate, has an MBA and law degree from the University of North Carolina, Chapel Hill. He and Adams are founders and owners of Ownership Appalachia, LLC, a business consulting cooperative, and are forming the Sequoyah Center for Cooperative Learning, LLC, that is to be owned and managed by students, faculty and administrators, the first user-owned college since the Work People's College in Duluth, MN, which opened in 1904 and closed in 1941.

23 July 2012

INTRODUCTION

WHAT IS WORKER OWNERSHIP?

WHAT IS WORKER OWNERSHIP?

This handbook is for women and men who want to own their labor. It is about creating good jobs, bringing democracy to the workplace, and promoting labor entrepreneurship. It is about worker-ownership.

The words “worker ownership” are easily understood, almost self-defining. In practice, however, the ownership of capital by labor and labor’s resulting management of capital can pose thorny problems, chiefly because we, as workers, regardless of where we work, have had virtually no experience in owning or managing our working lives, much less applying the principles of democracy in the workplace.

Specifically, this book is about worker-owned cooperatives, for-profit businesses owned by those who work to make them prosper, and controlled by those same persons on the democratic principle of one person, one vote. All workers, including managers, become members after a trial period and the payment of an investment fee, a sum differing from firm to firm.

Persons who have yet to meet these requirements cannot work at the cooperative. There are no outside, voting investors. Profits earned by the business (or losses) are allocated to owners according to hours worked, or gross pay, even both in some cooperatives. Wages vary according to skill and seniority, but usually the range of wages nurtures widespread well-being rather than paychecks making a few persons very well-off.

Worker-ownership is not a guise for government ownership of the means of production, nor does it describe workers who own a few shares of stock in a company where the bosses or the owners tell them what to do, although there are bosses chosen by the workforces rather than because they are buddies with a supervisor.

We offer this third edition of this well-tested handbook for five groups:

- Workers in firms whose owners, for whatever reason, are willing to sell their business to their workers, including selling because there are no heirs.

- To change from traditional ownership to worker-ownership, an appealing idea to many persons.
- The unemployed who dream of starting their own business.
- Individuals or organizations who would use the workplace to foster human and capital growth.
- Individuals or groups who want to take worker cooperatives to the next level of growth and development by creating a dynamic “worker-cooperative system” with multiple, linked enterprises in a community or region.

1 HISTORY OF THE IDEA

THE ROCHDALE PIONEERS

WORKER-OWNED COOPERATIVES IN THE UNITED STATES

WORKER-OWNED COOPERATIVES IN EUROPE

Who comes up with these ideas about workers owning and managing manufacturing or retail businesses or service cooperatives? No single person or singular set of persons.

The practice of workplace democracy and worker-ownership is found in rich variety throughout written human history. This history is alive with heroes and heretics, innovations and failings. In the West, worker-ownership in its present form evolved through broad, critical reaction to industrial capitalism. In human terms, the Industrial Revolution brought widespread disruption in the lives of working men and women as one new machine after another sped up the pace of work, or replaced human labor no matter what the consequence.

So we see, in 1760, artisans in Chatham and Woolwich, England, organizing to own and manage their own work. They do so in order to continue controlling their jobs, rather than merely carrying out orders. This echoes the earlier effort, in the late 1640s, of the Diggers, a rambunctious group of Protestant agrarians. Led by Gerrard Winstanley, the “True Levellers”, as they formally call themselves, respond to the enclosure – “privatization” in modern terms – of England’s common lands by tearing down the landlords’ fences and planting corn, potatoes, and cabbage.

This is an act both of necessity and ideology: enclosure forces tenant farmers off of lands that their families had tended for centuries. With no land to cultivate, they have no other way to feed themselves. Winstanley and his Diggers take a specific verse in the biblical Book of Acts as source and inspiration for their beliefs in economic equality.

The group of believers was one in mind and heart. No one said that any of his belongings was his own, but they all shared with one another everything they had.
Acts 4:32 (KJV).

The Diggers work hard and quickly, digging and planting on one Commons after another as landlords, courts, and hired gangs, in turn disrupt their relentless efforts at creating agrarian community. Upon each defeat Winstanley and his followers regroup, found another Commons, and dig and sow again. Their ideas for the creation of small egalitarian rural communities spread even if their crops do not. While the Diggers are ultimately crushed, numbers of nonconformist dissenters emerge to follow them.

Intellectuals are drawn to the ideas too, elsewhere in England but also in France. By the early 1800s, dozens of consumer cooperatives are operating, as are several worker-owned production factories and mills. In 1828, Dr. William King, a Brighton, England, medical doctor active in the cooperative movement and publisher of a newspaper, *The Cooperator*, writes:

[T]he working classes have the strongest possible motives *for opening shops for themselves*. The sum of money, which the working classes spend in the course of a year, is enormous. It amounts to many millions. The profit upon this sum would of itself be sufficient to establish many manufactories. It is not the want of POWER, but the want of KNOWLEDGE, which prevents their setting up to work and making a beginning. SHOPPING FOR THEMSELVES, and WORKING FOR THEMSELVES, will give them PROFITS, and therefore, CAPITAL, and therefore, INDEPENDENCE. [Emphasis in original.]

Dr. King publishes a monthly paper that gains wide readership. Food cooperatives buy copies for resale, displaying it prominently. Readers studiously discuss the doctor's how-to-do-it suggestions.

But it was the Welsh-born social reformer Robert Owen, a prosperous cotton mill owner in New Lanark, Scotland, who secures a preeminent place among activists promoting cooperatives. While never actually transferring control of his prospering mill to the women and men working there, he does establish a progressive village for the mill's employees. They rent well-built cottages. There is a school for their children. By comparison with other mills, Owens' employees appear well treated.

Owens' ambitions grow as more and more textile mill owners came to New Lanark to see for themselves this new way to secure peaceful routines in their mills. They marvel at one of Owens' inventions: to keep track of how fast mill hands worked the loom, a slender metal rod hangs over each machine; wooden blocks are painted so supervisors can turn them as they watch machine operators. Managers can see instantly if someone is slacking-off at a particular loom, and can take appropriate action.

Owen, apparently figures that if one profitable mill village yields fame *and* fortune, four mill villages could firmly establish his legacy while expanding his fortune. He sets up more mills in Scotland and England. Dramatically, in 1825, he buys the entire town of New Harmony, Indiana, for \$150,000.00, from a German religious group, the Harmonists (or Harmonites or Rappites), to found a new community on his utopian ideals.

Owen intends factory work and village life in New Harmony to be self-managed. This ideal of self-managing industrial work produces fierce debate among the many individual followers of Owen who come to New Harmony, but no sufficient profit yields from the looms. By 1829, Owen has shut down the mill. The two other mills fail as well. Owens' cooperative ideals alone are not sufficient glue to bind them together. The *want of knowledge*, as Dr. King argued, did the mills in.

Meanwhile, in France, Charles Fourier advocates the formation of *phalanxes*, or workers' associations, as a way to fight pauperism. Workers were to own phalanxes to provide all manner of products. Fourier's ideas spark more debate than capital investment. Then in 1840, Pierre-Joseph Proudhon, a printer by trade, publishes *La propriété, c'est le vol!* or *Property is Theft*, a call for revision of property rights, including an end to any inheritance of factories. His book's title alone sends two contrasting tremors throughout France: fears of an uprising being one, hopes for rebellion the other. The title – deliberately a slogan in Proudhon's mind – is seen even today throughout the world, mostly as graffiti.

French notions of property, Proudhon finds, came from a principle of Roman law: owners of property may do as they will with it, to use or to abuse, so long as in the end state-sanctioned titles prevail. Contrarily, the printer argues for property rights he considers valid: the right of liberty, equality, and security. Proudhon speculates on the idea of mutual aid, but opposes nationalization of factories, land, or the creation of peasant communes, ideas flourishing then among intellectuals in Russia.

Clubs bearing his name spring up without his direct encouragement (but to his delight). Ideas growing from his redefinition of property flow as a river from these clubs – there are to be cooperatives or workers' associations for artisans, and industrial associations for large-scale production firms. French glassmakers, for example, are among the first to try ownership through cooperation in several villages.

Nine years earlier, but with much less notice, Philippe Buchez, had outlined the basic principles for a producers' cooperative. He originates ideas that food and other cooperatives use throughout the world today. Democratic control is uppermost in Buchez's mind: "Associates would establish themselves as contractors; for this purpose they will elect from among themselves one or two representatives [managers in today's usage] who would have the signature of the firm."

Buchez originates a way to pay worker-members in proportion to the labor they contribute, applying a formula paralleling a consumer cooperative's patronage dividend. Each employee receives a wage at or near prevailing wages for the same or similar work elsewhere. Some persons earn according to their skills; others earn pay by the day.

To prevent a minority of workers-members from trying to sell the cooperative, Buchez proposed the principle of *disinterested transfer of the net assets*. Thus, where some workers might want to dissolve or demutualize the cooperative to cash out their ownership share, its by-laws would instead require the net assets be given to another worker cooperative, to philanthropy, or to the state, rather than distributed among the workers. We see this concept applied today as *indivisible reserves* in Mondragon and similar cooperatives.

Finally, to insure there is no rancorous division within the workforce between those who contribute labor only, or those who provide both labor and capital, Buchez proposes a fourth principle:

The association will not allow hiring and keeping on women or men for more than one year; at the end of this time admission of as many new workers as the increase of activity would necessitate, becomes compulsory.

Cooperatives test out Bouchez' ideas and find them valuable. At the time, workers and their allies everywhere in Europe and North America are actively seeking alternatives to the significant expansion of industrial capitalism. In some regions on both continents, more people are made redundant than during the enclosures of the 17th Century.

THE ROCHDALE PIONEERS

The ideas laid down by Owen, Proudhon, Bouchez, and others, came together in 1844 in Rochdale, England, where twenty-four willing but jobless weavers and their wives form the Rochdale Society of Equitable Pioneers. After discussing more than a year how to make their lives a bit better, and after attempting without success to enlist the help of Robert Owen, they decided to organize on their own. Applying William King's suggestions, the Pioneers agreed to contribute two pence weekly to a fund to buy enough supplies to open a consumer cooperative. Because they knew many previous cooperative stores had failed, they hammered out guidelines to help their store prosper. The Rochdale weavers set out these eight principles:

1. Democratic control; meaning every member has one vote.
2. A person may join, or quit, or rejoin the cooperative without prejudice.
3. The Society will pay limited interest on capital.
4. Any profits, or surplus, will be given out to members according to the value of their purchases over a year.
5. All sales are for cash.
6. The products sold are to be pure – meaning, in particular, no weevils in the meal - and with full measure.
7. Funds are to be set aside from any surplus for membership education.
8. Any person, regardless of religious faith or political belief, may belong, but the cooperative remains politically neutral.

Today, hundreds of consumer cooperatives emulate the Rochdale Pioneers using essentially the same model of consumer cooperation. These Rochdale Principles have evolved and spread worldwide, and in much the same form, to become the seven principles of cooperative identity of the International Co-operative Alliance.

But in the 1840s, the Pioneers' tiny one-room shop on Toad Lane flourished and their membership grew. They soon expanded into a second room, and then secured the second floor for a library and classroom. This is the first public library in Great Britain. Many fruitful debates, lectures and academic classes were held here.

Soon they are successfully managing a corn mill. In 1850, when a calico mill closes, throwing some of them out of work; they found the Rochdale Co-operative Manufacturing Society and buy the mill. Whether they work in the factory or not, Society shareholders may purchase shares. Any person may buy at least two shares but not more than twenty, all in accord

with the principle of voluntarism. Most buyers do work in the mill, constituting the majority of stockholders. The mill flourishes, but by 1859, the cooperative firm needs additional capital to expand.

When friends and workers are unable to make sufficient investment, the Society sells shares to persons whose only interest is getting a return on their money. Under their sway, the Society becomes a traditional joint stock company in 1862. These investors get what they seek, a greater return on their investments. Finally, embittered weavers sell the mill to those investors.

The failure of the mill as a worker-owned cooperative is a severe set back for supporters of the idea of workplace democracy. Leaders of the Fabian Socialists dismiss the weavers' ideas as "impossible organizations." Consumer cooperatives continue to grow, however, and so do cooperatives in agriculture and the crafts. But the idea of industrial democracy in the workplace languishes, at least in France and England.

WORKER-OWNED COOPERATIVES IN THE UNITED STATES

In the United States, the first tremors of the industrial revolution are felt in the late 1790s, pushing workers to look for alternatives in making their livelihood. In Philadelphia, 1806, journeymen cordwainers – makers of fancy shoes – start the first significant experiment in worker self-management. During a strike, they decide to become their own bosses, opening a warehouse to market shoes and boots made by their members. While their business prospers, it does not prompt imitation until the 1830s.

In that decade enthusiasm for worker-managed enterprises sweeps the nation's workingmen's associations – predecessors to today's unions – in response to the rapid advance of the factory system. The National Trades Union resolves, in October 1836, to raise a fund to help start cooperatives and to insure them against loss, "until a system of Cooperation is adapted by which the producers of wealth may also be its possessors, and consequently enjoy its benefits, that the great burden of the evils of which we so justly complain will ever be removed."

Cabinetmakers open their own furniture stores. Weavers open mills, while tailors, bookmakers and saddlers start businesses they manage themselves. The panic of 1837, and the ensuing economic downturn, closes many of these once promising experiments. However, efforts to organize worker-owned cooperatives continue, and in 1866 the first National Labor Congress adopts this resolution:

...in cooperation we recognize a sure and lasting remedy for the abuses of the present industrial system, and hail with delight the organization of cooperative stores and workshops in this country, and would urge their promotion in every section of the country and in every branch of business.

Within two years, encouraged by such backing, workers in nearly all the leading trades started self-managed businesses: bakers, foundrymen, nailers, coal miners, shipwrights, machinists and blacksmiths, hatters, printers, women in the needle trades, laundries, and others. The Molders' International Union, led by William Sylvis, organizes 11 cooperative stores and

factories between 1866 and 1868. The Knights of St. Crispin, a shoemaker's union, declares in 1869, "The present demand of the Crispin is steady employment and fair wages, but his future is self-employment."

Among farmers, the Patrons of Husbandry have great success starting up cooperatives, including a bank. William H. Earle, inspired by achievements in agriculture, starts the National Council of the Order of Sovereigns of Industry in 1914, declaring its purpose to be,

. . . to establish a better system of economical exchanges and to promote, on a basis of equality and liberty, mutual fellowship and cooperative action among the producers and consumers of wealth throughout the world.

Earle and his followers sold stock to anyone with interest in the few businesses they open. This was the Order's undoing: they ignore lessons of Rochdale. Outside stockholders have little other than financial interest at stake, especially in the consumer stores.

Perhaps the most significant: a drive to widen the practice of worker-ownership in the United States is undertaken by the Knights of Labor. Beginning in 1878, the union takes over the defunct Industrial Brotherhood, and calls for "the establishment of cooperative institutions, productive and distributive."

The Knights invite skilled and unskilled workers to join their organization and to seek better conditions for all. The formation of worker cooperatives becomes a central plank in their reformist platform, one that aims to cope with the evils of unbridled capitalism and the insecurities of wage labor. Terrence V. Powderly, president of the Knights, declares two years later, "There is no good reason why labor cannot, through cooperatives, own and operate mines, factories and railroads."

Powderly orders the unions "best minds" to give "their precious thought to this system." Within a year the union cooperative fund starts to help finance new businesses. Each month every male member of the Knights pays 10 cents into the kitty and every female member pays 5 cents. In return, they receive stock certificates assuring each holder an equal share of all profits from the investment. A Cooperative Board of Five is set up to oversee formation of businesses through local union chapters.

The Knights want "all kinds of productive enterprises" started along decentralized lines, free of the union's central control. They issue a model constitution to cooperatives; a set of by-laws adaptable to local situations. They publish pamphlets on "how to organize cooperative societies" and on the "dangers and pitfalls in cooperative ventures." National leaders urge local Knights to think carefully about these problems before starting a cooperative:

That in establishing our cooperative institutions we must not forget that men reared under the conditions of wage service cannot jump at once to the much higher level of cooperation. Therefore, it seems that in our institutions we must preserve that feature of the wage-system that calls upon the man to put forth his

best exertions, and to put them forth harmoniously, or be stricken from the payroll.

This cautionary warning gains importance in a long-standing, thoroughly capitalist society. Deliberately, or not, hundreds of public school buildings look more like factories than places of learning. In pulpits across the nation every Sunday ministers urge congregants to tithe, a source of no little guilt when a church member is periodically without a job. Or when police take to the factory gates to keep strikers in their place rather than asking the factory's owner what is causing the production and social disruption. It is always, "He called headquarters."

To the new worker-owner, these and other more subtle commonplaces of capitalism are a puzzlement on the work floor she or he manages *and* owns. For example, wages in most cooperatives are an advance on earnings the cooperative expects to make, rather than for the pay rate the investors in a business demand in order to maximize their own profits. Workers elect directors for the value they are may add rather than shareholders who own the largest number of shares.

In all, the Knights of Labor open 135 cooperatives of various sorts, more than half of them mines, along with cooperages, shoe and clothing factories, foundries, even soap works. Most are small; the average investment is \$10,000. The union's effort reaches its zenith by 1886.

The union finds itself under attack by the more conservative craft union federation, the American Federation of Labor. Worse, the Knights are given the scarlet letters: Reds. The Knights bear the taint of the unforgettably murderous Haymarket riot in Chicago. Membership begins a rapid decline: the Knights lose nearly 600,000 members between 1886 and 1890, and ceases to be a viable labor organization by the end of the century.

But many valuable lessons come from experiences of the Knights. By attempting to practice cooperation on one hand and collective bargaining on the other, they are, as one labor historian notes, driving teams of horses "in opposite directions." Adding to their difficulties are forces beyond their control. Merchants organize boycotts and refuse to furnish Knights of Labor factories with necessary raw materials. Banks refuse financing to cooperatives local Knights organize. Some cooperatives fail because members do not work harmoniously. Nationally, the economy is in a depression. Only the strongest cooperatives survive.

By the turn of the century, under the leadership of Samuel Gompers and the American Federation of Labor, one national labor union after another discards the principles of cooperation, opting for a policy of "business unionism," implicitly accepting the capitalist system of ownership. Union leaders learn to use collective bargaining as the means for workers to obtain a share in the fruits of their productive labor. A few attempts are made by more radical unions to develop alternative approaches to organizing, most notably the Industrial Workers of the World, or "Wobblies." But by the end of World War I, capitalism is the dominant, largely unchallenged form of business ownership in America.

The onset of the Great Depression in the late 1920s renews interest in worker cooperatives, although not by that name. The Roosevelt Administration, overcome by endless

calls from citizens or Congress to “do something about unemployment,” sees worker-owned cooperatives as a way to respond to those urgings. Government planners use the formation of cooperatives of all sorts as a strategic way to shore up the economy, especially in agriculture, but also to quiet the citizenry and Congress. However, that name is not used. The emergence of the Soviet Union in Europe gives the word “worker” a new political tint: Red.

Several hundred “self-help” production cooperatives, as the planners name democratic associations of unemployed or underemployed workers, are put into operation. They organize to obtain the necessities of life through their own production of goods. Okies, mostly Oklahomans who flee the Dust Bowl, organize in California. In Washington State the federal government organizes cooperatives of Okies to reassure orchardists there that someone will gather their apple crops for shipment throughout the nation. And in Utah, self-help cooperatives and the Civilian Conservation Corps members engage in a broad range of activities, including gardening, baking, canning, lumbering and soap making.

Lack of capital, unstable and heterogeneous labor, untrained management, along with ever-shifting government policies plague these cooperatives. Most have disappeared by the outbreak of World War II. But large numbers of previously unemployed workers earn paychecks while performing valuable service during the depths of the Depression, and learn about cooperatives.

WORKER-OWNED COOPERATIVES IN EUROPE

In Europe, the drive for worker control takes many forms, and continues relentlessly without regard for national borders. Even today as the European Union attempts to rationalize the production of goods or delivery of services, worker cooperatives thrive.

During the first days of the October 1917 revolution in Russia, workers set up “soviets” or worker councils, to produce goods or deliver services. But an emerging Bolshevik bureaucracy, fearful that the growing number of soviets would soon strip them of authority, crushes the Russian form of work organization.

Workers' Councils organize in Germany in 1918. In Spain before its Civil War, the International Workingmen's Association's promotion of self-management inspires peasants and industrial workers to run countless factories and farms. Franco leaves them in ruins. One of the last Spanish cooperatives was the Durutti Column of the Spanish Republican Army before being crushed by Franco with the backing of Germany and Italy.

Following World War II, the creation of Israel is accompanied by the Kibbutz movement. In Yugoslavia, national experiment in self management commences in that nation of ethnic enclaves. Farmers, industrial workers, and craftsmen in Italy's Emilia-Romagna region organize many small cooperatives to rebuild their livelihoods in the postwar economic devastation.

And in 1956, a tiny stove factory opens in a Spanish town that had been bombed into a shambles by war and neglected by the Franco regime. Mondragon. Prompted by José María Arizmendiarieta, an energetic Catholic priest, five recent graduates of a Basque technical

college open Talleres Ulgor, a worker cooperative making domestic appliances. To finance expansion, and again at the instance of Father José, they open a cooperative bank, Caja Laboral – the people’s savings bank. This modest seedbed of worker ownership grows into what is known today as the Mondragon Cooperative Corporation. An increasingly controversial network of over 87 worker-managed cooperatives with some 30,000 worker-owners, Mondragon also owns several dozen conventionally organized retail chains and manufacturing firms with nearly 84,000 workers (in 2010) the world over. As their cooperatives expand, the Basques sharpen critical thinking about worker-ownership throughout the world. They are, after all, the largest network of firms that workers own and manage.

For all their foresight, the Rochdale Pioneers did not give much consideration to the duality of a worker member. Unlike the situation in a consumer cooperative, in the industrial setting each worker is a member or beneficiary of the cooperative's benefits, and also is an owner. Where membership in a consumer cooperative confers a participant with a marginal role in its decision-making processes, a member of a worker cooperative participates in operational decisions and their consequences on a daily basis.

Mondragon’s worker-owners recognize that ownership carries with it responsibilities beyond mere participation. Accordingly, the Basques slowly but deliberately create the doctrine of “labor entrepreneurship” that, in addition to participation, includes risk-taking, enterprise building or growth, husbandry of productivity, and the search for new opportunities. Ana Gutierrez-Johnson, a Basque herself and one-time student of William Foote Whyte, undertook the first academic description of labor entrepreneurship. At that point in the 1980s, even FAGOR's owners had yet to fully flesh out the expectation added to each owner's job description. Yet Gutierrez-Johnson spotted and described an essential trend unfolding at the cooperative, within the Caja Laboral Popular, and in classes at AleCoop.

Labor-entrepreneurship assumes owners will take an active role as mutual risk-takers. Today, Mondragon cooperatives insist owners, individually or in groups, take part in the collective decision-making process, and in developing a labor-based vision of growth for their cooperative. This principle extends as well as the overarching Mondragon Cooperative Corporation. Labor-entrepreneurship transforms the traditional cooperative from a private, closed corporation into a broader social enterprise, one that accepts and puts into cooperative practice the very capitalist ideal of entrepreneurial vision, creation, and risk. And it is on this last point that some critics of worker cooperatives based on the Mondragon model focus. The expectation of labor entrepreneurship embeds the tendency of cooperatives businesses in capitalist economies to become ever more capitalistic, they argue.

Significantly, the Basques of Mondragon devise the individual or internal capital account, a mechanism for the accrual of personal wealth benefiting both individual owners and their cooperatives. Each year, the cooperative allocates a portion of its accrued increase in value (or decrease, as worker-entrepreneurs share in the risk) to each worker’s capital account. The combined value of internal capital accounts in each cooperative provides a major source of its own financing.

Also at the fiscal year's end, Basques credit each owner's account with between fifty to seventy percent of the cooperative's net income on the basis of the number of hours worked and the rate of pay received. Interest is paid on each individual owner's account in proportion to the balance in all accounts. What is not assigned to internal accounts, once interest is paid, is then distributed in cash among the workers as a dividend in proportion to the labor each contributes.

When owners retire, or leave a cooperative for any reason, membership ends. The balance in their individual capital account is paid out to them over a prescribed number of years, a time limit set by the elected board of directors. This is done to protect the cooperative from a large number of persons retiring at the same time, as might happen, for instance, on the anniversary of when a cooperative opens for business.

The cooperative's equity value not allocated to individual accounts is usually divided into two parts: a large part goes for the development of new cooperatives, and owners earn interest on that remaining amount just as if they still work. And part is used to educate worker-owners or for the expanding schools, undergraduate or graduate for AleCoop, a cooperative vocational institution that the schools' students own and manage along with their teachers. At AleCoop, the 8-hour school day is divided in half – four hours given over to academic studies, and four to making products used in other cooperatives or businesses not a part of the Mondragon Cooperative Corporation.

So to answer the question posed at the outset of this chapter, the idea for and fundamental principles of worker-owned cooperatives emerge in Western cultures over the years, the result of the determination of thousands of working women and men who struggle *to repossess their own labor and benefit from their entrepreneurship*.

2 THE FOUNDATIONS OF OUR FIRM

THE NATURE OF THE FIRM

THE ROCHDALE PIONEERS

A Time to Vote

ESSENTIALS OF SUCCESSFUL WORKER COOPERATIVE DEVELOPMENT

A Time to Vote

THE NATURE OF THE FIRM

In 1991, the Nobel Prize for Economics was given to Ronald Coase for an essay he wrote in 1937, “The Nature of the Firm.” He is the first economist to explain how and why the costs of property rights figure into the costs of doing business. The essay is surprisingly short. “It was if he had identified a new kind of elementary particle,” the Nobel citation reads.

Until Coase’s work receives a wider audience, business people and economists alike are paying scant attention to the many hidden costs, particularly costs resulting from property rights. Cooperatives, of course, bristle with complex property rights. Consequently, understanding the property rights of our firms is vital. Property rights may seem Byzantine chiefly because the economic system in the United States, and many other nations, are dominated by large corporations, or their legalistic kin, and most use laws framed to accommodate competitive capitalism rather than democratic cooperation.

While Coase makes no mention of workers’ cooperatives in his “Nature of the Firm” essay, it is an invaluable and instructive tool for both individual cooperative owners, where every worker-owner is a self-manager, and the cooperative’s selected managers.

Like conventional firms, worker-owned cooperatives measure the costs of various contracts with suppliers, customers, and its contract with each worker-owner. These tabulations make it possible for the worker-owners to know exactly how much it costs to manufacture their goods or provide their services and for their managers to lower costs if feasible. They must know if their cooperative is setting an appropriate market price for their goods or services. These data are also the basis for paying local, state and federal taxes, annually and throughout the year. Because taxes cost both time and money, they add to the basic costs.

The failure of worker-owners to calculate their costs accurately and constantly can be a significant reason of why cooperatives fail. Well-managed cooperatives must know if the value

of their investment of labor and money is growing, holding steady, or losing value. Try finding an owner who is not interested in these data.

In the recent past, too many worker-owned cooperatives were started with an inexperienced manager and too few worker-owners who were familiar with business costs. Today, however, a growing number of potential cooperative developers are better prepared to be worker-owners by the U.S. Federation of Worker Cooperative's peer education program, and, too, the Canadian Federation of Worker Cooperatives has a similar program.

However, Coase's essay does cite another economist, Maurice Dobb. In an especially relevant footnote Dobb refers indirectly to the origins of worker cooperatives when sweeping changes in sources of energy – water, coal and steam -- for industrial production happen, one after another, in England. The change in energy was a significant factor in the First Industrial Revolution: As the tools of production change, so does the organization of production often spawning unintended consequences.

For example, when the huge English estates organized enclosures, they needed far fewer servants to keep up the grounds, till crops, and protect against poachers. Serfs were shed by the hundreds, forced off the land without a clue about how to make a living without land or oxen, or where to look for work unless, by chance, some friend or kinsperson told them about work in a mill, or foundry. Some serfs lived like the rural legend of Robin Hood and his Merry Men.

Others, however, were not too merry. In 1649, Gerarrd Winstanley led a handful of men, often in tatters and desperate to feed their families, who became Levelers or True Diggers as they called themselves. These Levelers or True Diggers tried to plant corn or potatoes to feed their families on some of England's Commons. Winstanley and the True Diggers took over vacant or common lands in Buckinghamshire, Kent and Northamptonshire. At the outset, they cultivated the land and distributed crops without charge to their followers, stirring little or no reaction.

But within a year, nervous lords of the manors and clergymen ordered sheriffs to destroy the True Digger's crops and, if necessary, to beat, arrest and jail them and tear down their hovels. In 1650, Winstanley protested to the government to no avail. Soon the True Diggers had to abandon their dreams, trying instead to heal the whip-lash scars on their backs, or their bruised arms and necks from being locked in the stocks.

Nevertheless, the Levelers became bona fide rural legends. Winstanley compiled a voluminous written record describing the philosophy, accomplishments and rebellious actions taken by the True Diggers in books and fiery pamphlets such as *A Declaration from the Poor People of England*, and even a song, "The Diggers Song."

Little surprise that in 1999 a British activist group called *The Land is Ours* celebrated the Digger movement's 350th anniversary with a march ending in an effort to reoccupy Saint George's Hill, the site of the first Digger colony. As three and a half centuries earlier, the marchers were quickly disbanded by authorities.

Energy sources also turned the world of agricultural workers upside down in one nation after another, not just Great Britain. Never a large movement, yet their experiences influence

history, chiefly as heroic individualist actions that never congealed into large challenges to propertied classes but more or less guerrilla skirmishes. As Dobb writes:

With the passing of bonded labor, the factory, an establishment where work was organized under the whip of an overseer, lost its reason d'être until this was restored to it with the introduction of power machinery in 1846. It seems important to realize that the passage from the domestic system to the factory system is not a mere historical accident, but is conditioned by economic forces.

The Dobb study compares the Russian industrial development with the way industry evolved in England. He makes it abundantly clear how cottage industry relies chiefly on humans at first, then water, then coal, and eventually on electricity. In the late 1700s, the way industrialists in Great Britain adapted to the changing times gave that nation worldwide imperial powers that lasted through the early 1900s. The English factory – its industrial machinery and highly mechanized work organization – became the model for entrepreneurs worldwide.

Great Britain's younger workers were the first to feel the full impact of the dramatically changing working conditions. Except for Friar Tuck, all of Robin Hood's Merry Men were young, agile and wickedly good marksmen. The True Diggers had also been young, hungry and leathery to be able to survive the whippings and the stocks. Then and now, younger workers are quick to speak out against a speed-up or longer work hours with no additional pay. Those objecting get the boot. Older, more docile men and women, take their place, glad to have paid work.

Today, a new powerful technology – the computer with its myriad uses – is again fundamentally changing how production is organized and where. While the computer requires a lot of electricity, many computers and robots require few humans to keep production humming. Millions lose jobs as American steel mills or automobile factories close. The federal government bails out two of the Big Three automakers and their key suppliers. Every associated business dramatically downsizes, and buys robots to tend production lines.

Equally serious, many U.S. high tech manufacturers move their production lines off shore to low-wage countries such as China, India, Malaysia and Vietnam to compete in today's highly competitive world. Even Apple, the iconic American technology company, has its iPhones and iPads manufactured at Foxcon in China by Chinese workers who are paid low wages and work extra long hours. In the first quarter of 2012 Apple had a net income of \$11.6 billion and sold 35.1 million iPhones and 11.6 million iPads. Manufacturers of green products – such as solar panels -- have also found that even huge government subsidies cannot make them competitive with low-wage manufacturers in China and elsewhere.

Big banks and their cousins -- huge insurers, equity investors and hedge funds -- teeter towards bankruptcy until they too are bailed out by U.S. taxpayers. Publishing houses and bookstores small and large close thanks to the introduction of e-readers by Amazon, Nook and others. Suburbs sponsoring hi-tech industrial parks, usually subsidized through state economic development agencies, whisk thousands of jobs away from the cities they surround. Hi-tech

industrial parks are the new enclosures, excluding inner city dwellers who seldom have reliable ways to get to the distant jobs.

As huge employers shed workers and their pensions, they find different ways to ship goods. Truckers lose their jobs. Computer-driven logistical systems reroute traffic if powerful storms or volcanic ash endanger one route or another. Flight controllers cause an uproar when the public and Federal Aviation Administration learn they sometimes sleep on the job.

Real income has fallen 2.3 percent for working people as the Great Recession nears a half-decade's duration. Again, younger workers and those lacking education and skills appear to disproportionately bear the brunt of changes caused by the ways capital is accumulated and labor is used. Historically, younger workers become the first to object to the speed up, the stretch out, and long work hours on short pay. Access to the Internet gives people connections to hundreds of others of a like mind, especially if they use the many social networks.

The theoretical idea of flash mobs was fully realized when Occupy Wall Street occurred on September 17, 2011 on Wall Street itself until police moved hundreds of protestors to nearby Zuccotti Park in New York City. Without leaders, or specific demands, hundreds of protestors make decisions with “mike checks,” electronic devices, and fingers wiggling yes or no. Their actions infuriate the media, bloggers, and many social critics accustomed to telling activists how to organize “demos.” The absence of historic norms is fine for a generation communicating mostly in Twitter and Facebook. Protests take place throughout the United States and around the world.

In October, a month after Occupy Wall Street landed in the nation's lap, Baruch College researchers surveyed several hundred of the thousands Occupying Wall Street:

- 23.5 percent of the Wall Street Occupiers are under 25 years old;
- 44.5 percent were between 25 and 44,
- Thus 68 per cent of the Occupiers appeared to have jobs that either allowed them a lot of time off work, or worked at such low-paying jobs that losing them was of little financial consequence. A few may have been looking for jobs, but almost all doubt they will ever find jobs of the sort held by their parents and grandparents.

They are today's Levelers, accumulating arrest records and receiving blasts from pepper spray canisters. Sooner or later, police, sanitation workers, even campus security officers, evict Occupiers, usually removing their tents and sleeping bags and even discarding books donated to “libraries.” The scarcity of jobs in the United States prompts one social theorist to question if the word “job” has substantive meaning any longer!

THE ROCHDALE PIONEERS

In 1843, a century after the Levelers tried to grow corn and potatoes on the commons in England to feed their families, a second wave of working people were being displaced by new

power sources for production. Like the Levelers, thirty or more men and women who were weavers in Rochdale, England, near Leeds, were being made redundant by unseen but keenly felt economic forces. Most were Socialists, followers of Robert Owen, the Scottish advocate of cooperatives, or Chartists, women and men with strongly held Christian values.

Frequently, one or more of them campaigned publically for Parliamentary reforms allowing the organization of mutual aid societies. Women and men alike attended the rallies seeking equality of the sexes. However, because cooperatives were illegal enterprises in England at the time, they feared their actions might be noticed by the police if someone suspected them of trying to form a cooperative. They were very hesitant about having their names and number known.

They wondered together if their jobs as weavers can revive and how they would feed their families. Their discussions were based on their limited knowledge about cooperatives. When a copy or two of *The Cooperator*, a tiny newspaper published by Dr. William King, a Brighton physician, came their way, everyone read them.

The Cooperator was full of news about the doings and un-doings of English cooperatives. Rather than trying to influence Parliamentary lawmaking, Dr. King paid attention to the local cooperative efforts by workers plus liberal notions of how to use good housing and schools to make factory workers feel good while working for low wages, or for making new Utopian settlements overseas.

Dr. King, more than Robert Owen, influenced the Rochdale workers. In regular weekly discussions, they thought that maybe a cooperative grocery was a way to lower their food costs and feed their families. But they also discussed how they could start a library for themselves and others in town. Someone suggested that a library could also be a lecture hall where the varied ideals most of them lived by could gain wider notice.

Being pragmatic, they settled on starting a grocery. The idea of forming a grocery seemed a solid enough venture that the families started saving to accumulate a pound sterling as their investment in the grocery.

After weeks of planning, on December 21, 1844, the Rochdale Equitable Society opened its grocery on Toad Lane. The name Rochdale Equitable Society suggests fear that authorities might have been tempted to close the grocery if they thought it was a cooperative. The clerk, a young man, tended the grocery stocked with limited supplies of bread, worm-free oats, cheese without mold, candles, and small amounts of candies. The products sold for cash at market rates; a policy that did not upset retail competitors or wholesalers. The cash policy allowed them to turn a profit much sooner than they expected and increased their cash reserves. Within three months, their shelves included tea and tobacco. The grocery became widely known for providing high quality, unadulterated goods and a good variety. Few details about how the grocery was governed are known

Later, after months of carefully made business plans, including a budget, they opened a corn mill, owned and managed by members, and operated cooperatively with corn growers. It added a few more jobs along with equity investments for the Rochdale Equitable Society members. The mill opened without a big public splash, the same way the grocery had opened for business. It soon proved profitable for both the members and the corn growers.

Meanwhile, other founders used some of their savings, including some from their profits from the grocery, and started a lending library on the second floor above the grocery. The members of the Rochdale Equitable Society were enrolled as library members. Townspeople or book lovers from nearby villages flocked there, each paying a small membership fee to borrow books. At first, only a few books were on the shelves, but the shelves began filling up as borrowers contributed a book or two from their own collection. The town of Rochdale had nothing like a public library.

The library visitors added customers to the grocery. In today's marketing parlance, Toad Lane became a destination. Some members still without paid work envisioned the library as a lecture hall and began planning for lectures to be held in the library. Members of the Rochdale Equitable Society could attend at no charge, although donations were appreciated. Others paid a small fee to attend.

Through socialist friends, they learned that a recent Oxford graduate, R. H. Tawney, a young economist, might be interested in lecturing in Rochdale. He was! Tawney came prepared with a lecture on the German steel industry, and did so in the formal way he had been taught. When he finished, he was politely applauded. After thanking Tawney for coming, an audience member asked him if he would speak another time on the British woolen and calico mill industry, a topic of much greater interest to the still unemployed weavers.

Tawney, restless and without immediate prospects for a university lecturer position, reflected on his experience in Rochdale and came up with the idea to start a Workers' Education Association with others from Oxford. The W.E.A.'s first invitation to speak came from Rochdale. Tawney returned and talked about why some woolen and calico mills failed while others succeeded. As he gave the lecture, he asked for questions, an unheard of practice that got his audience's attention. Tawney was to become a world famous economist, author and leading figure in British labor history as well as a lifelong leader of W.E.A.

The weavers and their families were now running a successful grocery, a library and a lecture series – all confidence-building accomplishments. Tawney's remarks sent many of the Equitable Society members who were weavers back to their original idea of owning and managing the textile mill where they had once labored. They, the worker owners, wanted to put their skills back to work by making calico and collecting all the profits and benefits. Plus, members who had not found work in the grocery store or corn mill might be able to earn money again.

After careful planning, the calico mill reopened and every man and woman who worked in it owned a share of stock. The share gave the shareholder one vote on the mill's affairs. They elected others to manage groups or the business, but at the loom, each worker-owner was his own manager. They earned a reputation for good quality and demands for the mill's calico grew. So the worker-owners drew up expansion plans.

They took into account the lessons learned from organizing the grocery and corn mill and meticulously put to a budgetary test every hidden cost they could imagine. In doing so, they learned they lacked sufficient money to expand. Their efforts to find people with both cash and a willingness to put people before profits were unsuccessful. So in 1859, with good intentions and enthusiastic expectations, they turned to investors to finance the mill's growth. They sadly learned that when the investors put their money into the mill, their goal was to

make a profit, not calico. By 1862, the investors owned the mill and were the profit earners, and the Rochdale weavers again became just employees, doing what they were told to do.

Those entrepreneurs become known as the Rochdale Pioneers. Despite losing the textile mill, almost no scholar or skeptic disputes their grocery, library-lecture hall, and corn mill successes. They proved that by careful planning with modest funds they had launched a grocery and library-lecture series with modest capital needs. The capital for the corn mill came from a broad base of investors, growers and the mill hand owners. But the capital for the expanded industrial mill dependent on machines required much deeper pockets.

Although the Rochdale Pioneers made astonishing contributions to the idea of cooperatives, are credited with sparking the formation of England's public libraries, and benefitted from what they learned for the working classes, their Rochdale Principles did not become known until the early 1860s. The answers to two questions remain unclear:

- Exactly how many men and women were pioneers? Twenty-eight men are designated as such by the people deeply involved in cooperatives or professional male historians.
- What were their Rochdale Principles – the ingeniously framed values and operational policies that governed their successful grocery, library-lecture series, and corn mill?

Two events occurred in the early 20th century that provide important information about the development of worker-owned cooperatives and the Rochdale Principles. The first event was the failed attempt by Albert Thomas, the Director-General of the International Labor Organization (ILO), to promote the development of worker-owned cooperatives. The events surrounding this endeavor are emblematic of how worker-owned cooperatives would be viewed by advocates of cooperatives for nearly a century. The circumstances surrounding this event are set out in a paper written by Gary B. Hansen in 1997.

In 1924 an attempt was made to reverse the cooperative movement's disapproving position vis-a-vis worker-owned cooperatives, but it failed. At the 1924 Congress of the International Co-operative Alliance (ICA) held in Ghent, Belgium, Albert Thomas, the first Director-General of the ILO, made an impassioned speech asking the ICA to support a resolution establishing labor limited and workers' cooperatives "everywhere technical conditions allowed." Thomas further argued that it was advisable to "entrust co-operative groups of manual and intellectual workers with the free but responsible management of the branches of their enterprises that can be technically isolated from their commercial and financial management, and that in this way give even private enterprises the example of an organization of labor in agreement with the workers' deep yearnings."ⁱ After considerable debate, Thomas' resolution was brought to a vote and defeated soundly. (<http://www.garybhansen.com/pdfs/cooperatives/moderntragedy.pdf>)

The failure of the International Co-operative Alliance to support Albert Thomas's important resolution marginalized worker-owned cooperatives in the ICA for many years to come. The second consequence was that it meant that the ICA saw no need to include any principles that were unique, necessary or relevant to the special needs of worker-owned cooperatives.

In 1934, the International Co-operative Alliance, meeting in London expected a report from a special committee charged with determining the original language of the Principles of the Rochdale Equitable Society of Pioneers and matters related to producer cooperatives -- today's worker cooperatives. Other cooperatives, larger in number and greater in membership were wondering: Could manufacturing firms, or industrial cooperatives, even operate by the near sacred Rochdale Principles?

When no agreement was reached, the special committee went back to their deliberations. In 1935, the committee reported that to anyone's knowledge the Rochdale Pioneer's Principles were first written in 1860 in the Annual Almanac published by the Rochdale Pioneers. Their Principles were simple beyond belief -- unless the Pioneers were on guard against the British authorities who tried to stamp out cooperatives.

In 1964, D. Flanagan, librarian at the Co-operative Union Library in Manchester, England, framed the Rochdale Principles as he understood them to have been stated. His study and an equally close examination of the early records by the noted historian G.D.K. Cole and published in his *A Century of Cooperation* in 1944, agree that the first printed Principles of the Rochdale Pioneers, no more and no less, were:

1. Open Membership
2. Democratic Control [one person, one share, one vote].
3. Distribution of Surplus in Proportion to Transactions.
4. Limited Payment of Interest on Share Capital.
5. Political Neutrality Religiously and Politically.
6. Cash Payment on Transactions.
7. Promotion of Education.

The Rochdale Pioneers lived in turbulent times similar to those that have rocked the United States and Europe economically, socially and politically since 2007 when the Great Recession started in the United States with the bursting of the nation's real estate market bubble. Since then scores of corporations have filed for bankruptcy protection while former employees go to employment offices looking for work and filing for unemployment checks.

Technology renders some jobs as dated as Robin Hood's bow, so thousands of jobs vanish, some forever. National leaders in the United States and Europe stutter in public trying to explain economic remedies that benefit banks, bondholders and General Motors, instead of

depositors, main street businesses or jobless taxpayers. Citizens regularly hear TV script readers report about shovel-ready stimulus projects that stop before starting.

A TIME TO VOTE

Knowing that the road toward a successful worker-owned and managed cooperative is full of potholes, do you still want to risk your labor, time and money?

Do you think work place democracy is the best way to develop leadership and guard against business or personal failure?

Answer the following two questions:

Do you still want to start a worker cooperative?	<u>Yes</u>	<u>No</u>
	<input type="checkbox"/>	<input type="checkbox"/>
Do you think workplace democracy works in business?	<u>Yes</u>	<u>No</u>
	<input type="checkbox"/>	<input type="checkbox"/>

ESSENTIALS OF SUCCESSFUL WORKER COOPERATIVE DEVELOPMENT

The Mondragon Worker Cooperative Complex in Spain. Almost a century later, the accomplishments of the Rochdale Pioneers come to the attention of a young Basque studying to become a priest, Jose Maria Arizmendiarieta (22 April 1915 – 29 Nov 1976).

When civil war erupts in Spain, thousands of Basques take up arms against General Francisco Franco's soldiers. Arizmendiarieta, who lost an eye in a childhood accident, cannot enlist as a soldier so he becomes a war correspondent for several Basque newspapers. His reports infuriate Franco's supporters in the Basque Provinces. As the Republican cause against Franco collapses, Franco's forces capture and imprison Arizmendiarieta.

For Basques, the pause between the Civil War gives way to the even bloodier Second World War. In 1937. German and Italian warplanes bomb Guernica, the Basques' spiritual and political capital. Aerial bombing raids were the first time airplanes were used in warfare. Bombs destroy the picturesque seaside town, terrifying Guernica's surviving citizens. The bombings horrify the Basques and war-weary civilians throughout Spain along with citizens around the world as news accounts and photographs appear in newspapers or magazines and movie halls.

Where will the warplanes strike next? When? How and where can shelter be found? Spaniards become accustomed to seeing soldiers mass for assaults against one another on land., In Guernica, for the first time in the long history of European wars, waves of bomb-carrying warplanes kill unarmed civilians, destroying families and homes, their schools, their churches, even their hospital. Bridges and well-traveled roads are pounded to smithereens.

Guernica can offer no resistance or safe sheltering places. The town hardly has a standing police force let alone weapons to fire at warplanes. The Germans and Italians bomb with impunity. Pablo Picasso records the sickening destruction of bodies, horses, buildings with his gigantic, fearsome oil painting Guernica.

Arizmendiarieta leaves prison no doubt with sweat on his brow and a heavily beating heart until he is well beyond its walls. He barely misses being shot to death by a firing squad because, as history has it, of an administrative oversight. He goes home to be out of sight, to recover, and to rest. Later he enrolls at a Vitoria seminary to complete his studies to become a priest.

While at the seminary, he learns about Rochdale's pioneers and how they inspired economist Tawney to launch an educational program for the weavers and the need to restrict ownership to workers only. His teachers encourage him to explore cooperatives, as "the third way" in the minds of many Catholic scholars. For them, cooperatives are ideal for selling food or aiding farmers for cooperation in their minds have commercial and economic neutrality and maybe put people back to work. Many priests believe a cooperative is neither capitalist nor socialist and may therefore sooth believers of one or the other ideologies in Spain.

Arizmendiarieta, however, thinks of industrial cooperatives that workers own and manage for their own benefit while possibly benefitting their towns. The cooperative grocery, corn mill, and the textile mill put some Rochdale citizens back to work, at least for a while. Both the Rochdale successes and textile mill failure impress him deeply. As he finishes seminary studies, he is so interested in cooperatives that he wants to study industrial cooperatives in Belgium where one or two operate successfully.

But in 1941 the church assigns Father Arizmendiarieta, then 26, to small town Mondragon, some 30 miles through mountainous roads from his home town Barinaga. Mondragon's citizens, like hundreds of thousands of other Basques and Spaniards, are staggering with the war's aftermath. They are trying to rebuild their lives with few jobs and shortages of food, candles and lamp oil, electric power stoppages, and badly damaged roads to or from Mondragon, the town's name in Spanish, and Arrasate in Basque. The town's population was 7,000. (Today, the population in Mondragon is over 22,000.)

Men on crutches or with one or two limbs missing are common sights. Psychological injuries are less evident but no less profound with respect to people's ability to take part in the town's recovery. Families and residents try to heal the differences between them caused by their loyalties to either General Franco or to the Republicans. Unemployment remains high. Most of the traditional pre-war jobs are gone -- sheep-herding or laboring on dozens of tiny, hillside farms. Only a few people find work at Mondragon's only industry, the Unión Cerrajera. Unión Cerrajera is a privately owned lock manufacturer that takes care of its own employment needs by operating a vocational school to train employees. The training program only accepts 11 male children of managers or senior supervisors each academic year. There are no public schools. If a robust capitalist sees the need for education specifically for his firm why not a school for potential cooperative owners, priest Arizmendiarieta thinks to himself.

Slowly, Father Arizmendiarieta acquaints himself with the parishioners and with Mondragon. His predecessor in the pulpit was shot to death by Franco's supporters. He concludes that given the poverty, hunger and social tensions his task must be to promote social coexistence and to the idea of creating jobs based on internal and external solidarity.

In frequent homilies, the priest explains to the parishioners that internal solidarity means equal opportunity for women and men and education for all who wish to learn the skills necessary to produce goods or provide services. He believes that knowing how to run a business is essential. Father Arizmendiarieta also suggests that businesses pay their lowest paid employees' wages closer to the wages they pay their most valued employees; he feels the ratio should be 3:1.

He also talks to the parishioners about external solidarity. He explains that wages in a new business should be at or near the same as the wages paid people doing the same or similar jobs in other businesses in the same industry. There is no need for him to point to Union Cerrajera. His parishioners know the locksmith manufacturer's policies are just the opposite. His revolutionary ideas are attractive but few believe they can be realized. After all, what does a young priest know about business?

Until Father Arizmendiarieta arrives, most of his parishioners had never even thought about starting and or managing a business let alone using his ethical ideas for compensating employees. In fact, few in Mondragon think such ideas are even open for discussion. For two years, he teaches a few classes at Union Cerrajera's trade school.

In 1943, Father Arizmendiarieta founds Eskola Politkenikoa, or Alecoop, a vocational high school open to all boys or girls in or near Mondragon. It is a private school managed as a cooperative with pay and jobs stipulated in accord with the priest's teachings. Parents pay modest tuition as they are able. His church helps with some costs, but an idea gotten from his teaching experience at the locksmith trade school proves to be the major vehicle for financing Alecoop.

Every student works 4 hours daily making products businesses want to outsource and will pay to have made. They learn the technical and engineering skills needed to make the parts as they work. Their work is carefully explained and supervised. The profits from the students' output provide a source of pay for most operational costs, and faculty. Students are paid for their 4 hours at work. Then they spend 4 hours daily in classrooms learning math, writing, and debating. The business management skills, particularly cooperative skills such as mediation, dispersed decision making, establishing wages, hours and working conditions, are taught by enlisting the thoughts of all students.

The school grows quickly. In 1979, students build and sell a device to teach electronics, one of their own major products. That year, sales reach 365 million pesetas, or \$5 million U.S. dollars. Graduates find work in Mondragon, close by towns, and at many businesses throughout the Basque Provinces, including Bilbao, the largest, predominately Basque city, and even further

south to Madrid. Wherever they land, they take their ideas of solidarity, equality among the sexes and wages, and laying aside social tensions along. Employers appreciate their work ethic.

Father Arizmendiarieta's life's work is underway. People now call him by the honorific Don Jose Marie. However, some church members ask the bishop to replace him, saying "He speaks in a narrow monotone with intricate and repetitive phraseology difficult to understand. He hardly ever reads with grace."

9 He encourages townspeople to form a cooperative to build homes and by 1982 nearly 1,000 had been built and sold. A community health center is built with offices for doctors, along with trainers offering a wide range of physical therapy treatments and equipment. It was donated to the Basque's semi-automatons regional government.

Nearly a decade passes when four of Alecoop's first graduates visit the priest with an idea for a business they want to start -- countertop two-burner paraffin stoves. They have already given a lot of time and thought to the undertaking before making the appointment to see him. Since leaving Alecoop, each has earned an engineering degree. Ironically, they are employed as engineers at the lock factory.

Will Don Jose Marie work with them start a factory of the sort he's spoken of frequently in classes at Alecoop? Soon after their visit, the four become five, Don Jose Marie agrees to spend time working with them. As they fill him in on what they know and what they have done to date, the priest suggests they consider setting down on paper everything more they need to know. They wonder if there is a market for two-burner paraffin stoves, and if so, how large is that market? Will fire codes keep families from using two-burner paraffin stoves? Exactly how do they secure the license to manufacture countertop two-burner stoves? How do they pay for the license -- all at once or by paying so much for each one they make even before it is sold? Another option?

Although his former pupils are not thinking about the workers owning and managing their own manufacturing business, Don Jose Marie is, even though Spanish cooperative law prohibits industrial cooperatives. They lay out an assembly line on paper from the first input to the last output so they know what equipment and tools they'll need, down to wrenches and brooms. They find suppliers along with ways to get parts to Mondragon. Their interviews with Don Jose Marie soon focus on polishing a business plan, on naming the business, and on how a savings bank, or caja, could lend them start-up money, or expansion money in the future? So they start reading Spanish laws controlling cajas, which are prohibited from making business loans.

As they answer one set of questions, another set begs for answers, testing each man's patience, nearing the end of their business planning, the leave the priest determined to come up with a name and how to approach the Caja Laboral Popular, the Mondragon working people's bank that makes only small loans to individuals. They want to start the business.

Choosing the name is easy, ULGOR -- the first letters in the five men's family names, Usatorre, Larrañaga, Gorroñoitia, Ormaechea and Ortubay. Raising the necessary money and

hiring a lawyer will not be easy. Financing the start-up becomes their single most difficult challenge. The bleak memory of the Rochdale Pioneers' mill failure fills Don Jose Marie's thoughts. The priest warns them that their start-up must not be undercapitalized. While thrifty, like the women and men in Rochdale, the engineers lack sufficient savings to start a paraffin stove factory.

Looking ahead, undaunted, the engineers and the priest start drafting a financial plan to complement their well-developed business plan. They figure that raising money for a factory is easier than raising money to pay a lawyer to secure a Spanish banking license for a credit union - one creates jobs, the other creates a lot of paper. If, as they expect, the paraffin cooker sells profitably, potential lenders may want to invest in the credit union.

First, the engineers agree on what each can invest. Up to this point, nearly all of their planning has been kept among themselves and the priest. They cannot afford to lose their jobs and fear being fired by the owner of the locksmith factory. Envisioning prosperity, they turn privately to family, friends, possible employees, and Don Jose Marie's parishioners to gain a sense of how much financial support might be available for start-up capital and money to pay a lawyer. They identify potential employees, explaining why they are asking them to invest. Some say no; others agree but expect interest on their money as well as a job for a son, relative or themselves. They want any agreement in writing. Some funds are raised through the church.

Second, they look for a Spanish lawyer to secure the necessary license for their working people's cooperative credit union. In 1959, the Caja Laboral Sociedad Cooperative de Credito opens legally able to accept citizen's savings, to cash or to issue checks, as well as make business loans to individuals or to businesses. The Caja Laboral Popular becomes central to the continued growth of Mondragon cooperatives, and, eventually, the MCC.

Three years later, they have enough money in hand to start their factory, but on a much smaller scale than they had dreamed. In 1956, the two-burner paraffin stove factory opens in a small workshop. Determined to prosper, twenty-three men and women set about learning how to most efficiently construct stoves and work together.

Two years after opening, ULGOR is a growing, financially successful business, registered in one legal form, but operating ambiguously in another. The owners decide to avoid the risk of being closed by Spanish authorities and vote to adapt to the Spanish General Law of Cooperatives. At the same time, ULGOR changes its name to Fagor Electrodomésticos, a business with by-laws that embody the essentials of their cooperative, a preview of today's widely acknowledged Mondragon-style cooperative enterprise. This entire framework is structured on the basis of the common culture deriving from the 10 Basic Cooperative Principles that are deeply rooted in all Mondragon cooperatives.

- open admission policy
- democratic organization
- sovereignty of labor over capital
- instrumental and subordinate nature of capital

- participatory management
- wage solidarity
- cooperation among cooperatives;
- social transformation;
- universality and education
- labor entrepreneurship

Ulgor may have been the first worker-owned cooperative founded with sufficient capital and to grow without capital shortages, all because of Don Jose Maria's study of the Rochdale Pioneers. The five founders wisely wait until ULGOR is self-financing so they have to borrow money from private capital markets.

For the most part, Mondragon's townspeople provide the capital to found Caja Laboral Popular. Don Jose Maria suggests putting up collection boxes throughout Mondragon. Each box is in a highly visible place with plenty of foot traffic, plus a parishioner or two to keep eyes on it by day, and take it to the Caja's inauspicious offices for the night. Not a peseta is stolen. One box is placed directly in front of a regional bank's office to protest that bank's refusal to lend expansion money to ULGOR. Each collection box has a small paper attached explaining what the collection box is for, and why citizens should make a donation. Almost every day the boxes fill with coins, small cash bills and, frequently after a citizen dies, gold fillings. ULGOR secures a corporate investment to expand again. So do other smaller, conventional firms in Mondragon.

The Caja Laboral Popular status solves another problem facing ULGOR's founders, plus the owners of three other existing cooperatives. Earlier, in 1958, the Spanish government, controlled by Franco, declared owners to be self-employed, and, therefore, ineligible for state health and unemployment benefits. Don Jose Maria and FAGOR turn adversity into a business opportunity. The Caja becomes the means by which they provide their own, cheaper health and unemployment system. Reserves held by the four existing cooperatives and the Cajas' own net worth, make this possible. After Franco dies, the Spanish government again offers state health coverage to self-employed citizens so health coverage is no longer supplied by the Caja.

In the 13 years since arriving in Mondragon, Don Jose Maria has a profitable example of how a technical school can provide high school educations, plus a successful industrial cooperative, a growing cooperative trucking company. Two other smaller cooperatives are getting underway. The worker-owners stick to the policies suggested by Don Jose Maria. The idea that no empirical evidence exists to support the claim worker-owners that can financially and democratically control businesses is put to rest. The scale and depth of the Mondragon network is the empirical proof.

A noted poverty sociologist, Barbara J. Peters of Southampton College, Long Island University, studied the incorporated and entirely resident-owned Basque town of Mondragón. "In Mondragón, I saw no signs of poverty. I saw no signs of extreme wealth," Peters writes. "I saw people looking out for each other. It's a caring form of capitalism."

Worker Cooperatives Travel from Mondragon to America: During the past three decades Mondragon's successful approach to organizing and establish worker-owned industrial cooperatives and creating a complex or syndicate of worker-owned industrial cooperatives has made its way to North America. Beginning in the early 1980s, a group of American educators visited Mondragon and spent a week observing and learning about their unique and successful work cooperative system. Upon their return, they began to write about and teach these concepts to others.

Our writing of the first edition of *Putting Democracy to Work* is a direct outcome of our participation in that experience. After two decades, the knowledge and understanding of the Mondragon approach in creating worker-owned cooperatives and worker-owned cooperative complexes is beginning to bear fruit and have a significant impact in North America.

The most startling action issuing from the Mondragon Cooperative Corporation for American worker-owners, or advocates for worker cooperatives, was the news in 2009 of an agreement with the United States Steelworkers of America to form worker cooperative businesses in the United States.

In 2010, the Cleveland Foundation, the nation's largest single-city foundation, announces the opening of an industrial laundry to serve three neighboring hospitals and provide jobs for nearby residents, plus finances to start-up a cooperative solar panel manufacturer, and, a secondary cooperative providing financial services such as bookkeeping or human relations matters such as hiring new potential owners. These cooperatives identify themselves by the generic name of Evergreen and stated in collaboration with Mondragon advisors, the U.S. Federation of Worker Cooperatives, and the Democracy Collaborative at the University of Maryland.

In 2011, the Cleveland Foundation made more news when it announced their intention to finance a new, huge greenhouse to grow fresh vegetables year around for the hospitals, grocers or restaurants. Other foundations, noticing the jobs the foundation's investments are producing, ask for more details in such numbers the Cleveland Foundation offers workshops for program officers and directors.

In most corporate law and regulation throughout the United States, the concepts of employer and employee are acutely interrelated, yet not identical. Usually, this because of complex property rights law in conventional firms. Examples are too well-known and too numerous to elaborate here.

To explore this conjoining, David Ellerman, starting in 1990, steps into cooperative history, at least to the lesser known history of worker-owned cooperative firms, and does for these businesses what Coase did for capitalist law and economics.

In numerous essays and several books, particularly *The Democratic Worker-Owned Firm*, Ellerman's most thorough-going theoretical examination of the worker cooperative, he argues

that three principles are at the heart of each Mondragon cooperative or for any authentic reproduction of similar business elsewhere.

The first is:

Workers have a natural and inalienable right to own productive property, to manage these assets, and to divide the fruits of their labor, i.e., the profits – or losses – issuing from their labor's use of that property among themselves;

The second is:

Individuals in each cooperative have the inalienable right to govern their business democratically using one-person one-vote procedures, either by a show of hands or by secret ballot. Votes may be called to establish wages, hours, working conditions, or any policy which may substantially or significantly change the nature of the business; and,

The third is:

Each owner in association with others in her or his working group may expect to search for ways to save, or to find new growth opportunities, and to husband resources.

In a civic democracy, voting and other citizenship rights are personal or human rights, not property rights which can be bought or sold, Ellerman continues. Even in the United States, a nation proclaiming to be a civic democracy, sternly applied laws limiting democratic opportunities for large numbers of persons for 200 years or more.

Voting and profit rights in a worker-owned cooperative constitute "civic ownership rights." An enterprise is a worker cooperative if the ownership rights are personal rights attach to the personal role of working in the cooperative, and if each worker owner gets one and only one vote.

The net income of the enterprise is assigned to the owners on the basis of their labor contribution usually measured in hours, by pay, or both. In a worker cooperative the right to the capital assets [net book value] of the enterprise remains a property right held by the workers through appropriate legal mechanisms which are sometimes called individual or internal membership accounts.

Ellerman sees the worker cooperative as "labor-ist" rather than "capital-ist." Labor is the hiring factor, therefore the voting and profit rights are assigned to the people who do the work and not to capital, even though the workers supply capital through investments equal to one another.

Retained earnings are assigned in equal parts to the entire workforce, not just senior management getting a first cut and then begrudgingly leaving what is left to be doled out a dollop here and dollop there. Capital supplied is recorded in the internal capital accounts, and receives a fixed interest-like return. Any profit or loss after normal operating expenses is assigned to members on the basis of their labor contribution.

Why? Chiefly because there are no uniform federal legal codes stipulating the model's structure. The matter of incorporation is left to each state. During the late 1980s and early 1990s, some 15 states adopted model by-laws that Ellerman and Peter Pitigoff, an attorney, promote on behalf of the Industrial Cooperative Association. Elsewhere states prohibit the use of the word cooperative in a firm's name, for example, or have no means to authorize such incorporation. In the latter case, workers often organize their cooperative through the Limited Liability Corporation laws.

Ellerman, unlike Coase before him, explains why and how property rights are accounted for within a firm that workers own and manage. The worker cooperative turns conventional relationships between capital and labor upside down. Labor rents capital rather than being rented by capital.

We decided to update and publish this third edition of *Putting Democracy to Work* with the hope that it will help worker-owners, activists and others who may be interested, to take the development of worker-owned cooperatives to a higher level that leads to the creation of some successful worker-owned cooperative complexes in America during the coming decades. The following Chart 2-1 provides a comparison of why we think successful worker-owned cooperatives and worker-owned cooperative complexes like Mondragon are an antidote to many of the problems facing America today and that their promotion and development will provide a better way than either capitalism or socialism for the working people of America.

Chart 2-1

**MAJOR COMMERCIAL CHARACTERISTICS
OF CAPITALISM, SOCIALISM, AND COOPERATION**

<i>Commercial Criteria</i>	<i>Capitalism</i>	<i>Socialism</i>	<i>Workers' Cooperation</i>
<i>Purpose</i>	a) To earn profit for owner, to increase value of shares.	a) To provide goods and services for citizens.	a) To maximize net and real worth of all owners.
<i>Organization</i>	a) Organized and controlled by investors.	a) Organized and controlled by state.	a) Organized & controlled by worker-members.

	b) Incorporated under state corporation laws: no federal incorporation laws.	b) Chartered by state/ central government.	b) Incorporated under state corporation laws; no federal incorporation laws.
	c) Except for closely held companies anyone may buy stock.	c) No stock.	c) Only worker-members may own stock, one one share per member.
	d) Stock may be traded in the public market.	d) n/a	d) No public sale of stock.
<i>Ownership</i>	a) Stockholders.	a) State.	a) Worker-members.
<i>Control</i>	a) By investors.	a) By state.	a) By worker-members.
	b) Policies set by stockholders or board of directors.	b) Policy set by government planners.	b) Policy set directors elected by worker-members.
	c) Voting on basis of shares held.	c) n/a	c) One person, one vote.
	d) Proxy voting permitted.	d) n/a	d) Proxy votes seldom allowed.
<i>Sources of Capital</i>	a) Investors, banks pension funds, the public.	a) The state.	a) By members or lenders who have no equity or vote.

	b) From profitable subsidiaries or by retaining all or part of the profits.		b) From net earnings, a portion of which are set aside for reinvestment.
<i>Distribution of Net Margin</i>	a) To stockholders on the basis of number of shares owned.	a) To the State.	a) To members after funds are set aside for reserves and allocated to a collective account.
<i>Capital Dividends</i>	a) No limit, amount set by owner or Board of Directors.	a) n/a	a) Limited to an interest-like percent set by policy.
<i>Operating Practices</i>	a) Owners or managers order production schedules and set wages and hours, sometimes with union participation. b) Except in union shops, workers' rights depend on unilateral decisions of bosses.	a) State controlled.	a) Workers set production schedules through elected boards and and appointed managers. b) Social Audit Council or union and dialogue between members and managers.
<i>Tax Treatment</i>	a) Subject to state and federal taxes.	a) n/a	a) Special tax treatment under federal and in some states.

A TIME TO VOTE

1. From what **you** know, have read or heard about worker-owned cooperatives, do **you** agree the way to organize a business (as was done by the Basques in Mondragon) is a better way than the two alternatives set out above in Chart 2-1?

Yes

☐

No

☐

2. Given what **you** know about worker-owned cooperatives, do you think a cooperative **you** help start will eventually become a conventional business?

Yes

☐

No

☐

3. Do **you** still want to continue trying to organize a worker-owned cooperative?

Yes

☐

No

☐

3 ESSENTIALS FOR SUCCESSFUL WORKER COOPERATIVES

EMPLOYMENT SECURITY IN WORKER COOPERATIVES

ESSENTIALS FOR SUCCESSFUL WORKER COOPERATIVES

A Time to Vote

GETTING STARTED

A Time to Vote

EMPLOYMENT SECURITY IN WORKER COOPERATIVES

An important distinction between a worker-owned cooperative and a conventional firm is this: *labor is treated as a fixed cost*. The men and women directly involved with production are assumed to have valuable skills and experience and to be indispensable. Owners are not laid off or hired as market demand warrants. This rule is known as the *principle of employment security*.

Since the Great Recession, it has become painfully clear that in conventional businesses *fixed labor costs* protect top administrators, supervisors, managers and their support staffs. *Employment security* seldom extends to the production rooms. Historically, jobs at this level are treated as *internally determined variables* – product sales, together with desired levels of inventory investment determine production. Production determines direct labor requirements. The shorter the estimated production time the longer the unemployment lines. A venerable West Coast corporation's announcement that it will lay off 23,000 employees in little more than a year barely raises a headline outside the business newspapers or websites.

In worker-owned cooperatives these relationships are reversed - labor (the number of workers and thus the number of labor hours available) determines production. For example, ½ unit completed per hour of production. Production with sales determines the level of inventory investment that may, or may not, be the desired level. But owners in production, always including supervisors, but sometimes the elected board of directors, determine the level of production and level of inventory investment.

In these cooperatives, workers are either accepted into ownership or rejected after a limited probationary period. Thus, all permanent workers are owners. Worker-owned cooperatives try not to lay off owners even for short-term economic reasons such as periodic sharp drops in demand. Reduction in ownership normally comes through retirement or voluntary departure.

However, brisk, stable, apparent long-term demand for products may lead to the need to recruit fixed labor – the hiring, probation and admission of new owners. Thus, the ownership of direct workers in a worker-owned cooperatives is somewhat fixed downward, but not normally fixed upwards.

Cooperative managers do not hire, lay-off or fire production workers as their markets change. Instead, they must make a greater effort to forge a larger market share, or find new markets, usually by decreasing prices. Charts 3-1 and 3-2 illustrate:

Chart 3-1

**PRODUCTION PLANNING
FOR A CONVENTIONAL BUSINESS**

Sales forecast (5,000 units) + inventory investment (500 units) = production (5,500) units

Direct labor required (2 hours per unit) - 5,500 x 2 = 11,000 hours

11,000 hours divided by 2,000* = 5.3 person years
*40 hour week x 50 weeks

In Chart 3-1 above, if a company treats production workers as a variable cost and has six workers on payroll, one worker will be laid-off or fired after six months of work unless demand increases enough to bring direct labor costs down to the planned 5.5 person years needed to produce the projected output.

Chart 3-2

**PRODUCTION PLANNING
FOR A WORKER-OWNED COOPERATIVE**

Sales forecast (5,000) Worker-owners available for direct labor = 6 person years

Direct hours of labor available (1/2 per unit) = 6 x 2,000 = 12,000 hours

Production possibilities: 40 hour week x 50 weeks = 2,000 Production (6,000 units)

Sales: 5,000 (units) = Inventory (1,000)

In Chart 3-2 above, if production for inventory in the cooperative is considered excessive at 25 percent of projected sales, prices may have to be reduced with a corresponding reduction in revenues and profits or other cost savings found to sell the additional units of production. Alternatively, worker-owners may experience a period of reduced wages or short-time to resolve the sales problem.

Where labor is a fixed cost and the ownership level is fixed, working hours are not. During business fluctuations owners may experience “overtime” or “short-time”. Because owners have a residual claim to profits, their income, in part, is determined by the cooperative’s

uncertain future. Extended recessionary times can lead to reductions in paid-out income as well lower pay in the short term.

When Basque cooperatives face a drop in demand for their products, managers cut prices rather than production. Their goal is to make sales the variable. Worker-owned cooperatives place greater emphasis on marketing. Sales are not treated as a market determined variable. Management tries to maximize the cooperative's control over sales volume to offset the short-term fixed cost of labor.

Other vital concepts of Basque firms serve as the basis for ownership acceptance. These are objective screening criteria, voluntarism, and proportionality.

Nearly every business, large or small, screens prospective employees by some set of criteria usually bearing directly on the skills the firm needs. For example, a well-modulated voice for a call answering center, a keen mathematical mind to write algorithms for computers, a knowledge of books and cash register operation for a bookstore clerk. Conventional firms screen for obedience, regularity, cleanliness, criminal background checks, and, of course, vocational test scores. Aspiring doctors, attorneys, certified public accountants, and other professions have to pass one professional exam after another to become licensed.

Cooperatives also screen to decide if applicants have the necessary mechanical skills and experience to avoid harming themselves and others, have the marketing degrees or experience to sell product in the face of "market forces," or are licensed truck drivers with no recorded accidents to safely haul raw materials or finished products to or from factories or warehouses. Most screen, too, for traits such as congeniality, social and mediation skills, and leadership traits.

These cooperatives may also conduct social and financial screens. A social screen might start with a single question: How well do you think this person will get along with your working group and within your cooperative? The answer carries considerable weight. Reasons may differ from one cooperative to another. For example, devotees of classical music might not enjoy tunes by Guns 'n Roses blasting over workshop loudspeakers during their shifts. Following their initial acceptance, workers undergo a six-month trial period during which their immediate supervisor assesses their social acceptability - both by the person but also by the owners working with her or him.

Monetary screening for a potential entrant is accomplished by requiring the person to invest in an ownership share: Do you understand and agree that roughly one year's earnings at the lowest level is the investment you are expected to make? In return you will be allocated part of future accumulated profits. But these earnings may be forfeited if you depart prematurely. [This policy curbs adventurers.]

A veteran owner explains:

Once a person is inside, he/she makes demands. So we have to be very careful about who we select. Not only professional qualifications are closely looked at. We concern ourselves about how well the person behaves in the

community. If he has a bad reputation, we put him on trial for a longer time before allowing him to join our cooperative.

Voluntarily taking up activities willingly without constraint or expectation of immediate reward helps make cooperatives successful. For example, standing for election to the Social Council. If elected, work is done on owner time, not cooperative time. Decisions are reached with just as much wisdom, but often impact most directly on the work floor. The Social Council decides on wages, hours and working conditions. Some see the criteria by the Social Council as a cornerstone of labor entrepreneurship -- a collective spirit among owners always looking to prudently save time, or money, or come up with a new product or by-product. Courses on cooperative ethics are a must. Socialization activities are arranged and carefully watched by supervisors and other owners elected to the Social Council from every department in the firm.

Finally, pay is guided by an idea Don Jose Maria spoke of during his earliest days in the pulpit -- the gap between the highest paid owners and the lowest paid owner. This gap has come to be known as *proportionality*. In the Mondragon cooperative there are no wages *per say* in theory, nor do many worker-owned cooperatives in Canada and the United States pay wages *per say*.

Why?

Worker-owners are not employees. The net value accruing to them is the value of their product minus non-labor expenses. Some of the value is paid regularly during the year [which might be compared with wages]. Some is paid out at the year's end [bonuses]. Some is retained in the cooperative and distributed equally in each worker-owner's internal capital account. Since the net profit is not known until the end of the fiscal year, the amount paid out during the year is an advance, or anticipation, of the owners' income.

The principle of *external solidarity* means that advances in the lower pay rates are set or near the wages prevailing for comparable work in other firms in the geographic region. This sum is paid on a similar basis, too. The principle of *internal solidarity* means that the top to bottom pay ratio in Mondragon's cooperatives is not excessive. For example, when ULGOR commenced production, the pay ratio was 3:1, but later changed to 5:1. Today, the ratio is higher but differs in each cooperative and within the Mondragon Cooperative Corporation.

A notable exception to this core value is physicians' pay. Physicians' pay in the health cooperative matches that of other doctors in the Basque Provinces, and is usually higher than the wages for owners in other cooperatives.

Individual pay rates within the cooperative are determined by the labor index attached to the various jobs from bottom to top. Each job is evaluated using one of several standardized job evaluation techniques: ranking points, factor comparison, Position Analysis Questionnaires, decision-making responsibility, social skills, physical and mental demands, and special hardship factors -- danger, noise, heavy lifting -- are also used to rate a job.

On the basis of frequent evaluations for changes in production methods or machinery, each job is assigned a labor index on a 1 to 5 scale. The labor indices are then published in a single manual covering all blue-collar and white-collar owners from operations to the chief executive. With such a policy any debate about wage transparency is moot.

The principle of *labor entrepreneurship*, first described by Ana Gutierrez-Johnson, a Cornell University graduate student in economics and a Peruvian native who moved to Mondragon to better study labor entrepreneurship. Many cooperatives around the world now embed this principle in operational policies. The idea is inherent as a part of doing a job.

For example, take the experience of Almarinda Souza, a seamstress for a once thriving men's clothing manufacturer in New Bedford, MA. When the founders, old men, worn and weary, put the business up for sale, she and other workers managed to buy most of the key assets – sewing machines and customer lists. When the workforce was ready to elect a leader, the nominating committee selected Souza to be president. She declined, explaining:

When I came to work here, the boss came around one day and asked if everything was okay. I said, 'Yes, but I have an idea I think will save the company money.' He told me, "Almarinda, your job is to sew, not to think." I've kept my mouth shut since. That was the last time he talked with me. Now, as an owner if I don't think, I won't be paid long. I want to be chair of the education committee.

For perhaps three seconds, the 50 or so owners present were silent. Then they burst into applause and cheers. As of that second, Almarinda Souza became chair of the Education Committee.

Margaret M. Bau, a veteran cooperative organizer working for the U.S. Department of Agriculture, reports from Wisconsin that since the Great Recession started:

The worker co-ops that I interact with seem to be holding their own in this economy. Because the owners are also on the front lines of business, they seem to be keenly aware of problems/opportunities in the market or with their customer base. With that intimate knowledge, the owners seem to make informed decisions and act quickly.

One example she shared, the Fond du Lac Synergy Co-op, a worker cooperative owned and managed by people living with mental illness, was modeled after a highly successful worker cooperative of people living with mental illness in southern British Columbia, the Penticton & Area Cooperative Enterprises. After eight years in business, they have 186 owner-members employed in 14 different enterprises -- electronic waste recycling, mattress recycling, wood waste/recycling, house cleaning, composting, etc. Despite the economy, that cooperative continues to identify niche markets to operate business ventures.

Despite the success of PACE, the Fond du Lac Synergy Cooperative incorporated in the spring of 2008 and dissolved in the summer of 2010, but not because of the economy. Internal

personality dynamics destroyed it. Financially, the cooperative was doing well and actually had more work coming in than the 10 owners could keep up with. They provided “get it done” chore services, such as lawn cutting, snow removal, office cleaning, and packing for people moving. However, the firm needed a coordinator who could intervene with some of the quirky behaviors that arise among persons living with mental illness.

Bau and others learned two lessons from that cooperative:

1. Our membership fee [*investment, eds. note*] was too high for this population [\$325 payable over a year].
2. The cooperative needed a social worker trained in mental health issues. The position would probably have to be subsidized for several years until the cooperative brought in enough revenue to cover that support position.

The Circle of Care Cooperative, a worker-owned home caregivers in Appleton, Wisconsin, failed due to massive embezzlement by their executive director, a failure of oversight and lax follow-through on checks-and-balances policies.

Melissa Hoover, executive director of the U.S. Federation of Worker Cooperatives, said that as far as she knows fewer than five or six cooperatives owned by workers have failed in the United States due to the Great Recession. Rebecca Dunn, executive director of the Cooperative Fund New England, mentioned only one failure, the Food for Thought Bookstore in Western Massachusetts. In its 2011 year-end appeal, the Fund noted:

Over our 36-year history, we have loaned \$25 million to cooperatives, and like-minded nonprofit organizations, without ever costing any of our supporter’s one single dollar of their investment in the fund...

Hazel Corcoran, executive director of the Canadian Federation of Worker Cooperatives, reported that a few cooperatives have closed as the Great Recession marched from nation to nation across the Northern Hemisphere.

A few have closed, but my sense is that it's no more than in a typical stretch of years. The worker co-ops operating in the forestry industry in Canada are in a very bad state, but this is due to particular circumstances in that industry. I am fairly certain that no Mondragon worker co-ops have closed. So resilience is a characteristic of our firm.

ESSENTIALS FOR SUCCESSFUL WORKER COOPERATIVES

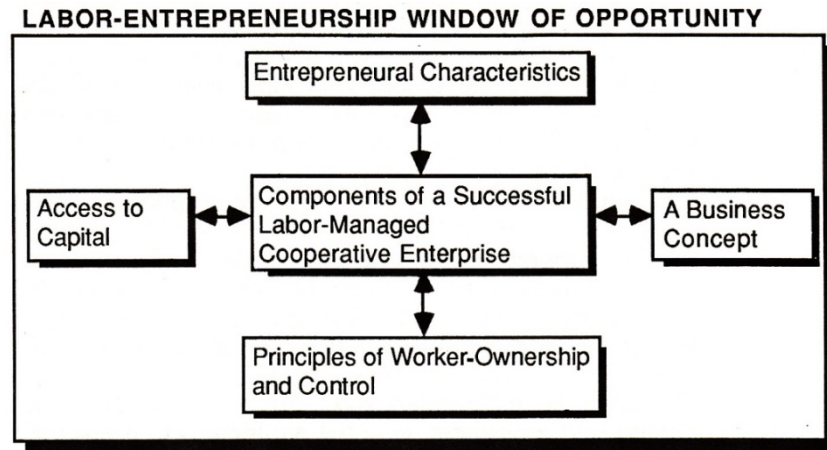
Four principles are an important part of the basic ingredients needed to start a successful worker-owned cooperative. Creating a business enterprise that incorporates these ideas into its organization, structure, and operations are fundamental steps, but three additional ingredients are also necessary. They are:

- entrepreneurial characteristics,

- a viable business concept,
- access to capital, and,
- a broadly held understanding of the principles of worker ownership and control,

These four principles constitute what we call the *labor-entrepreneurship window of opportunity*. Chart 3-3 illustrates this concept. Organizers of successful owner-managed businesses possess to some degree or another the elements in Chart 3-4.

Chart 3-3



First, the organizing group must understand and accept the *principles of worker-ownership*. These principles are the framework upon which successful labor-managed cooperative enterprises are constructed. Without a thorough understanding of these principles and a willingness to practice them from the outset, serious problems can arise.

Second, each member of the group must share a common viable business concept. The idea for a business must be carefully considered, researched, and put through the analytical processes outlined below. Timeliness is important. Changing technology, economic conditions, or an impending plant closing are just a few of many forces that impose time constraints.

Third, there must be access to adequate capital. Capital comes in many forms and from many sources. It may include the time and labor of the worker-owners, or the credit extended by landlords, lawyers, accountants, or suppliers. There is a need for cash. Cash can be provided by ownership subscriptions. This becomes equity. Friends, relatives, or banks and other public and private sources provide debt. Agreements with them should state clearly that they do not have voting rights on policies. Sources of capital are also constrained by time or place, and may be harder to come by during a recession or easier to obtain in a particular community or state. For example, New York, Michigan, Oregon, and Massachusetts, now have legislation and mechanisms to provide financial assistance for starting worker-owned businesses.

Fourth, there is usually one and sometimes several people in the organizing group who think like entrepreneurs. They will have gained sufficient experience and business skills to season them for the struggle necessary to staff a cooperative worker-owned enterprise. Worker-

owned firms have yet to gain much attention from business management researchers. So far no one has defined the personality traits possessed by successful entrepreneurs. But worker-owned firms, like any other businesses, require management leaders and directors who, singly or in a group, help guide the business.

Entrepreneurs are willing to assume responsibility and to accept accountability. Characteristics possessed by most successful entrepreneurs include good health, self-confidence, a sense of urgency, and a comprehensive awareness of what is going on around them. They are realistic, have above average conceptual abilities, a low need for status, the ability to be objective, emotionally stable, and are attracted to challenges, but not unnecessary risks. Additionally, they usually want to start a business, have the willingness to invest their time and energy to obtain knowledge and experience about business and marketing, and to develop a business concept, not just a bright idea.

Entrepreneurial skills and characteristics cannot be neatly packaged, then given to an individual or group. Some skills can be learned through formal education; others can be gained through work experience or through union or community work. Some of the more important elements of the entrepreneurial characteristics are: a high energy level -- the ability to get up early and work hard all day; a positive self-image -- faith in one's ability to succeed; communication skills -- the oral and written skills to sell one's product or service; the ability to analyze the potential success of a product/service/idea; flexibility and resiliency -- the ability to adjust to the rewards and pitfalls of the marketplace; decision-making skills; interest in learning; the ability to marshal resources; and a sense of adventure -- wanting to try something new and the courage to take a chance.

What do labor-entrepreneurs do? They practice innovation using the same tools used by all successful entrepreneurs. Innovation is not a thing, but an action -- "what an entrepreneur does to impart value to a resource." Peter Drucker, a management teacher and writer, has said that "innovation is not mysterious, it doesn't depend on inspiration, it isn't an activity confined to a special class of geniuses." Just as systematic research can result in the "invention" of a new product, Drucker argues that there can be -- needs to be -- purposeful pursuit of opportunities for innovation. And "purposeful innovation," he says, means monitoring seven sources of opportunity:

- The unexpected -- unexpected successes, failures, or outside events.
- The incongruous -- differences between the world as it is and as it "ought to be".
- A process need -- a better way to do a familiar job.
- Unpredicted changes in an industry or market structure.
- Demographics -- population changes.
- Changes in perception, mood, meaning.
- New knowledge.

Drucker asserts that anyone or any organization can be an entrepreneur--individual, small business, worker-owned cooperative, big business, or government institution. "The rules are

pretty much the same, the things that work and those that don't are pretty much the same, and so are the kinds of innovation and where to look for them."

Review Checklists Should you and some other associates be seriously thinking about starting a worker-owned cooperative enterprise, Chart 3-4 is a basic checklist that summarizes the principles previously outlined. The more "yes" responses you and your associates give to these questions, the better prepared you are to undertake the challenging task of organizing and starting a worker-owned business. If the firm you work for is considering changing to a worker-owned and controlled structure, this chart provides a way to measure the principles that all concerned should consider. The list is not exclusive; other related principles can be added.

Chart 3-4

**CHECKLIST OF THE FUNDAMENTALS
OF LABOR ENTREPRENEURSHIP**

<i>Basic Principles</i>	<i>Yes</i>	<i>No</i>	<i>Other</i>
1) Each worker has one vote in all elections; and more than two groups of workers may contest in any election).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2) Each worker must become a member and pay an equity fee.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3) Only persons employed by the firm may become members.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4) Jobs are not restricted on the basis of sex, religion, race, national origin, or political beliefs.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5) All meetings and records are open to fully-vested members.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6) Profits, or losses, are shared equitably by worker-members.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7) A minority of worker-members cannot sell or close the firm for their own benefit.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8) An elected group, or a social audit board, or union exists or will be created to handle grievances and provide another means of internal communication.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9) Work may be rotated, and training provided to help workers learn new skills and competencies.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10) There is a willingness to actively search for suitable business opportunities, obtain productive resources, and engage in risk-taking and organization building.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

11) A philosophy of employment security will be adopted; business planning and other appropriate techniques will be used to ensure the greatest possible degree of job security to worker-members.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12) The principles of entrepreneurship and innovation are known and accepted, or will be learned by the worker-members.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Chart 3-5 is a checklist of some of the traits that relate to success in business. Read through the list and check the traits that you think apply to you, or if they characterize several persons in you group.

Chart 3-5

**CHECKLIST OF TRAITS RELATING
TO SUCCESS IN BUSINESS**

- ☐ I am a self starter. Nobody has to tell me to get going.
- ☐ I like people and can get along with just about anybody.
- ☐ I can work with a group, sharing ideas, clarifying thinking, reaching consensus, and supporting group decisions.
- ☐ I can lead others. Most people will go along with me when I start something.
- ☐ I am a good organizer. I like to have a plan before I start.
- ☐ I am a good worker. I can keep going as long as I need to. I don't mind working hard for something I want.
- ☐ I like to take charge of things and I can make decisions.
- ☐ People can trust what I say.

A TIME TO VOTE

Back to the question: Do **you** still think it prudent to start a worker-cooperative?

<u>Yes</u>	<u>No</u>
<input type="checkbox"/>	<input type="checkbox"/>

If you and your associates vote yes and decide to proceed with the creation of a worker-owned cooperative, either by starting from scratch, or by purchasing an existing business and converting it to become a worker-owned cooperative, the next step is to conduct a preliminary feasibility assessment and a risk assessment.

GETTING STARTED

The *preliminary feasibility assessment* may take several weeks to complete and be of moderate cost. Members of your group can do it alone or with the aid of public interest or nonprofit technical assistance groups such as those who are affiliated with the National Federation of Worker Cooperatives, qualified volunteers from community or government offices such as the state office of economic or business development, or professional staff from cooperative development centers. The preliminary feasibility study should use readily available sources of data that answer the specific questions in Chart 3-6.

Chart 3-6

A PRELIMINARY BUSINESS FEASIBILITY ASSESSMENT		
<i>Question</i>	<i>Yes</i>	<i>No</i>
1) Do industry sources anticipate stable or growing demand for your industry products or services?	<input type="checkbox"/>	<input type="checkbox"/>
2) If there is a recession or slump in your industry, is it projected to end within 6 months to a year?	<input type="checkbox"/>	<input type="checkbox"/>
3) If there are new or existing products taking market share away from or replacing your product:	<input type="checkbox"/>	<input type="checkbox"/>
a) Can your plant produce the competing product?	<input type="checkbox"/>	<input type="checkbox"/>
b) Are there new markets or niches for your product?	<input type="checkbox"/>	<input type="checkbox"/>
4) Are other producers of your product maintaining or increasing capacity or production levels?	<input type="checkbox"/>	<input type="checkbox"/>
5) Are foreign firms or plants expected to maintain constant or declining shares of U.S. sales over the next few years?	<input type="checkbox"/>	<input type="checkbox"/>

6) If your product will be sold to other industries (rather than consumers), do industry sources indicate strong demand for these industries' products?	<input type="checkbox"/>	<input type="checkbox"/>
7) Will the sale of products or services generate enough revenue to cover costs?	<input type="checkbox"/>	<input type="checkbox"/>
8) Does your group have the skills needed to organize and manage the proposed business and produce and market the products or services?	<input type="checkbox"/>	<input type="checkbox"/>
9) Can you obtain sufficient funds to finance the startup of the business?	<input type="checkbox"/>	<input type="checkbox"/>

Becoming a worker-owner is risky. Everyone considering such a step should evaluate his or her own needs and motivation before deciding to take the risk. Some of the questions you should ask before making any decision involving risk follow:

- Is the goal worth the risk?
- How can the risk be reduced?
- What do we need to know before taking the risk?
- What people and other resources can help to minimize the risk and achieve the goal?
- Is it important to take this risk?
- Can our goals be achieved?
- List what we need to do before we risk serious time and money?

This questioning procedure is essential. Taking a risk before answering these questions may lead to failure.

If your group has experience in manufacturing a product or providing a service, most of the answers to these questions are based on experience and common sense. For groups with less experience, answering these questions can provide the data needed to make a realistic decision before undertaking more costly, time-consuming market analysis, business planning, and legal incorporation.

A few profitable worker-owned firms have opened before answering these questions, and a few have started on little more than intuition. On the other hand, the Basques in Spain, who founded nearly 100 successful cooperatives in their first thirty years, insist that steering groups spend at least two years planning every aspect of a proposed new business. Only three of the worker-owned firms organized by them failed.

The preliminary risk assessment in Chart 3-7 is a simple, unscientific way to measure individual and group attitudes about the risks involved. It is one means of determining whether to take the next step. Each person in the steering committee or working group undertaking the preliminary feasibility study should answer the questions using numbers from one to five to indicate their degree of agreement with the statement. To figure the group's response, total the numbers given by each person and divide them by the number of people responding.

Chart 3-7

**STARTING A WORKER-OWNED BUSINESS:
A PRELIMINARY RISK ASSESSMENT**

	<i>Agree</i>		<i>Neither</i>		<i>Disagree</i>
	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
1) The goal (becoming worker-owners) is worth the risk.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2) The risks can be minimized to acceptable levels.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3) Information needed before taking the risk has been obtained.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4) Taking the risk is important.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5) We are willing to try our best to achieve the goal.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6) We can achieve our goals by taking the risk.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7) We are not missing skills or resources which add to the risk.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8) Everyone will share equally in the risk.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9) There is no major reason to be fearful of the risks.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10) The organizing group has sufficient commonality of interests to work effectively together and make the venture succeed.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11) There is reason to be optimistic about the prospects for success.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
TOTALS:	<i>Individual</i>	<input type="text"/>		<i>Group</i>	<input type="text"/>

If the results of the preliminary feasibility assessment and risk assessment indicate that prospects for founding a successful worker-owned firm are good, a group must decide whether to proceed on their own to develop a comprehensive business plan or hire outside experts to assist. It is time to take another vote.

If the totals of the people or group filling out the preliminary risk assessment form is 25 or higher, the risks in starting a worker cooperative are perceived to be quite high. Some additional thinking and planning probably needs to be done before further investment of money is made. Now is another good time to have a vote. Should we invest more time or money?

Chart 3-8 is a simple planning aid to help the organizing group think through and carry out the steps needed to complete the preliminary feasibility study. It can be used as is or as the basis for designing more complex planning charts.

Chart 3-8

DECISION PLANNING AID

<i>Steps in Conducting A Feasibility Analysis</i>	<i>Completed</i>	<i>Not Completed</i>	<i>Action to be taken</i>
1) Reasons for starting a worker-owned business have been fully explored.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2) Options have been identified.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3) List of possibilities identified.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4) List of probables identified.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5) Information on marketing of proposed products has been gathered.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6) Availability of resources determined.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7) Estimated costs of starting the business have been determined.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8) Comparisons between proposed business and other businesses in the industry have been made.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9) The assessment results have been interpreted to determine feasibility.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10) A decision has been made.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11) Pre-startup guidelines and governance procedures have been drawn up and approved.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12) Pre-startup educational programs have been organized.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Every step of the preliminary planning process can be charted out in this fashion. Taking the time to create a planning and decision-making chart for the organizing group can save days of frustration.

A TIME TO VOTE

The question is: Do we go on or stop now?

- ☐ Yes. Let's go on!
- ☐ No. Let's stop or look at this a bit longer.

If the answer to the above question is yes, the process of preparing a formal business plan for starting a worker cooperative will be discussed in Chapter 4.

4 PREPARING A BUSINESS PLAN

WHAT SHOULD A BUSINESS PLAN CONTAIN?

COMPONENTS OF THE BUSINESS PLAN

VERIFYING THE BUSINESS PLAN

PRESENT THE BUSINESS PLAN TO THE WORKER OWNERS

A Time to Vote

WHAT SHOULD A BUSINESS PLAN CONTAIN?

If prospects for founding your workers' cooperative appear financially sound, you, as a prospective owner, and your colleagues, then face a crucial question:

Where do we go from here?

The answer is to develop a comprehensive business plan. But the process is somewhat different for the conversion of an existing business compared to that needed for the startup of a new business. But such business plans are *absolutely essential*. Without a business plan most lenders, even ones anxious to see the idea of workplace democracy flourish, are very reluctant to risk financing.

When that job is done, the next step is to legally organize the cooperative in accord with corporate law within the state where your business is to operate. Articles of incorporation and by-laws registered with the secretary of state, then, at last, start finding financing.

Few workers' cooperatives succeed without careful planning, regardless of how marketable their product or service, or how high the enthusiasm and qualifications of potential owners. The business plan gives bankers and suppliers, even customers, clear evidence that you and your fellow workers know your business p's & q's. The process of business planning for a conversion or startup is similar, but the process of selecting drafting committee members may be a somewhat different in order to enlist individuals who have the skills needed to carry out the planning process and draft the business plan.

Each comprehensive business plan has several sections, each equally important. Small groups from throughout the entire workforce can serve on the several drafting committees to carry out research or to help draft the plan's parts. Distributing the research and drafting process gives everyone practical knowledge, and distributes that knowledge among potential owners.

Experience with managing possible business partners while assuring productivity. Usually, a steering committee coordinates these several committees, working with two or three members of each drafting committee to prepare the contents of this crucial document.

When the numbers and wording seem okay, then this first draft is ready for review by the entire workforce in a small business, or persons with the most firsthand experience in divisions of a larger firm. This full workforce review is almost certain to surface or generate new ideas, as well as identify gaps in data or marketing and production problems.

Putting together a business plan takes time, money, and expertise.

Selecting a steering committee to manage the process is a key first step. If the objectives is to convert an existing business to a workers' cooperative, its members should have experience in management, on the shopfloor, in finance, personnel and production, and, if a union local represents some or all workforce employees, a union member, to name but six. No working committee such as a steering committee should be much larger than six or seven persons...

Each committee's first task is to decide whether they want to develop a thorough, carefully documented business plan by themselves, or whether they want to ask a consultant or technical assistance organization for help. If they decide on the latter course, then the entire workforce should hear why, and okay any necessary budget.

Another decision: how much workforce involvement is wise? Small committees of five or six persons from each department is best made by workers is the way many groups choose. The entire workforce working together on one section at a time is very time consuming, and often confusing since many employees come to work, do a job, and pay no attention to what other workers do. Or some size in between, perhaps?

The second task on the agenda is to set a regular time and place to meet with the workforce in order to explain what the small groups are doing, what extra help they need from among the potential owners, or if they have hit a challenge causing them to need professional assistance.

Some final business plans go to potential lenders. Other sections stay in house to help owners develop the additional basic ideas and policies to be used operating the business. Regardless of how the work is accomplished, and used by whom, the following are parts of a business plan that should be complete.

Here, in detail, are the components of a typical business plan, although some plans may differ in comparison, as all business are not exactly the same, each with differing assets, liabilities or debts and receivables.

A business plan answers critical questions, and, therefore, should be well-organized, easy to read, and *totally* free of spelling or numerical errors. It should be free of jargon, especially clichés that are known only to persons in a particular industry. It should include the information that each worker-owner will want to know, and must know if they are to make their own wise

decision about investing both labor and money if they want to work at the cooperative. Furnishing them answers has taken greater significance since the onset of the Great Recession in 2007 when the housing market crashed.

These days, every working person wants to know what job security do they have? The short answer is *how* this worker cooperative going to count labor costs? The short answer deserves – and requires – a longer answer.

In a conventional business, indirect labor - managers, supervisors, administration and support staff – are treated as *fixed* costs. Yet women and men making products or providing services are expendable. Their cost to the company varies as demand for goods or services grow or recede. Their labor is counted as *variable* costs caused by external factors – a recession, market or seasonal demands. They are hired or laid off, or fired as need dictates.

Direct labor in the conventional firm is normally treated as an internally determined variable. Product sales, together with desired levels of inventory investment, determine production runs. Production determines the direct labor required. Short time or reductions in pay are possibilities, and the annual or longer-term business plans are used minimize the likelihood of such drastic measures. Treating labor as a fixed cost increases the importance of an accurate planning process. Poor planning increases the probability that direct labor pays the price of periodic layoffs and firing. Direct labor is an escape valve.

In the worker cooperative, these relationships are reversed. Here why and how:

Every worker owns and has a part in managing the business. Each worker becomes an owner after a predetermined, limited period of trial employment. If she or he knows how to do the job efficiently as claimed during pre-employment interviews or on written tests, and gets along with owners, then they make an owner's investment equal to the investment every other owner has made. *If she or he decides not to make such an investment, they are terminated. Thus all permanent workers are owners.*

Labor – the number of owners available and the number of hours available – determines production. Production together with sales determines the level of inventory – which may or may not be the desired level. This equation is at the heart of why cooperative owners enjoy greater job security:

Inventory = production – sales. Any two of these three quantities determines the third element - direct labor. Direct labor, thus production, is, within certain limits, given independently of sales. The three quantities may not match up to satisfy the equation. Most of the time, this problem is solved before it happens by very careful planning. If there is a miscalculation, the result is “a matching problem”, as described by economist David Ellerman. Charts 4-1 and 4-2 detail the differences in a cooperative's production planning and that of a conventional firm.

Chart 4-1

PRODUCTION PLANNING FOR A CONVENTIONAL BUSINESS

Time available: 40 hr. week x 50 weeks = 2,000 hours

Sales forecast [5,000 units] + inventory [500 units] = production [5,500 units]

Direct labor required [2 hrs. per unit] = 5,500 x 2 = 11,000 hrs.

11,000 hrs. divided by 2 = 5.3 person hours.

Chart 4-2

PRODUCTION PLANNING FOR A WORKER COOPERATIVE

Time available: 40 hr. week x 50 weeks = 2,000 hours.

Sales forecast: [5,000 units]

Owners available for direct labor = 6 person years

Direct hours of labor available = 6 x 2,000 = 12,000 hrs.

[1] Production possibilities:
= $\frac{1}{2}$ unit per hour x 12,000 hrs = 6,000 units
or

[2] Production [6,000 units] – sales [5,000 units] = inventory [1,000]

So, at the conventional firm, one person will be laid off or fired after six months of work in order to bring direct labor costs down to the planned 5.5 person years needed to produce the projected output.

In the worker cooperative, however, owners have a choice. They may decide to share a period of reduced wages or short-time to resolve the matching problem. Yet again, if inventory is considered excessive at 25 percent of projected sales, prices may be cut on products along with a corresponding reduction in revenues and profits.

Since every owner counts among the number of persons providing direct labor, this cost is somewhat fixed downward, not upwards. Their rights as owners are the same as production or service persons, especially when a philosophy of employment security is adopted as such a policy is usually part and parcel of the worker cooperative. Planners for the cooperatives do not have the same easy out as their counterparts in firms where owners of capital call the shots.

Further, worker cooperatives do not treat sales as strictly a market determined variable. Managers when facing a drop in sales cut prices rather than production causing layoffs. The worker cooperative must place greater emphasis on marketing, maximizing the cooperative's

control over sales volume to offset short-fixity of labor. If sales fail to improve over an extended time period, worker owners usually introduce new products, or reduce the labor surplus by finding owners new jobs in other cooperatives until demand improves at which time they may return to their original jobs, or to new responsibilities.

This latter option is more likely to be available to women and men in the Mondragon Cooperative Corporation, and in Canadian cooperatives, particularly in Quebec Province where, since the 1980s, the Provincial government has relied on cooperatives to generate job growth. Finding owners new cooperative jobs in the United States remains a stretch outside of New England, the San Francisco-Oakland area, or in the Northwest where, in each region, there is an older tradition of forming cooperatives owned and managed by owners. Further, many of these cooperatives either operate their own in-house startup assistance cooperatives, or band together the form cooperatives that do the same but within their certain business expertise.

COMPONENTS OF THE BUSINESS PLAN

Here then is the framework for a substantial business plan, one showing prospective owners know what they aim to accomplish.

Summary of the Plan

Usually a business plan opens with a short summary, not over one page long that presents the project idea, key objectives and goals, an outline of the financial requirements, and why it will work. Because the plan is for a worker-owned enterprise, a brief statement about how cooperatives benefit workers, customers, and the city or town in which the business is to be located. Two universally benefits: wages and profits stay in the region; and since the owners all likely live nearby, these businesses seldom, if ever, relocate to take advantage of a tax holiday or cheap labor.

Spell out briefly how a one-person, one-one vote governance system works, adding, in closing, why decisions made by many owners are usually wiser than decisions by one or two owners.

Product Plan

This section offers a precise description of what the worker-owned firm intends to manufacture or the service it intends to provide. Any person - butcher, bartender or banker - will want to know what the product does, how, and its general description.

The same goes for a service. The description should include costs and prices. Special features should be identified. Outline any future plans to improve or to develop new skills within among the owners. Describe how the firm's prices compare with competitors' prices and how the service offerings differ from the competition. The firm's pricing policies should be set forth.

Discuss how quality will be maintained. Indicate if a guarantee for after-sales or for services will be offered and whether there will be a faulty goods return policy. Include details on color, design, finish, and packaging. Keep in mind, however, that whatever is said here must be something the firm can back up, both in terms of overhead costs and contractual requirements.

Marketing Plan

A marketing plan serves two purposes: to help worker-owners estimate the size of the market today, next year, and a few years down the road. Who are prospective customers? Who is the competition? List each category according to annual sales. A market analysis helps determine the amount, costs, and timing of the firm's capital requirements, equipment needs, and human beings the cooperative expects to hire. If this information is badly incorrect, the costs can destroy your company.

A second purpose is to give potential lenders assurance the cooperative has prospects for growth, both in terms of potential customers and a customer base with a proven history of steady sales. Show sales targets that increase market share.

Markets are usually quite large, but can be described in distinct parts or segments. Carefully identify the market segment at which your product or service is aimed. Worker-managed businesses, at least very early in their history, usually are small firms. Their size, plus the limited capital available to any small business, obviously curbs your choices of a market segment. Geography is another factor that can limit a market.

The marketing plan should describe what is unique about the product or service. What separates your product or service from every competitor? What are the characteristics of their products? What are their wholesale and retail prices, and which prices apply when? What strategy does the cooperative plan to use to gain a share of the market? Being a worker-owned firm is a claim for distinction, but any particular price, or quality advantage must be spelled out. Potential customers want bargains plus a product best suited to their needs, quality, and service. These customers usually are not interested in hearing about a new way to organize work!

All firms require marketing plans which include a sales analysis in quantitative terms, both in units sold and monetary value. These market data are available either on line, or at your local library, and even more likely at a nearby state land grant university. However, if sales are dependent upon a few customers, background information on their buying records, credit records, and peak demand periods are crucial when planning work, vacations, etc.

In some cases it may require a market survey of the top 15 or 20 customers if the cooperative is a new business or entails reopening a closed operation. The survey should include the product mix and margins on products as well as volume.

Raw Material Plan

Why account for raw materials? For service cooperatives, describing sources of raw materials is an easy task when preparing a business plan. For manufacturing firms that depend upon only two or three items to make a new product, the task is simple too.

But in many enterprises, cooperative or conventional, insuring a steady flow of raw materials is a must. This means establishing ties with a reliable supplier or suppliers and then identifying possible backup sources. Frequently, binding contracts must be negotiated to insure supplies. And be aware that some suppliers your cooperative may need have contracts with

buyers keeping them from selling product to any, and all, potential competitors.

There is another reason stipulating sources for raw material supplies. Their purchase generates accounts payable and inventories for both the raw materials and the finished products. Balancing accounts receivable with accounts payable is one major management task. Purchasing large amounts of raw materials at one time, or too few materials, can throw a small firm's cash flow management into a tailspin.

Financial Plan

Financial documents are the heart of any business plan. Potential investors review this section very closely. Be sure to provide complete and accurate data about the cooperative's financial condition and needs, whether it has been operating for some time or is just getting started. If the firm has been in operation for some time and new capital is required, hiring an accounting firm to provide an unbiased, thorough financial analysis will be useful.

Include any audited financial statements, comparative profit and loss statements from previous years, and projections for at least three years. Make certain that sales charts, labor cost tables, administrative overhead, and tax statements or projections are included. Industry business ratios should be highlighted if they put the firm in a good light, and explained if they don't.

If the cooperative is looking financing for the first time, the amount sought for the proposed project must be justified through the business plan. Specify exactly how the money will be used and the precise nature of financial arrangements with every individual lender or agency. Further, explain how every worker is an owner with an investment equal to every other owner. Any money that will be used for new building construction, or to buy capital equipment must be explained along with cost estimates.

If additional funds will be needed during the next five years, indicate the amount, the dates needed, and the proposed method of repayment, plus all finance charges. It is important to know the lending policies, collateral requirements, and grant requirements of each of the financial institutions and government agencies from whom funds will be sought and to address their specific concerns.

In keeping with two basic principles of worker cooperatives, the business plan must declare that while loans can be received from any source, only worker-members have a policy-making say in the firm. Labor hires capital. Investors should be advised beforehand that their loan provides those rights to indirectly constrain or to restrict decisions, but that only owners directly control the firm. Arrangements may be made for outsiders to make equity investments, but only in non-voting stock. However, debt financing in the form of loans that must be repaid at a specific rate of interest over a set time is increasingly available for worker-owned firms.

Taxation Plan

Tax law and tax regulations are best left in seasoned hands. Taxes are inevitable; mistakes in calculating the amount due are seldom treated as mistakes. They must be paid or, if not, data must be prepared to demonstrate why not. The federal government and some states give cooperatives special tax breaks. Owners should ask both local and national tax officials for

details when the business plan is being prepared.

Ordinarily, corporate earnings are subject to double taxation. The corporation pays corporate income tax on its taxable income and the individual shareholders pay personal income tax on their share of corporate earnings distributed as dividends. Subchapter T of the Federal Internal Revenue Code enables a cooperative to avoid this double taxation by legally avoiding the corporate level tax by deducting from corporate taxable income any earnings allocated to members on the basis of work performed [called patronage], or measured by hours worked. The procedures of Subchapter T can provide a dual benefit: the cooperative can avoid double taxation and, at the same time, retain and reinvest a portion of the earnings allocated to members [in addition to ordinary cash wages].

The benefits of Subchapter T are available, in the words of the U.S. Tax Code, to "any corporation operating on a cooperative basis." This has been interpreted as meaning [1] a worker cooperative must allocate earnings on the basis of patronage, as opposed to relative capital investment; and [2] the cooperative must be democratically controlled by the members.

It is also important to note that the particular state-level incorporation statute is not controlling for federal tax purposes. For example, if the cooperative is incorporated as a business corporation but operates on a cooperative basis, it can still qualify under Subchapter T.

The mechanics of using Subchapter T are simple. No prior election or approval is necessary. A corporation that is operating on a cooperative basis simply files the appropriate IRS forms [1099-PATR and 1096] when paying taxes. A note of caution: consult with your lawyer or with an experienced member of the National Society of Accountant for Cooperatives before making decisions about taxes, including Subchapter T.

At the time of this writing, the federal tax forms that corporations and employers have to file on a regular basis is the Corporate Income Tax Return [Form 1120] that is due by the 15th day of the 4th month following the end of the year. Tax payments per the return are due in equal installments by the 15th day of the 3rd and 6th months, following the end of the year. A local Internal Revenue Service can provide changes to these filing dates, if any, including the following.

The Corporate Estimated Tax Form 503 is used for the deposit of estimated taxes. Deposits are due the IRS in equal quarterly installments on the 15th day of the 4th, 6th, 9th, and 12th months of the taxable year. Payroll taxes quarterly return [Form 941] of combined withheld income, and employer's and employee's social security taxes [FICA] are due on April 30, July 31, October 31, and January 31. Taxes are paid with the return unless the business is required to make deposits to the authorized depository. The individual withholding [Form W-2] and reconciliation statements [Form W-3] are due the last day of February. Employers must furnish employees with Form W-2 by January 31st. *[These filing dates or form numbers may change from time to time. Check with the Chamber of Commerce, or Small Business Administration office in your town or city.]*

For purposes of the business plan, it should be necessary only to state whether you plan

to qualify as a cooperative for federal tax purposes and that you intend to obtain the benefits of Subchapter T.

If the proposed business is to be organized as an Employee Stock Ownership Plan [ESOP], substantial tax breaks are available to these businesses. *An ESOP permits the firm to repay both the loan principal and interest in pre-tax dollars, and thus save the company taxes.* This information should be included as part of the business plan.

Personnel Policy and Staffing Plan

"How do people get fired if they are owners?" This question, or something like it, always comes up during meetings called to explain the idea of worker ownership. So is the question's other side: "How do you get hired?" Or a third question asked with equal frequency, "How do you handle grievances?"

A personnel policy is to worker-members what the business plan is to bankers. From the shop floor, or job station, the cooperative's worth is measured by the ways people are treated, and, as well, by its return on an individual's investment of labor and money.

Only a short summary of personnel policy and staffing plan need be included in a comprehensive business plan submitted to lenders or investors. It should spell out the salaries and wages of the key managerial employees, and in a worker buyout where there is a union it should indicate the financial provisions of the existing collective bargaining agreement or any modifications that will be made as part of the buyout. Preparing a fully developed personnel policy explaining how personnel decisions will be made and by whom will nip arguments or misunderstandings at the desk's edge. Owners with differing points of view, and experience, should be included in drafting these policies. Their views, if unchanged, should be presented to all owners. At the outset draft a timetable for formulation, review, decision-making by the workforce, and, at a reasonable time in the future, a re-evaluation.

Setting out individual responsibilities and rights is one way to start a personnel policy manual. Defining each job and its qualifications is another. Advancement policies, criteria and procedures for job rotation, disciplinary procedures, a system to handle grievances, and leave time are among the many issues that must be addressed.

Additionally, some procedures should be developed by which personnel policies are proposed, reviewed, adopted, evaluated and revised as need dictates. Smaller cooperatives often turn to friends in other cooperatives, or to the U. S. Federation of Worker Cooperatives for suggested personnel policies, expecting to make changes as suitable, of course.

Potential lenders will want rather detailed information about how the firm will be managed on a day-to-day basis, including reassurance that decisions will be reached in the most orderly, efficient manner. Many lenders wrongly believe cooperatives managed by owners cannot make decisions quickly and efficiently. The personnel policy section should spell out the distinction between authority vested in management and authority vested with the workforce, each of its elected boards and committees.

Finally, the section should briefly note the internal means established to resolve disputes between individual owners or owners and management, board members and management and, if a union is involved in the firm, between it, the management, and owners. In sum, the personnel policy section of the plan should demonstrate consistency with democratic values yet contain efficient administrative procedures for handling human resources.

Governance Plan

How do you assure democratic practices are the means of self-governance? The cooperative's by-laws are the framework for governance. By-laws set forth the democratic rights and responsibilities of owners. The by-laws provide the way workers can exercise their guaranteed rights. These are supplemented by written operating rules agreed to by the owners or board of directors.

Finding words for your democratic governance system is easy; putting those words into operation can be difficult. Three criteria should be used to establish governing by-laws: the responsibilities of the owners as individuals and as a group; the responsibilities of the board of directors; and, responsibilities of any special grievance or internal social committee. Each should be absolutely clear, giving each real decision-making authority. The governance system established should be simple and accessible to members. The ICA model by-laws are provided in Appendix C.

Only a summary of the governance plan is necessary in the formal, public business plan. However, the governance statement should affirm the enterprise's intent to adhere to democratic principles, especially with regard to one-person one-vote governance.

Social Audit Plan

If a balance sheet is a principle way to measure a firm's performance as a business, then the social audit is a way to measure a chief way to how the business values humans. A worker cooperative that operates only on the material criteria of profitability ignores the humanitarian principles of cooperation.

Conversely, a worker-owned enterprise that operates only on humanitarian criteria without regard to the realities of the business may soon go bankrupt. A social audit can measure the prospering firm's social achievements.

Social audits have three principal elements: democratization of work, humanization of work, and product/service contribution.

- *The Democratization of Work* includes equality, decision-making, communications, governance structure, control, ownership and, where applicable, union relations.
- *The Humanization of Work* includes job design and job satisfaction, pay, working conditions, degree of individual responsibility, opportunities for education or upgrading skills, and recognition of individual[s] accomplishments in the cooperative, or in life away from work.
- *The Product/Service Contribution* element includes customer satisfaction, adherence to

environmental regulations, and truthfulness in advertising, and availability of the firm's practices and policies in the community in which they do business.

When such an audit is constructed according to the vision of the worker-owners and when each element is given a numerical value, the social audit measures the impact the cooperative is having on the lives of worker-owners, the immediate town or city, and serves as a tool by which owners gauge financial constraints. If carried out regularly, a social audit can document how the firm balances what is financially practical at a given moment with what is democratically or socially desirable.

While the consideration and preparation of a social audit plan are an important part of the preparation for starting a cooperative, *the inclusion of this material or section in the business plan to be submitted to potential financial lenders is not necessary, or in the eyes some lenders, appropriate.*

Education and Training Plan

Creating the means, i.e., usually a committee, to stay even with, or ahead of today's fast-paced business world, locally, regionally, and even internationally, is a challenge which even the smallest cooperatives cannot ignore. Regular, well-planned workforce educational meetings are one commonplace answer to this need. Owners who can document with either management or the board, or both, a need within the firm to teach owners about homophobia, racial bias or feminist issues that may be interfering with efficiency and morale. Many cooperatives have creative, effective and imaginative educative programs around these issues. Some colleges and universities have, too, and will give owners an assist if asked, and usually paid!

Here are a few, typically asked questions about education and ownership:

- Will internal educational programs be calculated as a factor in the cost of production, service delivery, or some other variable?
- Will fully vested owners have the right to learn any job in the firm? Will on-the-job training or off-the-job training be paid for by the cooperative or by the individual owner? If by both, then in what proportion and what amount? If by the company only, what cost limits apply?
- What criteria are used to judge applications for educational courses, either vocational or managerial?
- How will the effectiveness of educational programs be judged, both before owners apply and, if enrolled, once they complete their work?
- Who manages the educational opportunity program - an owner, or a committee of owners?
- Does the cooperative hold regular educational workshops or seminars to improve the collective skills in and practices of self-management?

- Will the cooperative make an inventory of the educational interests of owners, and organize seminars or workshops accordingly?

VERIFYING THE BUSINESS PLAN

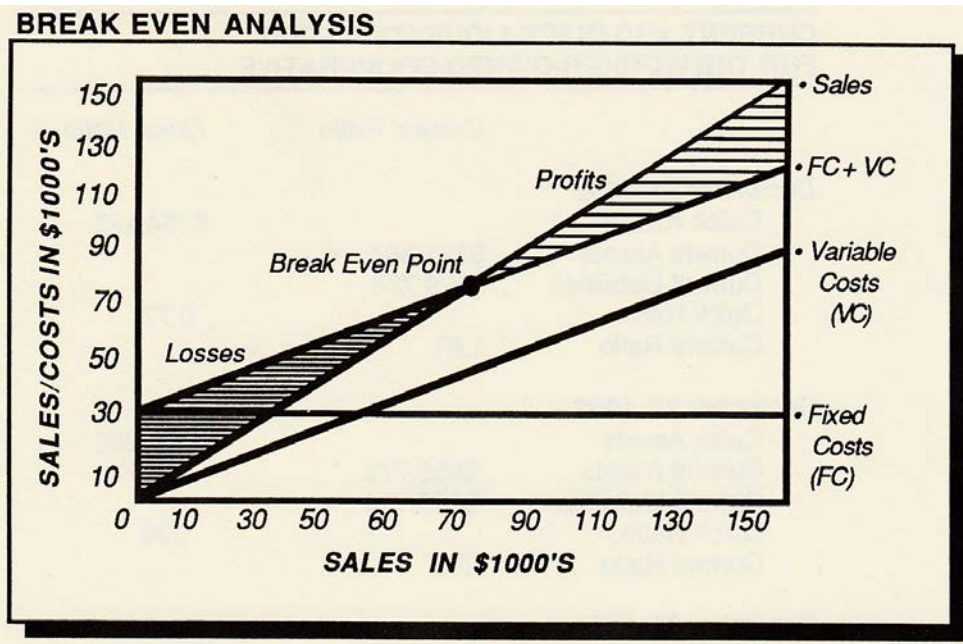
After drafting the business plan, but before having the entire business plan's text compiled into a widely used text program, the steering committee should consider having the data, spelling and formatting verified section by section. Verifying is not a way to get on another person's case. Rather it is way to look for weaknesses which may cause embarrassment down the road.

Ask yourselves: *Does the business plan prove how we intend to generate an acceptable level of financial efficiency?* One way to answer this question can be to compare the net margin, gross margin, and expense margin of a traditionally organized business of about the same size and in the same industry. Verification may require the assistance of an accountant or another than financial advisor.

The Break Even Analysis

What will be the break-even point of this business? The break-even point is where sales cover basic operating expenses, but generate no surplus. It is a key target and can be figured on weekly, monthly or annual sales. Another ration called the margin of safety can be figured by calculating the percentage sales can fall below your estimates before the break-even point is reached. Chart 4-3 illustrates graphically the concept of break-even.

Chart 4-3



Risk Cover: Current and Quick Liquidity Ratios

A few other issues should be discussed as part of the planning process. For example, does

the group have adequate management skills? If not, how are they to be obtained? Will the proposed product or service have acceptance in the marketplace? Is that satisfactorily answered in the market plan section? Will the financing provide an adequate cushion during the start-up phase, etc.?

Chart 4-4 illustrates this formula for a risk cover. These are the essentials, but there are other ways to verify the financial data in a business plan. Owners may want to take this process further as part of their formal business planning process.

Chart 4-4

CURRENT AND QUICK LIQUIDITY RATIOS FOR THE WORKER-OWNED COOPERATIVE		
	<i>Current Ratio</i>	<i>Quick Ratio</i>
December 31, 1992		
Quick Assets		\$154,142
Current Assets	\$321,367	
Current Liabilities	\$199,738	
Quick Ratio		0.77
Current Ratio	1.61	
December 31, 1993		
Quick Assets		\$356,282
Current Assets	\$556,772	
Current Liabilities	\$356,164	
Quick Ratio		1.00
Current Ratio	1.56	
December 31, 1994		
Quick Assets		\$546,107
Current Assets	\$799,594	
Current Liabilities	\$510,286	
Quick Ratio		1.07
Current Ratio	1.57	

PRESENT THE BUSINESS PLAN TO THE WORKER OWNERS

A TIME TO VOTE

Before making an appointment with potential lenders, the business plan should be presented to the workforce for study, modification, ratification, or rejection. The particulars of this process are up to the group. Chart 4-5 provides a checklist of basic questions that should be answered in a business plan. Depending on the nature of the worker-owned cooperative business being established, and the need for or use of professional help to carry out this important task, it may take several weeks or months to complete a formal business plan. (See Chapter 6 for more information about using consultants.)

Once completed and approved by the organizing group of worker-owners, the formal

business plan should be typed or printed with one last thought in mind: its purpose is to document the need for financial support, i.e., a loan, grant, a loan guaranteed by assets, including accounts receivable. The plan also should assure potential lenders, foundation officers, or other investors that they will earn interest off their money and get their loans paid in full and fair. (Some foundations have Program-Related Funds with that organization's aims for the use of their money.)

The business plan is usually the first impression prospective lenders receive of the cooperative. If the business plan looks sloppy or hastily done, or seems to lack candor, the many hours you devoted to putting it together can come to naught. Lenders are not likely to take you seriously, even if you rework it. The prospective owners should use a business plan as a basic document to help them during their probationary work before buying an owner's stock share.

If after thoughtfully reading the business plan, owners have questions about accuracy of a set of numbers, or about a policy statement, members of the steering committee should be on hand to answer every question, and without defensiveness. Leading managers should be present, too.

When owners give the nod of approval, then it's time to make appointments with potential lenders, and decide which two or three owners will make presentations on behalf of the cooperative.

The checklist of basic questions in Chart 4.5 can be used to help the organizing group as they think through and prepare a formal business plan for their proposed new worker-owned cooperative enterprise.

Chart 4-5

CHECKLIST OF BASIC QUESTIONS TO BE ANSWERED IN A BUSINESS PLAN

The Product Plan

- ☐ Describe in detail the product or service to be offered
- ☐ Define the market segment, all potential customers, and all competitors.
- ☐ Define the costs of the product or service, comparing those costs with competitors' substitutes, as well as those firms' net earnings annually.
- ☐ Is the product patented, or should it be?
- ☐ Are there any restrictions on its manufacture or distribution?
- ☐ Are there any by-products that might be sold now or in the future?
- ☐ Is the product or by-products of its manufacture harmful in any way to anyone young or old, worker or customer?

- ☐ If the product or by-products of its manufacture can be harmful, what steps to be taken to ensure safety in its manufacture or use?

Marketing Plan

- ☐ Who might buy the product or service, and how does the firm plan to let them know the product or service is available? This is called market identification.
- ☐ How many businesses or persons buy the product, or use the service being planned? Why do they use it?
- ☐ Will a change in price change sales? How much of the product is sold annually or how often is the service is used?
- ☐ Will the product be distributed directly to buyers, or sold only through wholesale distributors? And how: by mail, truck, ship, air, or person to person? What are annual distribution costs, including wages, benefits?
- ☐ Will the product or service sell in some seasons but not others? If so, why? How will this affect how work is organized, cash flow, sales, etc.?
- ☐ Seasons aside, could other outside factors influence when sales are made?
- ☐ What are the product's unique features, or what makes the service important?
- ☐ Can the product break, spoil or be damaged between the time of production and final sale? What can be done to prevent these or similar problems?
- ☐ Will the sale of the product or service be sheltered? In other words, can the prospective worker-owned firm get written assurance that the product or service will be purchased by another firm or person for a specific period of time and at a set price or price schedule?
- ☐ Will sales persons be worker-owners? Will they be paid a commission as well as a salary or wage?
- ☐ How will the product or service be identified to potential customers on the cooperative's stationary, packages [if needed], advertising, business cards, and telephone directory?

Raw Material Plan

- ☐ Who will supply the worker-owned firm with raw materials? Is there one or more suppliers? What are their policies on delivery, prices, credit?
- ☐ How far away is the source of the single most important raw material?
- ☐ How much (or how many) will the cooperative have to buy from a supplier at a time? What is the supplier's discount policy, if any?

- ☐ What will shipping and storage cost? Are there any special taxes on inventory, and when must these taxes be paid?
- ☐ Will stock levels be maintained by total cost, or by volume, or by just-in-time deliveries?
- ☐ How will the cooperative control inventory, keep records on the inventory, and keep it secure after delivery from theft, fire damage, deterioration, or spoilage?
- ☐ How much will insurance cost for stock? And how many worker-owners or how much time will be required to handle inventory?

The Financial Plan

- ☐ List every available source of financial help, including the name, title, address and telephone number of the contact person in each financial institution, and loan size, decision-making schedule, and criteria of each lender.
- ☐ Develop a complete list of all the equipment the cooperative needs, the cost of each item, potential suppliers, including an assessment of their ability to service the equipment, and any related service costs.
- ☐ Prepare balance sheets.
- ☐ Prepare a break-even analysis.
- ☐ Prepare a projected income statement for the first year of operation, plus each year after for at least five years.
- ☐ Using projected income statement, prepare a cash flow analysis for three years.
- ☐ If possible, prepare a spread sheet, or deviation analysis, showing what could happen to the cooperative if prices suddenly drop, increase, or other variables, like an extended decline in sales.

Taxation Plan

- ☐ How does tax law in your state treat the Internal [or individual] Capital Accounts for owners? And for the cooperative. [See a tax attorney with cooperative experience for advice.]
- ☐ Exactly how does your state tax worker-owned cooperatives? Spell this out in your business plan, and make certain every owner has a written explanation.
- ☐ How does the federal government tax worker-owned cooperatives?
- ☐ Does your state have tax laws on the books that apply only to the kind of business you are planning? If so, list them and estimate their expected annual costs.

- ☐ Using the projected income statement, prepare an estimate of all taxes the cooperative faces, and a schedule of payment dates, if possible.
- ☐ Then, using the projected income statement, list any tax breaks your cooperative, like businesses in the same or similar industries.
- ☐ List all necessary licenses, tax and regulatory permits that business of the sort being planned must have.

Personnel and Staffing Plan

- ☐ List how many owners the cooperative will need to fulfill the business plan's short and long-term goals.
- ☐ Write a job description for each job and indicate how many hours a day that work requires. Identify every special skill[s], training and licenses every owner needs to do each job.
- ☐ Are potential members with the necessary skills available? How will potential owners be recruited If the cooperative needs more worker-owners in order to start the enterprise?
- ☐ How will the cooperative provide schooling or training if potential members lack necessary skills but have other attributes the cooperative values?
- ☐ How are wages, benefits, vacation time, as well as the Internal Capital Account for each owner to be managed?
- ☐ Do federal *and* state wage, working hours and working conditions, health, safety, sex equity laws apply to the firm, or just federal laws?
- ☐ State or county employment security offices usually have posters with related workplace law. Posting these in prominent places throughout the workplace is worthwhile.
- ☐ How long must an employee work at your cooperative before becoming eligible to become an owner, and expecting to purchase a membership share? What are the expectations for work performance before becoming a member, and can you assure a prospective owner those criteria are applied evenly?
- ☐ What are the procedures for reviewing a worker's job performance after becoming an owner?
- ☐ How are members fired? Is due process guaranteed? What due process procedures are in place for disciplinary purposes, including firing?
- ☐ Does the cooperative have a job security policy? Is it written out and apply on all occasions unless modified and given approval by owners at the annual general

membership meeting? If layoffs for seasonal reasons are necessary, what procedures govern that process?

- ☐ Is there a policy and or a plan for job rotation? Will it be operative without regard to race, gender, sexual preference, or political persuasion? Is there a policy and a plan to upgrade workers' skills and provide them opportunities to gain higher level skills?
- ☐ How will conflicts between owners at the job site, or between owners and managers be resolved? By a specially elected body, or on an ad hoc basis?

Education or Training Plan

- ☐ Will internal educational programs be calculated as a factor in the cost of production, service delivery, or some other variable?
- ☐ Will fully vested owners have the right to learn any job in the firm? Will on-the-job training or off-the-job training be paid for by the company or individual? If by both, then in what proportion and what amount? If by the company only, what cost limits apply?
- ☐ What criteria are used to judge applications for educational courses, either vocational or managerial?
- ☐ How will the effectiveness of educational programs be judged?
- ☐ Who manages the educational opportunity program, an owner, or a committee of owners?
- ☐ Does the cooperative hold regular educational workshops or seminars to improve the collective skills in and practices of self-management?
- ☐ Will the cooperative make an inventory of the educational interests of owners, and organize seminar or workshop accordingly?

Governance Plan

- ☐ Will the firm's by-laws spell out the democratic rights and responsibilities of each member?
- ☐ Will the by-laws establish a plan for electing board members and other officers on a regular basis?
- ☐ Will the by-laws provide for the rotation of leadership by limiting the number of terms any officer may hold office?
- ☐ Will the firm's manager have the right to vote on policy matters before the board of directors? Or will the manager's role be limited specifically to proposing and carrying out board policy?
- ☐ What are to be the exact responsibilities of: [1] the owners individually, and as a whole;

[2] the board of directors; [3] the various committees; and [4] the management.

- ☐ How will changes be made in: [1] policy; [2] the by-laws; and [3] or management practices?
- ☐ Will the by-laws or any other governance documents or policy statements be written as clearly and simply as possible and be made available to every member?
- ☐ Will the by-laws or other documents or policy statements include restraints to prevent any single group from wielding unchecked power within the firm?
- ☐ Will the firm have a separately elected Grievance Committee to assure independent protection of the rights of individual worker-owners, and to settle disagreements, perceived inequities, or allegations of mistreatment?
- ☐ Will the firm develop a clear statement outlining decision-making powers for worker-owners, committees, the board of directors and management at the shop floor, administrative, governance and policy-making levels?
- ☐ Will the firm have any of these committees, or all of them, and will their duties be specifically stated: governance, finance, grievance, education, management oversight, personnel, executive, long-range planning, and elections?
- ☐ Will all policy-making committees hold open meetings? Will an annual meeting be held to elect officers and review and decide upon policy?

Social Audit Plan

- ☐ Will the firm establish specific norms by which social performance can be
- ☐ measured with regard to democratic control, owner participation in elections and decision-making, job re-design, product production and product creation?
- ☐ Will these annual social audits be used to influence cooperative action and policy? If so, how?
- ☐ Will results of a social audit be available to all members, the outside public, and to other worker-owned firms?
- ☐ Once the business is started, it is important to develop good information systems to compare the operating results to the plan.

5 PUTTING CAPITAL TO WORK

THE PITFALLS OF FINANCING

SOURCES OF CAPITAL TO FINANCE WORKERS' COOPERATIVES

- INTERNAL SOURCES
- EXTERNAL SOURCES

A Time to Vote

THE PITFALLS OF FINANCING

In 1891, Beatrice Potter Webb, and her husband, Sidney, after considerable study of 54 producers' associations in England, report that all but eight failed as a result of "universal deficiencies." Further, they say, the remaining eight are "weak and may not survive." The universal deficiencies, they conclude, are "a want of capital, want of custom and absence of administrative discipline."

So, the Webbs argued, "Since cooperatives keep failing, they must be impossible." They do not take note of their own political views as Fabian Socialists, or that they are using their ideology as the measure against which they are comparing the cooperatives they study.

The cooperatives in their sturdy are the efforts of Chartists, men and women who beliefs are "...soaked in the blood of beliefs of the common good, the idea of democracy." Their political passions, plus their need for their near-universal need for paying work, out-match their barren educations.

In that day, Fabians are Socialists, yes, but gradualists, *reformers with the financial means to keep body and soul well as they think over what is best for laboring people*. Direct ownership of productive assets by working class individuals does not figure in their ideology. State ownership does. Nor does the idea that businesses run by the working class are businesses that rent capital that workers manage.

Most Chartists are hungry, short of money, if they have any at all, particularly the men and women who start the cooperatives in the Webbs' study. They manage what wages they earn with frugality which carries over to being able to provide some financial help to others like themselves to start in business. Not one of their cooperatives are known to organize so that decisions lead to a very few owners become rich while many employees remain poor.

Fabians in those days, through their written and educational efforts often go against the capitalist grain, but rather than embracing the ownership of enterprises by organizing *worker-owned* cooperatives, they opt for government ownership of enterprises.

For 50 years, until death silences their voices', the Webb's keep saying producer associations – the forbearer of today's worker cooperatives – are impossible. They repeat this in their prolific writings, numerous lectures, or especially lectures to labor union leaders. Even today, nearly 125 years after the Webbs' study, some thoughtful people repeat the Webb's worn, tiresome assertions, a misleading hangover. It is as if cooperative owners, unlike other business owners, are unable to learn from mistakes, or from past positive experiences.

The Webbs, after all, are among the founders of, and formidable figures in, England's durable Fabian Society, not to mention being among the founders of the prestigious London School of Economics where, in one course after another, the Webb's explain why producer associations fail:

Workers "...prefer the severance between the capitalist..."...and themselves "...to be complete."

The profitable "...administration of property...is a condition which cannot be fulfilled by a self-governing body of workers."

And, finally, they declare, "While government by the workers proved a potent cause of commercial failure, commercial success promptly destroyed this form of government...by substitution – with or without the workers' leave – the outside capitalist [*i.e. a manager – author's note.*] for the working shareholder."

As late as 1989, in England, Scotland and Wales, all places where workers run profitable coal mines, retail stores, or who are selling world-renowned hand-knit sweaters by mail, there are doubters who whisper echoes of the Webb's conclusions. Bankers hear rumors of the study and refuse to make loans to cooperatives, usually arguing no one person is responsible for liabilities. Government economic developers restrain from offering to worker cooperatives the same amounts of money they use to compete with one another trying to lure the conventional firms. Whispers are heard among cooperative owners, too!

The Webbs were right about one factor preventing workers from starting cooperatives in the textile industry. Few mill workers were able to find capital enough among themselves to re-start mills where they once worked, or to commence new mills. Further, the dependence of these mills on raw materials from overseas is dramatically illustrated when the Civil War in America shuts even the best financed mills in the British Isles, when sudden blockades stop both Southern and Northern ports from shipping cotton.

The Civil War, opening as it does with draft riots, then continuing with staggering numbers of deaths or dismemberments as soldiers from North and South battle one another not just over the issue of slavery, but for control of the South's rich farmlands, the power to set tariffs and a host of economic issues aggrieving Southerners.

In the South, cotton fields often became battlefields. Northern gunboats blockade Southern ports keeping merchant ships tied to docks, unable to take cotton bales to English ports, or ship out with any load. Cotton bales from the South do not reach Northern ports with regularity. The Northern military takes over trains to haul munitions, food or the wounded. There is little or no cotton to send English mills.

This history notwithstanding, the maturity of most existing worker cooperatives in America today is beyond doubt. Many start when owners leave one cooperative using their experience to start another. For example, the owners of Collective Copies, originally only in Amherst, MA, expand their printing services by “franchising” two additional copy shops in nearby towns. Further, they open up a small print-on-demand press, The Levelers, publishing and selling print-on-demand books.

Something similar is happening in California’s Bay Area. There, one worker cooperative cheese shop and bread shop after another opens. Each helps the other. The older store gets fresh product or practice ideas from new owners. New owners learn the tested experience of veteran owners. They share a name, too. They are Arizimendi Cheese and Bread Shops, using a variation on the name of Arizimendi, the Anglicized name of Father Jose Maria Arizimendiameta, the “patron saint” of the many Basque cooperatives.

Today, in America as in Mondragon, workers own cooperatives in construction, industrial tool design and manufacture, taxi cooperatives, printing, wooden boat building or repair. In the South Bronx, the nation’s largest worker-cooperative is the 1,100-plus member Cooperative Home Care Cooperative. All bear resemblance to their forerunners in and around Mondragon.

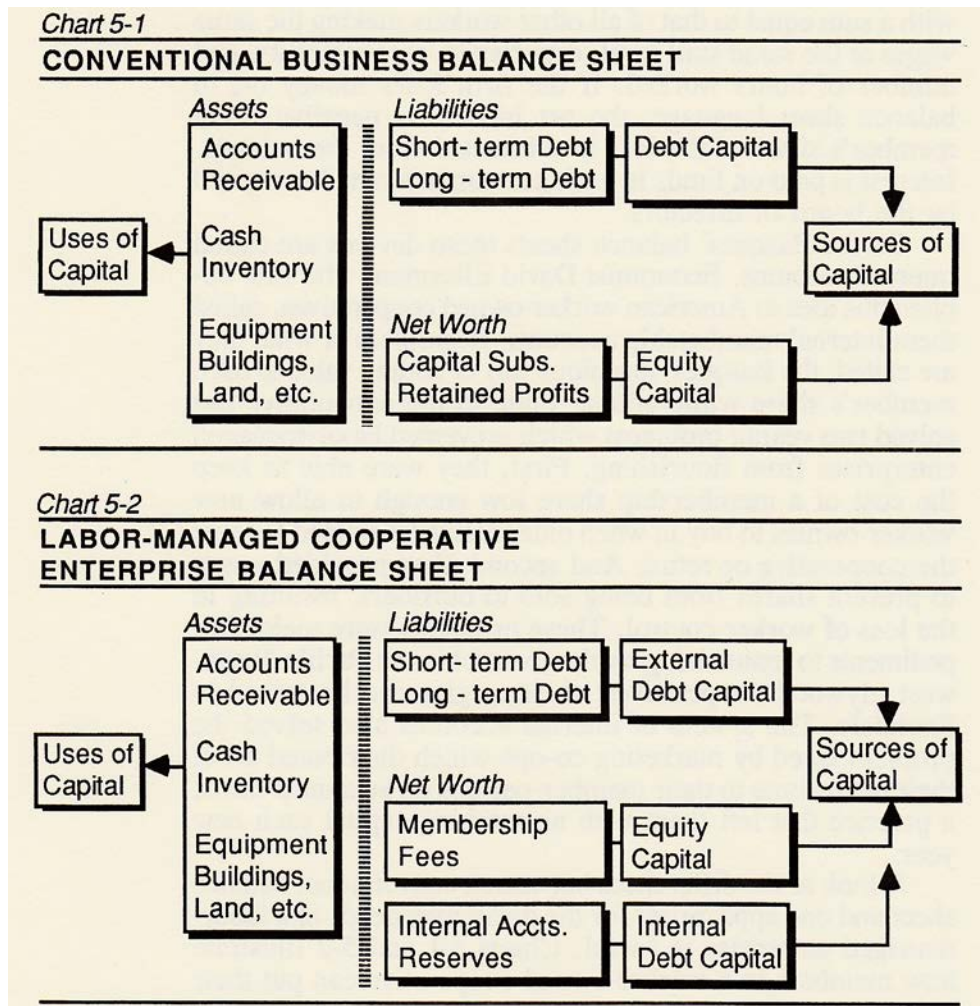
There are more than enough successful worker cooperatives operating in the United States and Canada to prove the worthiness of lending to them. Their influence is being felt in California’s Bay area, throughout New England, the South Bronx, and the upper mid-West, and in smaller ways North Carolina, Texas, Oregon and Washington State. Frequently, clusters of small worker cooperatives make loans to one another.

SOURCES OF CAPITAL TO FINANCE WORKERS’ COOPERATIVES

Internal Sources

The difficulties experienced by the Chartists in England in the 19th Century to finance their worker cooperatives combined with the negative attitudes of the Webb’s and other Fabian Socialists, and their support for government ownership rather than worker ownership of business enterprises, made it very difficult to obtain capital from external sources such as banks. Something must have happened to enable groups of workers to successfully finance and create worker-owned cooperatives in the Basque region of Spain and subsequently in North America. The answer was first provided by Father Arizmendi and his young Basque colleagues, and subsequently adopted and used to finance worker cooperatives in the United States and Canada. How did the Basques overcome this problem? Through an innovative approach to internal

financing specifically designed for labor-managed cooperatives. Charts 5-1 and 5-2 graphically illustrate how this was accomplished:



The Basques had no lending agency to finance the founding of the first worker-owned factory at the height of the Franco regime. Money came from their own pockets or from friends and relatives, as well as donations put into wooden collection boxes the founders set up around Mondragon. Even relatives of the dead gave gold fillings from teeth of the dead hoping jobs would appear.

From the start, Mondragon workers used internal accounts to finance the growth of the factory where they make counter-top butane cooking stoves. Economist David Ellerman says the internal accounts help ensure the stability and dynamic growth of the whole complex of cooperatives in Mondragon. Plus these cash reserves offer bankers assurance loans will be repaid.

At first, the Basques reinvest 70 percent of the net income of the cooperative by crediting each owner's internal account. They divide the remaining 30 percent into two parts with 10 percent going toward education, their aim being to foster new vocational skills to benefit the

cooperative. The remaining 20 percent is placed in retained earnings, a prudent move allowing the cooperative to finance capital expenses or for the inevitable rainy day.

This said, internal financing may pose dilemmas for North Americans. Both the U.S. and Canada have dynamic economies with constantly changing labor market conditions and technology making labor mobility desirable – for firms where capital rents labor. Some labor economists say a college graduate can expect to change jobs, perhaps even careers, six times before leaving the job market. For persons with high school diplomas the prediction for job change is even higher – if they can get a job.

But in order to maintain incentives and encourage reinvestment of surpluses, worker-owners must own a significant portion of the capital. If the time horizons of cooperative worker-owners are short, as they seem to be for capitalist corporations and their shareholders, then limited capital accumulation to finance internal investment may inhibit plans for long-term growth.

Chart 5-3

**THE WORKER-OWNED COOPERATIVE
BEGINNING BALANCE SHEET**

<i>Assets</i>		<i>Liabilities</i>	
<i>Current Assets</i>			
Cash	\$43,000.00	Short term debt	\$0.00
Accounts Receivable	0.00	Notes Payable	100,000.00
Inventory	75,000.00	Accounts Payable	0.00
Prepaid Supplies	12,000.00		
Prepaid Expenses	13,500.00	<i>Long term debt</i>	
		Term Loans	
<i>Fixed Assets</i>		Payable	25,000.00
Land & Buildings	250,000.00	Mortgage	
Equipment	100,000.00	Payable	200,000.00
		<i>Total Liabilities</i>	\$325,000.00
		<i>Net Worth</i>	
		Membership	
		Fees (equity)	175,000.00
		Individual Accounts	0.00
		Reserves	0.00
<i>Total Assets</i>	\$500,000.00	<i>Liabilities & Equity</i>	\$500,00.00

Chart 5-4

**THE WORKER-OWNED COOPERATIVE
CUMULATIVE VALUE OF MEMBER INTERNAL ACCOUNTS 1986 -1990**

	1986 \$	1987 \$	1988 \$	1989 \$	1990 \$
Sales	1,250,000	1,779,250	2,182,235	2,679,236	3,293,000
Sales Growth	---	42%	23%	23%	---
Profit Percentage	0.03	0.05	0.08	0.08	0.08
Net Profit	39,625	71,704	102,566	200,943	246,978

Allocation of Profits in Total for 35 workers

Internal Accounts @ 50%	19,813	35,809	51,163	100,242	123,044
Reserves @ 40%	15,850	28,682	41,026	80,377	98,790
Education @ 10%	3,962	7,170	10,257	20,094	24,697

Allocation of Profits by Worker/owner

Internal Accounts per worker per year	566	1,023	1,462	2,864	3,516
Cummulative Internal Accounts (Distribution for current year + previous balance + interest)	566	1,589	3,051	5,915	9,431

NOTE: Interest of 7.5% on the previous year's internal accounts balance is subtracted from the total (50 percent) allocation to worker-owners before distribution.

Chart 5-5 shows how the balance sheet of a worker-owned cooperative reflects the changes occurring as the enterprise grows and, hopefully prospers over a ten year period.

Chart 5-5

**THE WORKER-OWNED COOPERATIVE
CUMULATIVE VALUE OF INTERNAL ACCOUNTS 1986 - 2005:**

	1986-1990 \$	1991-1995 \$	1986-2000 \$	2001-2005 \$
<i>Allocation of Profits</i>				
Net Profit	661,812	2,026,888	3,965,100	6,320,989
50% (less 7.5% interest on member allocations for prior years) to internal accounts	330,072	1,006,261	1,960,844	3,112,839
<i>Allocation of Internal Accounts per Worker-Owner</i>				
5- year allocation	9,431	28,750	56,024	88,938
Cumulative balance	9,431	38,181	94,205	183,143

For the sake of illustration, it is assumed sales grow at the rate of 42 percent in 1987, 23 percent between 1988 and 1990, 17 percent from 1991 to 1995, 13 percent between 1996 and 2000, and 8 percent between 2001 and 2005. The charts assume profits of 3.17 percent, 4.03 percent and 4.7 percent respectively for the three-year start-up phase and a constant net profit margin of 7.7 percent per year for the next 17 years and that the board of directors vote to pay an annual interest of 7.5 percent on the members' internal account balances.

The charts also assume that all 35 original workers are paid the same wage rate and work for the full 20 years and that 50 percent of the annual net income goes into the members' internal accounts, 40 percent goes to reserves [retained earnings], and 10 percent goes to education.

As the number of cooperatives increase in or around Mondragon over the early years, owners revise that formula for dividing net income, setting aside 10 percent for education, 40 percent to retained earnings, then 50 percent to internal capital accounts. Since many worker-owners bank at the Caja Laboral Popular, and most cooperatives do, too, the bank grows along with expansion needs of the earlier cooperatives, and, of course, with accounts for new cooperatives and their owners. Technically in Spanish law at savings bank.

In the United States, and to some extent in Canada, except for Quebec, capital sources for workers to use financing a startup, to buy new equipment, or to expand, are scarce until recent years. In Quebec, a branch of government answering to province's prime minister, promotes the formation of worker cooperatives, and provides technical assistance to them.

The want of capital sources hinders a ground-swell of interest in worker cooperatives during the late 1960s through the 1980s. In Quebec during that period the provincial government adopts policies backing the formation of worker cooperatives, pushing their success and number

through technical business advisors, banks and bankers and networking. In part because these cooperatives in Quebec open work options for previously second-class, French-speaking citizens, few of the Francophile firms join the Canadian Federation of Worker Cooperatives.

In the United States, on their own, without turning to banks, many cooperative owners find ways to secure financing, including practices common among conventional firms – loans on inventory, on accounts receivable, or assets such as billable orders. Like the Basques, they, too, rely heavily on capital reserves. Over the years, the value of a share stock in nearly every cooperative gains in value, as do wages.

In Cleveland, OH three industrial cooperatives, plus one accounting and employment service cooperative operating today due to financial and organization assistance funded by the Cleveland Foundation. These are high-profile cooperatives in the United States because of top-down formation and the abundant financial support. Few existing worker cooperatives or non-profit cooperative development groups had, or currently have such financial *and* concurrent political backing.

Cleveland Foundation spokespersons explained board members and program officers realized traditional business loans or technical assistance to conventional businesses where not creating jobs. Nor were there any businesses servicing evident complementary needs at three medical complexes nearby.

As can happen when senior, respected business leaders in a town or city get together to solve problems their businesses face in common, some solution will emerge. Seldom, however, will the solution solve problems average citizens face. Nor will the option of worker ownership be considered, not in public at least. However, in Cleveland, after determining the numbers issuing about industrial and job growth in Mondragon were correct, mostly through an extended visit, Cleveland Foundation arranged a meeting of medical center and civic leaders.

They told their peers about historic job growth in Mondragon, and proposed to finance the startup of a state-of-the-art industrial laundry cooperative to be used by the medical centers. Owners would be hired from the neighborhood surrounding the medical centers and the foundation.

The foundation hired consultants with both experience and similar democratic visions to organize the laundry, a solar panel manufacturer, and the administrative service cooperative. These businesses hardly celebrated their first year's operation when the foundation announced it had purchased land in the neighborhood to build a hydroponic greenhouse large enough to furnish organic fresh greens to medical center restaurants and dieticians year around. Planners intend to sell product to Cleveland restaurants, too.

Outside of Cleveland, few, if any, workers enjoy such assured success for any new cooperatives they seek to start and to own. Even so, today, perhaps more than at any time in recent American history, workers have access to such range of options for capital, either to form, or to expand, worker cooperatives. Some lenders are more promising than others, to be sure, but they exist, and from time to time make significant investments.

All will want to see your balance sheet, business and marketing plans as well as other conventional business documentation. All in all, even since Mondragon became an international source of inspiration for workers who would be owners, investment capital has been difficult to identify and to secure.

External Sources

Learning from the Rochdale weavers' experience, in particular, and, by contrast, Basques are likely to stay with one cooperative. But Mondragon allows persons to work at differing cooperatives, particularly during annual slumps in sales. Shifts in jobs and with cooperatives in the Mondragon Cooperative Corporation (MCC) do not interrupt ownership relationships, particularly with an individual's capital account or retirement. This phenomenon of staying put is a likely factor in the astonishing growth of a tiny countertop stove manufacturer financing by Mondragon's townspeople into the globe-spanning MCC.

These days, in the United States, at least, it behooves worker owners to apply for loans from conventional banks and credit unions in the towns where they operate. Some credit unions have business lending officers most of whom know the history of credit unions, but seldom know that the worker cooperative is imagined by English working women and men in the same decade, the 1840s, and in towns near to Rochdale

And why start with local banks or credit unions? Both borrowers and lenders are likely to know one another, and thus are more likely to trust one another. Further, the costs of doing business will certainly be lower than try to organize transactions several dozen or several hundred miles away.

Unless, that is, if the plan is to seek capital through the Internet. Here's what *Wikipedia* has to say, in part, about crowd-lending, the fast-surging idea starting in 2004 in Europe and growing quickly among entrepreneurs in the United States:

Approaches to obtain capital

An entrepreneur seeking to use crowd funding (example for seed money) typically makes use of online communities to solicit pledges of small amounts of money from individuals who are typically not professional financiers. A range of variations are possible, for example:

- The solicitation could be to back an idea with no direct material return offered to those making a pledge. This type of crowd financing has long precedents including artistic patronage and the normal activities of charity fundraising. Sometimes a threshold pledge approach is used, in which all pledges are voided unless the threshold amount is reached before the deadline.
- Another approach invites a display of sponsorship in return for the cash pledged. A widely documented internet-based example is The Million Dollar Homepage.
- The solicitation could be to offer a loan (microfinance) e.g., Kiva loans.

- Some kind of quasi-equity investment could be offered, though any such scheme would need to avoid falling under any applicable financial regulations regarding making an initial public offering. One such scheme was introduced in February 2010.
- Straightforward equity investment. When multiple parties are involved, this can involve a lot of work. There are platforms to make this easier.
- A threshold pledge system as above, but rewards are offered in return for gifts or donations.

Intellectual Property on Crowd funding Sites

One of the challenges of posting new ideas on crowd funding sites is there may be little or no intellectual property (IP) protection provided by the sites themselves. Once an idea is posted, it can be copied. As Slave Rubin, founder of IndieGoGo said: “We get asked that all the time, ‘How do you protect me from someone stealing my idea?’ We’re not liable for any of that stuff.”

Inventor advocates, such as Simon Brown, founder to the UK based United Innovation Association, counsel that ideas can be protected on crowd funding sites through early filing of patent applications, use of copyright and trademark protection as well as a new form of idea protection supported by the World Intellectual Property Organization called Creative Barcode.

Patent disputes

On September 30, 2011, the crowdfunding site Kickstarter filed a request for declaratory judgment against Fan Funded who owns U.S. patent US 7885887, "Methods and apparatuses for financing and marketing a creative work". Brian Camelio, founder of ArtistShare, is the inventor on the patent. KickStarter says it believes it is under threat of a patent infringement lawsuit. KickStarter has asked that the patent be invalidated, or, at the very least, that the court find that Kickstarter is not liable of infringement.

Pros and Cons

Proponents of the crowd funding approach argue that it allows good ideas which do not fit the pattern required by conventional financiers to break through and attract cash through the wisdom of the crowd. If it does achieve "traction" in this way, not only can the enterprise secure seed funding to begin its project, but it may also secure evidence of backing from potential customers and benefit from word of mouth promotion.

Against these advantages is the requirement to disclose the idea for which funding is sought in public when it is at a very early stage. This exposes the promoter of the idea to the risk of the idea being copied and developed ahead of them by better-financed competitors.

Another significant downside to crowd funding is the possibility of getting ensnared in various securities laws, since soliciting investments from the general public is most often illegal unless the opportunity has been filed with an appropriate securities regulatory authority, such as

the Securities and Exchange Commission in the U.S., the Ontario Securities Commission in Ontario, Canada, the Autorité des marchés financiers in France and Quebec, Canada, or the Financial Services Authority in the U.K.

These regulators can have different ways of determining what is and what is not a security but a general rule one can rely on [at least in the U.S.] is the Howey Test. The Howey Test says that a transaction constitutes an investment contract [therefore a security] if there is [1] an exchange of money [2] with an expectation of profits arising [3] from a common enterprise [4] which depends solely on the efforts of a promoter or third party.

Clearly, under this standard, any crowd sourcing arrangement in which people are asked to contribute money in exchange for potential profits based on the work of others would be considered a security. As such, the applicable investment contract would have to be registered with a regulatory agency [such as the S.E.C.] unless it qualified for one of several rule-laden exemptions [e.g. Regulation A or Rule 506 of Regulation D of the Securities Act of 1933, or the California Limited Offering Exemption - Rule 1001 [also known as S.E.C. Rule 1001]]. The penalties for a securities violation can vary greatly and depend in large part on the amount of profit obtained by the "promoter," the damage done to the investors, and whether a violation is a first time offense.

However, a violation may result in both civil and criminal penalties, a return of any profit made and sometimes a lifetime ban from work in the securities industry. According to Section 5 of the Securities Act, it is illegal to sell any security unless such a sale is accompanied or preceded by a prospectus that meets the requirements of the Securities Act.

There are questions about the legality of taking money from "investors" without offering any of the security demanded by legitimate investment schemes. At least sites such as Kickstarter, Pledgemusic, and RocketHub have a failsafe. They hold funds in an escrow account. If the nominated target isn't reached, all funds are returned to contributors. But you can imagine the risks implicit in free-range crowd funding.

So much for crowd-lending. The listings below provide basic contact information and prominent lending programs for worker cooperatives, both for start-up and expansion capital. Examples of the documents your cooperative will need follow in Appendices A - D.

The business plan should show how the cooperative expects to re-pay the loan. Additionally, an inventory of the cooperative's skill base as well as leadership succession plan will fortify in the banker's mind that the cooperative knows what it is doing.

If any bank, particularly the National Cooperative Development Bank, rejects a request for a loan, request a reason be given in writing, or at the very least during a private conversation between yourselves and the lending officer. The following lenders focus chiefly on financing cooperatives, or social justice firms.

Always try to address the application to a particular lending officer, and if possible, a person knowing the nature of the cooperative, and who gives permission to send the application

to her or to him. Here is a shorthand document checklist necessary for almost every loan application to these organizations:

- Executive Summary
- Company Analysis
- Industry Analysis
- Customer Analysis
- Competitive Analysis
- Marketing Plan
- Operations Plan
- Management Team
- Financial Plan
- Appendix

Cooperative Fund of New England

This lender advances loans to community-based, cooperatives and to democratically-owned or managed enterprises with preference to those serving low-income communities. DFNE provides prompt financial assistance at reasonable rates, an investment opportunity that promotes socially conscious enterprise; and, development of a regional reservoir of business skills with which to assist and advise these groups.

P.O. Box 3413, Amherst, MA 01004.
Tel [1-800] 818-7633 also [910] 395-6008. Fax [910] 347-2817.
www.cooperativefund.org E-mail: cfne@coopfund.coop

Evergreen Cooperative Development Fund

Managed by Enterprise Cleveland (EC), the mission of the Evergreen Cooperative Development Fund is to provide low-interest, long-term financing through a dedicated community development revolving loan fund to improve the neighborhoods of Greater University Circle, Cleveland, OH, by investing in the start-up of enterprises serving the needs of anchor institutions, and creating wealth for the Greater University Circle residents who work in these enterprises.

540 East 105th Street, Cleveland, OH 44108
Tel [216] 268-4600
www.evergreencoopfund.org

ICA Group Revolving Loan Fund - LEAF

The Local Enterprise Assistance Fund's mission is to promote human and economic development by providing financing and development assistance to community-based and employee-owned businesses that create and save jobs. LEAF structures financing to meet the needs and capacity of each business. Investments are structured as secured debt, subordinated debt, lines of credit or equity financing depending on the business need.

The LEAF Fund has close working relationship with the ICA Group, a non-profit consultant to worker cooperatives and other social purpose ventures for 26 years. This enables the ICA Group to provide LEAF clients with access to first-class business assistance in addition to financing.

Since its organization, the LEAF Fund has invested more than \$4 million and leveraged an additional \$51 million for worker cooperatives and community-based businesses.

One Harvard Street, Suite 200, Brookline, MA 02445
Tel [617]-232-8765 Fax [617]-232-9545
www.ica.group.org www.leaffund.org E-mail: ica@ica-group.org

National Cooperative Bank Small Business Loans

The loan programs help independent businesses, and in some instances, NCB offers professional service and expedites processing. financing business acquisitions, commercial real estate, construction and renovation, furniture, fixtures, machinery and equipment. NCB is an SBA Preferred Lender for Cooperative Business Loans, 7(a) General Loan Program and the SBA 504 Program:

601 Pennsylvania Avenue, NW, North Building, Suite 750, Washington, DC
20004
Tel [202] 349-7444 Fax [202] 349-7443
www.ncb.coop E-mail: ncb@ncb.coop

Northcountry Cooperative Development Fund

The Worker Ownership Fund is a fund managed by Northcountry Cooperative Development Fund [NCDF] on behalf of the U.S. Federation of Worker Cooperatives [USFWC] to increase access to financing for start-up and existing worker-owned cooperatives.

NCDF and the USFWC understand the business structure of worker-owned cooperatives in a way that traditional lenders can't, and not only offer a new financing option for co-ops, but technical assistance and mentorship so that cooperatives can better develop a viable business plan and loan application.

For more information on the Worker Ownership Fund, please call [612] 331-9103 or email info@ncdf.coop.

For more information about the U.S. Federation of Worker Cooperatives. Please visit their website at www.usworker.coop

Ohio Employee Ownership Center's Common Wealth Revolving Loan Fund

The Common Wealth Revolving Loan Fund [CWRLF], founded in 1986, is a targeted economic development loan program whose purpose is to lend money to employee-owned companies or to cooperatives for expansion, facilities, machinery and equipment, vehicles, and working capital or for employee buyouts, chiefly in Ohio.

The CWRLF has two goals: [1] enhancing housing and employment opportunities for low-income and middle-income people; and, [2] job creation or retention, especially in the manufacturing sector. It has a strong preference for loans to employee-owned companies and cooperatives because of their positive impact on job security, wages and benefits, and wealth creation for low income and middle income working people. Such democratically organized firms also exhibit economic structures that increase workers' and employees' power to control their lives.

The CWRLF expects to lead to creation and stabilization of 10-20 jobs per year over the next five years. In addition to retaining and creating jobs, expanding the CWRLF will broaden ownership of productive assets among low income working people through increasing the number of both ESOP and cooperative firms and through lending for expansion to existing employee-owned companies.

CWRLF

113 McGilvrey Hall, Kent State University, PO Box 5190 Kent, OH 44242-0001.
Tel [330] 672-3028 Fax [330] 672-4063
www.oeockent.org

Worker Co-op Incubators

Arizmendi Association of Cooperatives

Arizmendi Bakery

1331 9th Avenue, San Francisco, CA

94122-2308

Tel [415] 566-3117

www.arizmendi.coop E-mail: info@arizmendibakery.com

Our sister cooperatives are independently operated. They have different days of operation, hours, products, prices, etc.

The Cheese Board
1504 Shattuck Avenue
Berkeley, CA 94709
Tel [510] 549-3183

Arizmendi Oakland
3265 Lakeshore Avenue
Oakland, CA
Tel [510] 268-8849

Arizmendi Emeryville
4301 San Pablo Avenue
(@43rd)
Emeryville, CA
Tel [510] 547-0550

Arizmendi Valencia
1268 Valencia Street
San Francisco, CA 94110
Tel [415] 826-9218

Arizmendi San Rafael
1002 4th St
San Rafael, CA 94901
Tel [415] 456-4093

The **Arizmendi Development and Support Cooperative** [or DSC] is the internal staff collective for the Arizmendi Association's cooperative development. The DSC provides financial, legal, organizational, and educational support to the members of the Association. The DSC also coordinates the development of new cooperatives.

Arizmendi Development and Support Cooperative
1904 Franklin Street, Suite 204
Oakland, CA 94612
Tel [415] 683-3335 Fax [510] 834-4264.

Evergreen Cooperatives: www.evergreencoop.com [See above]

ICA Group and LEAF: www.leaffund.org [See above]

Restaurant Opportunities Centers [ROC] United www.rocunited.com

Restaurant Opportunities Centers-United Mission

The Restaurant Opportunities Centers United [ROC-United] aims to improve wages and working conditions for the nation's low-wage restaurant workforce. ROC-United is the only national restaurant workers' organization in the United States dedicated exclusively to the needs of restaurant workers. Despite employing more than 10 million workers and producing more than \$1.7 trillion in revenue each year, the United States restaurant industry is less than 1 percent unionized. Until ROC-United's growth and development, the lack of organization left millions of restaurant workers vulnerable to abuse and exploitation.

Through participatory research and policy work, employer engagement, workplace justice campaigns, membership and leadership development, and more, ROC-United has become a powerful national vehicle for restaurant workers to lift their collective voice on issues affecting all low-wage workers, including the minimum wage, paid sick days, compliance with basic employment standards, and lack of health care.

Our History: Founded initially after September 11, 2001, the Restaurant Opportunities Center (ROC) has grown into a national organization with 8000 low-wage restaurant worker members in eight locations, and growing rapidly. From 2001 until 2008, our work was focused in New York City, and achieved great success in impact for restaurant workers. In summer 2007, ROC-NY hosted the nation's first national restaurant worker convening, and the national

organization, ROC-United, was born. In January 2008, the co-founders of the Restaurant Opportunities Center of New York [ROC-NY] launched ROC-United.

Over the last ten years, we have won more than ten workplace justice campaigns, winning more than \$5 million in misappropriated tips and wages and discrimination payments for low-wage workers, and significant policy changes in high-profile fine dining restaurant companies covering thousands of workers. We have partnered with more than 50 responsible restaurant owners to promote the ‘high road’ to profitability, and trained more than 2500 restaurant workers to advance to livable wage jobs within the industry. We have also published fifteen ground-breaking reports on the restaurant industry, obtaining significant media coverage, played an instrumental role in winning a statewide minimum wage increase for tipped workers, and initiated other policy campaigns at the local, state, and federal level. We have organized restaurant workers to open their own cooperatively-owned restaurants in New York and Detroit.

ROC Locals: Chicago, Los Angeles, Philadelphia, Miami, Michigan, New Orleans, New York City, Washington DC

350 7th Avenue, Suite 1504, New York, NY 10001
Tel [212] 243-6900

Third Coast Workers for Cooperation

Third Coast Workers for Cooperation [TCWC] in Austin, TX. develops and supports formation of green worker cooperatives. The mission is to help build worker-owned green businesses and strengthen existing democratic workplaces through cooperative business development, education, training and movement building - placing those most directly affected by social and economic inequality at the center of our work.

Third Coast offers a 16-week, comprehensive course on starting and managing worker cooperatives, envisioning an inclusive local economy with businesses built on the principles of democracy, sustainability and cooperation, offering dignified jobs with a living wage and benefits for all workers.

Third Coast Workers for Cooperation, 5604 Manor Rd. Austin, TX 78723
E-mail: info@thirdcoastworkers.coop

Women's Action to Gain Economic Security [WAGES]

For 15 years, WAGES - Women's Action to Gain Economic Security, has worked with low-income immigrant Latinas to launch green business cooperatives, a model that enables women to work together to succeed. As cooperative members, women have healthy work, good pay, and a voice and a vote in key decisions – and they distribute business profits equitably. WAGES provides training and technical assistance to incubate the cooperatives and a framework for continued learning and business growth through our Co-op Network.

Several major private financing sources, including commercial banks, asset-based lenders, commercial mortgages, leasing, and venture capitalists, provide financing for small businesses and labor-managed cooperatives.

Women, particularly women of color and immigrant women, typically earn lower pay and have fewer assets than men. Many women are barely able to meet their basic needs, poor even though they work for low pay and often in hazardous conditions. At WAGES, we believe that all women should have access to healthy jobs with fair pay and benefits and a real chance to build economic security.

1904 Franklin St., Suite 801 Oakland, CA 94612
Tel (510) 451-3100
www.wagescooperatives.org

National Venture Capital Association

Venture capitalists usually make high-risk investments in new businesses on an equity basis--common or preferred stock, convertible debentures or debt with warrants. Because they want an equity stake, plus representation on the board of directors, obtaining money from venture capitalists is generally not compatible with the ideal of worker-ownership and worker-control.

Nevertheless, the National Venture Capital Association may provide cooperative owners venture capital firms without these or similar restrictions. By contacting NVCA staff, the finance committee of a start-up worker cooperative effort may learn about venture capital investors willing to put money into a start-up, particularly in growing industries such as information technology, life sciences and clean technology.

Venture backed start-up companies create jobs in America at a fast pace, posting openings for 13,314 in the first quarter of 2010. This is a 16 percent increase since the end of 2009. These jobs are located at venture-backed companies across the nation. Contact NVCA at [571] 321-1448 or www.nvca.org

Commercial Banks

Commercial banks lend money primarily on the strength of a business plan and plans to increase market share. They offer short-term, medium-term, or long-term debt financing to businesses whose business plans demonstrate their ability to repay loans. If a customer is financially strong, a bank may lend on an unsecured basis. Commercial banks usually require some form of collateral to secure loans and, in the case of closely held companies, personal guarantees.

A worker-owned cooperative should establish a good relationship with a local bank to obtain credit on reasonable terms and other banking services. Another way to establish strong working relationships is to have all external lenders such as the Small Business Administration loans, deposited in the bank of your choice.

Leasing

Leasing is an alternative to purchasing buildings, machinery, or equipment. Sources of lease financing for small businesses include banks, equipment-leasing companies, private-leasing arrangements and limited partnerships. Lease payments represent a business expense for tax purposes and provide a tax advantage compared to the purchase of a comparable asset on credit. The loan is entered as a liability on the business's balance sheet. A leased building or piece of machinery is considered to be an "off-balance sheet" form of financing and does not worsen a business's debt to equity ratio. To receive favorable tax treatment, IRS regulations require different types of leasing arrangements to meet certain criteria.

Asset-based Lenders

Asset-based lenders, including commercial finance companies and secured lending departments of banks such as C.I.T. Financial Co., lend to high-risk companies that more conservative lenders shy away from. These lenders secure loans with accounts receivable, inventory, or machinery and equipment and generally charge several interest points above the prime lending rate. They depend upon the self-liquidation of collateral to repay loans and cover higher risk losses.

CIT specializes in small business lending for diverse financing needs. They offer Small Business Administration (SBA) 7(a) loans for: commercial real estate financing business acquisition franchise financing construction loans business succession financing commercial real estate financing. CIT is one of the *top lenders to women, minorities, and veteran entrepreneurs*. For more information about SBA loans, call toll-free at [1-800] 713-4984 or visit smallbizlending.com

State and Provincial Programs

During the past decade, several states and provinces have responded to plant closings by passing legislation to save threatened firms and revitalize their economies. Legislation in New York, Massachusetts, Pennsylvania, Connecticut, Oregon and Washington includes loan funds to provide money for modernization, employee buyouts, and other capital needs of threatened firms.

In October 1985, the provincial government of Manitoba, Canada, launched an Employment Cooperative Program (ECP) to foster the creation of new worker co-ops, conversions, and rescues of threatened firms. The ECP assists prospective co-ops with "bridged" financing until a satisfactory financial package, including worker equity and private sources, can be put together. The bridge financing can include loans, forgivable loans, grants, loan guarantees, or various combinations as needed.

Church and Foundation Sources

Several national churches have loan programs for cooperative, community-based or minority business ventures. Some foundations make program-related investments to worker-cooperatives or help capitalize other investment sources that act as intermediaries. Because these philanthropic sources provide high-risk capital at favorable rates of interest, worker cooperatives with low-income owners, particularly minorities, blue-collar workers facing job loss, or women should contact them.

A TIME TO VOTE

Having checked and re-checked your financial data along with every loan applications to make certain every question is answered, now is the time to make certain every owner is clear about details of this very important documentation is correct. You may want every owner to be familiar enough with the documents so that they, as individuals, can explain the loan, or grant, the cooperative is seeking.

Why? Think about it a minute? When the documents are submitted to a local bank, or to a foundation officer, you expect they will treat the information with confidence. Usually, persons in these positions do. Still, they are likely to discuss your situation as described in the documents with other persons. And you have less and less assurance as more individuals learn about the application.

Should details about your cooperative's affairs "get around", owners who have not been deeply involved with preparing the documents should be encouraged to refer any questions to owners who do know the details.

6 USING CONSULTANTS

DOING THE NUMBERS AGAIN

CONFIDENTIALITY AGREEMENT

FREE OR LOW COST SOURCES OF TECHNICAL ASSISTANCE

TRYING OUT A CONSULTANT

A Time to Vote

OTHER PROFESSIONAL SERVICES AND WHY USE THEM

A Time to Vote

DOING THE NUMBERS AGAIN

Many persons resist preparing business and financial plans, or other equally important documents necessary to show potential worker owners, bankers, or individual lenders that your business idea works on paper. Some throw up their hands thinking that they are incapable of putting together comprehensive plans and documents such as outlined in an earlier chapter, and described in the Appendices. Others regard business planning as a complete waste of time. Additionally, many of us are so accustomed to secretive, top-down management practices that we see no need to share these documents with the workforce, much less ask owners to suggest changes.

Big mistakes. The history of worker-owned cooperatives provides three irrefutable arguments for spending the time, the energy and the thought required to assemble these documents, then to see that every owner has a set of copies, as a first, or very early sign that democracy is taking root.

1. “Doing the numbers” - to use commonplace shorthand for comprehensive business planning - is the single best way to avoid looking back to find yourself saying regretfully – if, as you go into a bankruptcy court: “If only we had thought this might happen.”
2. Preparing a business plan together with as many owners as possible may be the single best way for your colleagues simultaneously to get to know if the business can show profits on paper. Organizing study groups of 6 to 10 owners each helps every individual to learn more rapidly. Also, this helps person to learn how each other does work – even if you work together for years in a conventional company.
3. Usually workers who want to become owners have limited savings to invest. A business

plan detailing how shares may be purchased through payroll deductions gives these workers a way to buy their share, keep money in their wallets without mortgaging the house. *Never mortgage the house!*

4. Too, few, if any, bankers or investors risk money on your cooperative's profits unless
5. Bankers will insist they see financials showing what those profits estimated to be. Calculate the profit to earnings ratio which is but one crucial number they will be looking for – and there are many, many others. Banks will not give a favorable nod on a loan unless it states when their investment is to be repaid, plus interest.

Most women and men know deep down an objective analysis is in their best interest even if time and scare funds are used. For them knowing how well they intend to manage money they expect to rent compares with what they know about buying a new car, or a home, but on a much bigger scale, of course.

If several individuals have never been in business before, and balance sheets, budgets, etc. are mysteries, hold several workshops – as many as needed - asking each to prepare their household budget, start with a careful list of nouns – food, heating, gasoline, etc. Make the list up with all persons present, making certain to assure each one their list is private information. However, hey will be expected to say what they learned!

How many 8-hour days do we work to pay the car loan off? To the surprise of some the business and financial plans look like a family's budget, if they keep one to manage family and household expenses. Bigger risks, yes, but not the biggest: The company may be sold to “bottom-feeder” investors looking for a strong customer list along with a lot of still-good machinery, forklifts, trucks and the like. When these essential business assets disappear, employees have two jobs left - to sign up for unemployment and to look for work.

Perhaps, before a bottom-feeder buyer buys the firm, there is a reason to look into an employee buyout. But if all the assets are sold, there might out-of-work former employees believe there are products, or a product, that will sell, and they can keep the business going but with a lot of ifs.

- *If* there are enough former employees want to give it a try, and who are willing to invest enough money to re-start on a small scale.
- *If* essential machinery is still available and the prices are reasonable.
- *If* the procurement officer knows vendors willing to supply raw materials.
- *If* bankers will loan the new firm money.
- *If* sales people are certain how much product to make to make money for payroll, all other itemized services, repay the bank loan, and *then* have money left.

These are the big *ifs*; there are dozens of smaller *ifs*.

On the other hand, if your and your workmates talk a lot about a business idea that's been in the back of everyone's minds for a long while but you never get around to trying because you

have a job, plus none of you know how to start a business. Worst, who knows anyone at a “*Best of*” company trade magazine to help set a standard for what might be accomplished through a buyout.

Do you think that a “Best of” business is an accident? Or do you think that the men and women who work at a “Best of” firm are too busy, or too modest, to take a few minutes to explain by telephone how they got to be the “Best of”? Did that award come from the bright ideas of an employee, or a manager? Or did consultants help? Or was a single owner, or several owners?

Those few minutes on a conference call with shopmates will not cost much but likely will yield a lot to mull over, and a lot of contacts. In all probability, the person or persons are proud to be talking with you may end the call saying, “If I can be of help in the future, here’s my direct line.”

You’ve got one contact. Make a note of the name, etc. on something like Chart 6-1 below. Doubtlessly, you reach several persons and learn why their company is “Best of.” Make notes of those persons names, particularly if a consultant’s name comes up. Why? Everyone at “Best of” will give you some time, but everyone will focus on the bottom line. Mondragon’s owners in the 1980s, facing growing numbers of foreign visitors, finally decide to create a small cooperative to manage visitors so as not to interfere with production, yes, but not to cost owners an hour or two of productivity.

Once visitors decide which cooperatives they want to visit, and explain to the visitor’s cooperative manager what aspect of that cooperative they want to learn about, the manager makes arrangements, including payment to the cooperative for every hour the Basque owner spends talking with visitors! Once introductions are made, and purposes re-stated, questions are sharp, answers on point. The visitor’s cooperative furnishes translators who accurately yet quickly transform the knowledge exchange.

If for whatever reason you and your shopmates cannot go to Mondragon, but the idea of businesses workers own and manage democratically is something everyone wants to know more about, then there are ample resources. To learn the names of consultants with both experience and education who specialize in assisting workers cut loose from jobs, or for someone thinking about starting a new cooperative they own and manage, contact the U.S. Federation of Worker Cooperatives at www.usworker.coop/aboutworkercoops. Or, if you are in Canada, the Canadian Worker Cooperative Federation at www.canadianworker.coop

Importantly, try to list the kind of help your group is seeking before contacting either federation. Of course, their staffs will delight talking with you. That is vital part of their jobs. In the doing, they may furnish contacts near your home, or as near as possible. Being clear about the industrial or service sector helps, too. For example, since in the last two decades, workers sought to buy several dozen paper mills in both nations, there are a number of consultants to choose among.

The same for house cleaning services. They require a minimal capital investment for

equipment, including the host of cleaning products, and therefore are supposedly “easy” to get started. They do require a learn-by-doing educational plan. For example, at the outset the few, if any of the housecleaners, have ownership experience. Discussing what ownership means, along with evaluating each job to begin measuring efficiencies, can add immeasurable value to the cooperative’s workplace knowledge.

If a decision is taken to commence inviting consultants to make presentations, the formation of a Steering Committee should be *elected* from among the women and men working together up to this point. The Steering Committee will have several obligations that may take time away from his or her paying job, like helping interview candidates periodically. The simple form following is a suggestion that may make your job easier. Chart 6-1, a technical assistance assessment sheet, is a guide to identify the business challenges you face but which need expert attention. Chart 6-2, a monthly calendar, a timeframe for scheduling technical assistance interviews. Such a calendar lets everyone know when a consultant may in town. And it may help budget costs if you are unable to locate local free consultants from state or federal sources.

Chart 6-1

TECHNICAL ASSISTANCE ASSESSMENT

Task	Technical Assistance Needed	Agency contact	Specific help offered & fee

Meeting Notes

Chart 6-2
MONTHLY CALENDAR FOR TECHNICAL ASSISTANCE INTERVIEWS

January	February	March	April
May	June	July	August
September	October	November	December
Results & Date	Results & Date	Results & Date	Results & Date

Meeting Notes

Assuming there is to be a try to form a worker cooperative, the Steering Committee must consider securing consulting assistance from the relatively few firms or individuals who set up business specifically to help workers become owners. They charge fees. Finding the money to hire experienced consulting help can be a stumbling block. Deciding whom to get help from can be difficult, too. Word of recommendations may not be the best way to hire someone. Rather, contact either the U.S. Federation of Worker Cooperatives or the Canadian Worker Cooperative Federation. Both sponsor revolving loan funds, too. The Canadians call theirs the Tenacity Fund.

Meeting notes, continued.

The resources included here open doors. No single individual, consulting firm, or agency will have all the answers for your specific situation. This being the case, you can expect that as your business planning process unfolds new individuals – a marketing professional, for instance, or one or more bankers – will become involved. This means you and your colleagues must prepare a plan detailing when persons with these necessary skills are to be brought into your confidence, the criteria by which you try to judge their experience, or the wisdom of their advice. Hiring and using consultants, no matter how well recommended or experienced, demands due diligence to ensure that your particular needs are served.

Keep in mind that the data you gather and analyze is proprietary, meaning the information belongs to you and your colleagues, or to your business if your group has taken the wise course of choosing a business name and incorporated. Incorporating as a business gives the new firm property and exclusive rights to the data. Incorporation says to every potential consultant, marketing specialists, or bank, that you, as a group, know what you are doing, and are determined to accomplish your goals.

CONFIDENTIALITY AGREEMENT

With or without incorporation, however, every consultant who is interested in working for you *should say* at the outset of your interview or discussion words to this effect: “Every detail about your business we discuss today and in the future will remain confidential.”

Some will even bring a copy of a confidentiality agreement that he or she will ask one or more persons in your group to sign and date, and which she or he will sign. If the consultant, marketing specialist, or bankers do not bring a confidentiality agreement, have one of your own ready for them to sign. And have a notary present to witness and put their seal on the document.

A confidentiality agreement, once signed by all parties, and if possible, notarized in the presence of a notary public, protects your information, and binds to consultant to your purposes. Confidentiality agreements can be simple, or quite complex. Ask an attorney to provide you with a complex confidentiality agreement. Chart 6-3 is an example of a simple confidentiality agreement.

Chart 6-3

SAMPLE OF SIMPLE CONFIDENTIALITY AGREEMENT
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STATE OF NORTH CAROLINA

COUNTY OF BUNCOMBE

CONFIDENTIALITY AGREEMENT

This CONFIDENTIALITY AGREEMENT, made and entered into this the _____ day of _____, 2016, by and between _____, Inc., with its principal office located in Buncombe County, North Carolina, [hereinafter _____], and _____ Inc., [hereinafter _____], with its principal office in Buncombe County.

WITNESSETH

WHEREAS, _____ creates, designs and produces _____ and other electronic devices for distribution and sale throughout the world; and,

WHEREAS, _____ advises individuals, business owners and government agencies on employee ownership; and,

WHEREAS, _____ and _____ may discuss and share certain valuable confidential and proprietary information, [hereinafter "the Confidential Information"]; and,

WHEREAS, it may be necessary from time to time for _____ to disclose certain of its Confidential Information to _____ consultants, subcontractors, or to other consultants; and,

WHEREAS, _____ and _____ are willing to provide Confidential Information to each other for the limited purposes and under the terms and conditions set forth herein,

NOW, THEREFORE, in consideration of the promises set forth herein, and other valuable consideration, receipt of which is hereby acknowledged, the parties agree as follows:

1. DEFINITION. "Confidential Information", also known as "the information," as used herein shall mean all information and documentation provided by _____ to _____ relative to the firm's production, management and financial affairs, or provided by _____ to _____, to subcontractors, investors, or to other persons, and all information reasonably related thereto, which information is marked "Confidential Information" when provided by either _____ or

- _____.
2. **TRADE SECRET ACKNOWLEDGMENT.** _____ and _____ acknowledge and agree that the Confidential Information may be considered valuable trade secrets, as defined in the North Carolina General Statutes, for _____ and _____; or businesses they may consult with, and that any disclosure or unauthorized use thereof will cause irreparable harm and loss to either _____ or to _____.
3. **TREATMENT OF CONFIDENTIAL INFORMATION.** In consideration of the disclosure of the Confidential Information by _____ to _____, _____ agrees to treat the Confidential Information in confidence and to undertake the following additional obligations with respect thereto:
- A. To use Confidential Information for the sole purpose of evaluating and explaining the purchase of some or all _____ assets with employees; and,
 - B. Not to use or disclose Confidential Information without the permission of _____ except insofar as is necessary to provide consulting services to _____ and its employees; and,
 - C. To limit dissemination of the Confidential Information to only those persons who have a need to know in order for _____ to provide consulting services; and,
 - D. To return all Confidential Information and all documents related thereto to _____ or to its designee upon the request of _____ after _____ completes consulting services; and,
 - E. Not to otherwise disclose or use, except as contemplated herein, any of the Confidential Information.
- a. **APPLICABLE LAW.** This Agreement shall be construed and enforced in accordance with the laws of the State of North Carolina.
- b. **SURVIVAL OF OBLIGATIONS.** The restrictions and obligations of this Agreement shall survive any expiration, termination, or cancellation of this Agreement and shall continue to bind _____, its owners, agents, subcontractors, consultants, and successors in interest.

IN WITNESS WHEREOF, the parties have executed this Agreement in Asheville, North Carolina, the date and year first written above written.

Your firm's name:

By _____, President

Date

Consulting Firm's Name

Seal:

By _____, President

NOTARY

Name _____

Seal:

DATE _____, 2016

FREE OR LOW COST SOURCES OF TECHNICAL ASSISTANCE

Free or easily accessible sources of technical assistance available to worker-owned cooperatives are the first, sometimes best, resources. Contact the U.S. Federation of Worker Cooperatives, 415-309-5983 or www.usfederationworker.coop/resources and www.dawn.coop for technical assistance.

Fellow Workers

If you and others are employed in an existing business are considering buying the firm and converting it to worker-ownership, the know-how and experience of your fellow workers, if collected carefully, is a primary source of information, especially about daily operations, vendors, or the particular quirks of machinery. As the business planning phase starts, organize procedures and routines that ensure every potential owner shares his or her experience about how to make the conversion a success. Only rarely are workers in the dark about how to manage their particular job or department more efficiently, be they senior accountants or janitors.

Suppliers

Suppliers prosper when the businesses they service succeed. They may object to the idea of worker-ownership, but they have few qualms about accepting the money your firm is likely to spend with them. Suppliers can explain how other firms they service operate, and without naming them. Often, they can suggest new, less costly machines, products, or operational procedures. The best of them usually collect data about the industry or service. They may share that information with you, or your consultant.

Customers

If your cooperative has yet to open for business and has no customers, your competitors do have customers. Potential customers are invaluable sources of information about the products or services they buy, or want to see on the market. Designing and carrying out a survey your competitors' customers may give your cooperative data that increase your chances of success. . However, a note of caution is in order. Information collected this way should be analyzed by someone who with experience and expertise in sales and marketing.

Other Businesses

Most businesses have common problems, and those in a particular industry or service are likely to experience similar difficulties. If businesses do not compete directly for the same customers, some managers or owners may be willing to exchange ideas, solutions or data with you.

Libraries

Public libraries, especially in large cities, governmental centers or universities, have books, periodicals, reports, newspapers, and trade journals that contain current data that can be used for developing your business model, the business plan, or suggestions for operating the business intelligently. Your own computer is an invaluable resource for these data. Using these resources increases the likelihood that the worker-owners' decisions are based on fact, not speculation.

Trade Associations

Trade associations keep extensive data for lobbying, training, and member services. They keep up with new technologies and state or federal regulations. . Information is usually available for the price of a membership. Trade groups typically publish newsletters or have some other means to communicate with members. Many exist to provide information about new developments or trends in their industries, and some publish extensive data series.

Business Extension, Productivity, and Innovation Centers

Frequently, the finance, accounting, engineering, or management departments of universities maintain special libraries or have professors who will help worker-owners. Nearly twenty universities and colleges have state or regional productivity centers designed to aid businesses and solve productivity-related problems. Several state land-grant universities have small business development programs in agricultural or business extension services. Finally, a handful of colleges and non-profit organizations serve as incubators for business development and to foster innovation. However, some university or college sources may not be useful because of ideological issues or because they charge high fees.

Education and Training Programs

Colleges, universities, proprietary schools, non-profit organizations, and private entrepreneurs offer literally hundreds of education and training programs to improve management, technical, and business skills. The programs can vary widely in quality and usefulness. Some are free, while others can be very expensive, and beyond your financial means.

At this writing, only a few formal educational programs are designed specifically for

prospective worker-owners. To determine if there is a program near your firm, you may visit the website of the U.S. Federation of Worker Owned Cooperatives: www.usworker.coop.

Fee for Service Consulting Resources

Sometimes worker-owners must pay for help developing a comprehensive lender's package. There are at least two ways to determine the potential value of consultants before spending scarce dollars for their services:

Make certain the prospective consultant meets as many persons at your firm. Ask each person able to meet the consultant, or hear her or him speak, what they think about the consultant, and did they do promised work on time. Did the resulting lender's package, if that is what they were hired to help prepare, pass muster with banks or investors. After doing this preliminary screening, if your colleagues decide to invite a consultant to make a presentation in person, here is *A Guide for Evaluating Consultants*. Ask her or him to bring a resume containing details on specific jobs they have carried out, a fixed price for the entire job, or a detailed breakdown of their services and prices, such as how much they charge per day/hour. Otherwise you may wind up with a very expensive bill.

Consultants are hired to analyze or solve problems in personnel, plant layout, engineering, production, office systems, financial control, training, safety, marketing, waste disposal, exporting, data processing, policy development and implementation, and a myriad of other matters worker-owners face. Each consultant should have verifiable credentials based on attendance at a bona fide college plus actual work experience. Increasingly, as workers' cooperatives grow in number, many reputable, potentially useful consultants are available for most aspects of worker-owned business, including the theory and practice of labor-managed enterprises. See www.dawn.coop

Generally, the work of consultants falls into four broad areas:

- Reviews of policies and practices, and annual audits of a firm's books.
- Solutions to one-time or emergency problems in production, governance, marketing, personnel, or education and training.
- Preparation of feasibility studies, the business plan, or strategic analysis
- Finding money/investments.

A note of caution: In many cases, especially buy-outs of existing businesses, finding enough capital is difficult. This can also be true with a new firm start-up, or the opening of a firm that has been closed for a long time. Workers can become desperate as they realize how much capital their business plan demands. This is a moment of volubility. This is a time when prospective owners can be approached by consultants who claim they have links with wealthy investors, or that they have a great reputation and contacts with banks, or other financial lending institutions. They may claim they can secure the needed capital, but in return for a substantial fee. In some cases these people are phonies, but they invariably appear, and sometimes in large numbers.

Once worker-owners decide why they need a consultant and select one, they should get a written agreement with the hired experts concerning:

- Specific tasks to be accomplished.
- Length of time to complete the work.
- How and where the work will be accomplished.
- Written report(s) the worker-owners will receive.
- Assurance in writing the consultant *will not make decisions for owners*, but rather set out in writing optional courses of action *potential owners should consider making*.
- Estimated costs and any controls on costs.

If a large consulting firm is selected, you will want to know exactly who will do the work. Chart 6-4 identifies some of the questions that should be used by your group when considering the use of consultants.

Chart 6-4

A GUIDE FOR EVALUATING CONSULTANTS

Question

Your Notes on Answers

Have you worked with worker-owned firms before?

Will you provide us contacts at each of these co-ops?

How long have you been practicing?

What is your relevant experience with the industry
we expect to be competing in?

What approach(s) do you use?

What are your areas of specialization?

What types of management, finance, or marketing experience
do you or your group have?

Can we terminate our contract if your work
fails to meet our expectations or the terms of our
contract with you?

What are your fees, and how do you calculate your fees?

How do they compare with other professionals in this field?

What are the terms of payment for your services?

Will you detail the tasks you will do for us, and all deadlines?

Will you teach one or several of us how to do all or part of this work,
if professional codes or the law permit?

What help do you expect from us?

Will the work we do with your direction reduce your fees?

TRYING OUT A CONSULTANT

Some consulting firms offer what sometimes are called “Starter Packages.” The consultant[s] offers a set of services to be completed in a specific period of time and for a set fee. Customarily, one half of the fee is paid on acceptance of the Starter Package, which is a simple contract, and the remaining half when their work for you is complete. Starter Package ‘contracts’ allow you and your colleagues to test the consultants’ abilities, and for the consultants to decide if they want to work for you once the Starter Package is complete. Chart 6-5 is an example of one consulting firm’s Starter Package.

Chart 6-5

CONSULTANT STARTER PACKAGES

Three-Day Starter Package

Focused Experience to Assist YOU to Start
A Business at a Cost You Can Count On!

What Is Your Ownership Challenge?

- Why are you thinking of starting a worker-owned business?
- Does the owner want to sell the business to employees to take advantage of significant tax benefits while, at the same time, creating his or her succession plan?
- Is the company where you work considering moving to another state or overseas?
- Is your job being privatized?

The Consulting Package

Our goal is to create profitable businesses
where ownership is available to everyone.

Now, we offer a consulting package for you, or your colleagues, that is efficient, affordable, and effective.

- You get two hours of consultation free, except for travel and food if you live two hours beyond our main office in _____, or our branch office in _____.
- You get a comprehensive written assessment of your business model and business plan, your marketing ideas, and your financial plan – the basic information you need to secure loans or investors. *You can take these absolutely essential documents to the bank with confidence!*

All the information you give us remains confidential, of course. We sign a confidentiality agreement with you.

How to Get Started

Reach us by telephone, e-mail, or by visiting our Website. This start starts our conversation together.

Day One

We will set a time, day and place when you, or your colleagues, can spend a full working day with us. We ask you to tell us in detail about your situation, about your goals, and how you want accomplish them.

We will answer questions about ways everyone can be an owner, how profits are usually shared or decisions are made in businesses employees own. We will describe ways business owners commonly use to efficiently organize operational or policy decisions. Also, we will talk briefly about the rights and responsibilities of being owners.

You will get to know us. We will get to know you.

Of equal importance on Day One, we will ask to see financial information you have developed to date, or, if you want to convert a business, three to five years of that

financial records, including tax returns, annual profit and loss statements, and any advertising being used. We will ask about your business experience, career skills, plus your experience in your industry.

A lot of questions!

Ten Working Days Later....

Ten working days later, we bring you in writing a preliminary assessment on your plans to date.

We discuss the specific recommendations that we are likely to for changes or additional work on your business model, business and financial plans, and marketing ideas. If we see challenges you face that require skills or experience we do not have, we will recommend consultants you can contact. We will also suggest a business organization model that seems to best fit your purposes.

After this meeting, think about our report and the discussion it spurs. Talk about it with the individuals you know who are most interested in owning a business, a group that can to work together as a Steering Committee. Call us to set up our third meeting.

Day Three

At this full day meeting, the Steering Committee should deliberate with great care on two key characteristics every financially successful, personally satisfying worker - owned business shares:

- Profitability with strong equity growth for each owner
- Inclusive participation by every owner in every significant entrepreneurial decision, as well as discretionary authority for jobs they do day-to-day.

During these three days, we expect to do such a good job that we will be hired to work with the Steering Committee until your business opens with everyone an owner, each with bright prospects, and sufficient start-up capital.

At the end of Day Three, there is no obligation to have us do more. There will be no hard sell.

Our firm is a for-profit, consultant-owned business. Combined, we bring ___ plus years of practical experience to the women and men who realize that we add significant value in your bid to become owners.

Cost

\$3,000 for the entire package, plus travel and food expenses if you are further than two hours from either our main office or our branch. We expect to be paid one half - \$1,500 in advance, with the balance due at the end of Day Three.

A TIME TO VOTE

If such an agreement is presented to your group and reviewed by the membership, vote on final approval.

☐ Yes, I vote we accept the Starter Package

☐ No, I am opposed to the Starter Package

OTHER PROFESSIONAL SERVICES & WHY USE THEM

In addition to consultants, there are a number of other professional services available that can be used by groups desirous of starting worker cooperatives. These include bankers, lawyers, CPAs and accountants, and insurance agents.

Bankers

Large banks and investment firms usually employ officers or entire departments that keep track of certain businesses or industry sectors. Local bank loan officers nowadays put a loan applicant's data onto electronic forms on their office computers. Finished entering the data, they hit enter. Within minutes, a computer program determines if the applicant gets a loan or not. The banker may be a good friend, and know your business plan is sound, and agrees with the idea of worker-ownership. But that bank's lending policies, which determine how the computer reacts, means "no dough for you."

One strategy to save you the time and anxiety of presenting your lender's package to a banker only to have a computer turn you down, is to visit one or more local bank lending

officers, or private banking managers – the women and men who manage banking and other financial matters for the very rich – to determine if they make loans to start-up, buy-out or conversion. If they say yes, then ask what return on investments does the bank expect. What are the earnings to profits ratios used to put numbers to that bank's policies?

By using this strategy, you are likely to learn:

- The bank's lending policies and interest rates.
- Does the banker have a bias against worker-owned firms?
- Will the worker-owned firm work with a specific bank officer or anyone who is at work the day of your appointment?
- Will the bank help up-date business plans? If so, how much will it cost?
- What does the bank charge for checking accounts, service fees, and other services?
- Do they provide any special services?
- Does the bank know the industry?

Lawyers

Worker-owners need legal advice before signing any contract, negotiating disputes with another firm, or a dispute with a worker-member that cannot be settled easily, or if your firm is threatened with a lawsuit even if it is not yet in business. Lawyers are indispensable for other matters, too. For example, North Carolina has a law prohibiting cooperatives from using the word *cooperative* in their corporate name unless the business is directly related to agriculture. Lawyers can interpret government regulations or federal state laws, and thus help your Steering Committee avoid getting your business off to a bad legal start.

Ask any potential lawyer at least these three questions:

- Have you or your firm ever represented a workers' cooperative?
- What is your area of legal expertise?
- How much do you charge per hour, and are your charges on a per case basis, or do you work on retainer?

Attorneys should spell out alternatives, offer legal or administrative justification for each alternative and, if asked, make recommendations. But, again, the cooperative's management, the elected board, or the membership must make final decisions about their employment.

Certified Public Accountants & Accountants

Worker-owners should employ a Certified Public Accountant [CPAs] or an accountant with experience working with cooperatives, when the time comes to set up the cooperative's accounting system, its initial set of business records, and to make certain every owner knows the cooperative's financial framework is sound. The best single source for information on CPAs experienced with cooperatives is the National Society of Accountants for Cooperatives. www.NSACoop.org

Accountant can teach one or more owners, the board members, or newly minted managers how to maintain the cooperative's financial records, or how to prepare monthly financial updates to the board and members. The accountant may advise new managers about cash flow management, credit systems, cost control and pricing, taxes and suggest alternative strategies for financing, and lines of credit, taxes, and financial planning. If the elected board does not know how to read or to interpret the firm's balance sheets, the accountant can teach them how to do so.

CPAs, like lawyers, must pass professional exams and be licensed to practice. CPAs usually are employed to review the work of the cooperative's chief financial officer or accountant. They can be employed to review and certify annual financial reports, the accuracy of Individual Capital Accounts, as well to do the cooperative's taxes. Their work must meet professional accounting and legal criteria. Bookkeepers are not accountants. While they enter figures on a day-to-day basis, they are not to prepare the certified audits that are vital to secure loans or credit and, frequently, for tax purposes.

Insurance Agents

Every business must have adequate insurance for worker's health and compensation, for directors' and officers' liability, for vehicle or product liability, fire and theft, and essential machines or equipment. There are as many kinds of insurance as there are agents. Finding an agent and coverage that is most suitable to the firm's needs and fits its budget should be taken very seriously, and your firm's insurance needs should be clearly identified before asking insurance agents to bid for the services you need. Three or four steps are advised:

- List the most desirable insurance coverage and your minimum needs.
- Ask at least five reputable firms or agents to prepare bids.
- Ask an attorney, an accountant, and the board of directors to review the bids.
- After selecting the most promising bid, negotiate a final insurance contract with the help of an attorney and an accountant.

A TIME TO VOTE

Now that you have obtained technical assistance and weighed the advice given, it is time for another vote. Your comprehensive plan documents should be prepared finally. Do you, as a group, still think that starting a workers'-cooperative is prudent? A yes vote means go ahead. A no vote means let's stop here and think twice before acting.

- ☐ Yes. Let's go for it!
 - ☐ No. Let's look at this a bit longer.
-

7 LEGAL OPTIONS FOR WORKER-OWNED COOPERATIVES

CHOOSING A LEGAL ENTITY

LEGAL RISK MANAGEMENT

CHOICE OF LEGAL ORGANIZATION

Editor's Note: Due to extenuating circumstances, the author of this chapter, our friend Thomas Beckett, was unable to finish it. The existing content is perfectly valid but incomplete.

CHOOSING A LEGAL ENTITY

Before you launch a cooperative, you should consider and adopt a legal form of business organization – a legal entity - that seems most suitable to the proposed cooperative's purposes. Business people do this for three reasons: to manage liability, to manage business income taxes, and to manage their relationship with each other. These considerations are equally important – if not more so – for worker cooperatives.

How concepts of legal entities, and how they are used to manage business liability, is the focus here. Further, we discuss the most frequently used ways business entity laws help cooperatives handle formal relationships inside and outside the cooperative, plus various agreements used in documenting those relationships. And we review the types of legal entities available to cooperatives, including the Cooperative Association, Limited Liability Company, Business Corporation and Limited Cooperative Association. Because our space here is limited, we will not go into great detail about the law and structure of the common corporation or other legal entities. There are other resources available that address those questions in greater detail.

At present a potentially confusing array of legal entities are available for cooperatives in the United States. For example, specific cooperative business entities – typically called cooperative associations – are a matter of state law. Yet a recent Supreme Court decision gives corporations personhood with rights accorded to natural persons under the U.S. Constitution.

Some states have well-developed statutes for cooperative businesses, including worker cooperatives. At least 10 states had adopted a model law created and promoted by the ICA Group, a nonprofit research, education, advocacy and business consultancy in Brookline, MA, describing itself as a "venture catalyst." Model statutory laws based on the original Mondragon Cooperatives have been adopted in Alabama, Connecticut, Delaware, Kentucky, Maine, Massachusetts, New York, Oregon, Vermont, and Washington. Many states cooperative statutes allow for agricultural cooperatives only. A new organization form – the Limited Cooperative Association – was okayed in 2001 by a national organization of lawyers and lawmakers who seek uniformity in state business law. Five states - Minnesota, Tennessee, Iowa, Wisconsin and Wyoming, adopted the LCA.

Despite this crazy quilt of organizational options, the key point to remember is this:

The legal entity is just a way for your cooperative to achieve specific objectives. If you *choose to operate cooperatively*, then your enterprise *is a cooperative* regardless of whether you have legally organized as a business corporation or a Limited Cooperative Association or anything else. Your objective is to find a good fit for your cooperative from among the available options, and then to *frame your agreements through adopted by-laws* to create a cooperative governance structure.

LEGAL RISK MANAGEMENT

Look at how a cooperative legal structure differs from conventional business entity. This is the field of *legal risk management*. All human activity involves risk, but here we focus on the risks that accompany business activities, in particular the risk that the business and its owners will be held personally and financially liable for injuries caused by those business activities. Such liability generally comes from tort [harm done to another person], from contract [harm caused in the making and breaking of promises] or from property [harm done by to or by the abuse of someone else's stuff].

A private individual engaged in some income-producing activity is known in the law as a *sole proprietor*. As a sole proprietor, the person and the business are one and the same. Any liability arising from the business is personal liability for that individual. When two or more individuals work together in the same business a *partnership is usually formed*. The partners' relationship is a contract between them, which can be simple or complex, written or unwritten, depending on the nature of the business and the deal between the partners. Here, too, the people and the business are one and the same, and all liability is personal to all of the partners.

Further, each partner bears liability for the liability caused by all of the other partners whether or not she or he was personally involved in causing the harm, whether or not she or he even knew of the activity that gave rise to liability. Each partner is personally on the hook for all of the liability of the business. From the individual partner's point of view, that is a lot of risk outside of his or her control. This is true even if a partner just contributed funds to the venture and has no involvement in the operation of the business. For liability purposes, there is no such thing as a silent partner.

You might find it unappealing to take on this degree of risk. So did your forbearers decades ago. To solve this problem, English parliamentarians created the idea of the corporation, the legal fiction that a business enterprise has a separate legal existence from the partners who own the firm. The enterprise is fictitiously embodied, or if you will, *incorporated*, as a legal person given the same authority as a natural person to own and operate a business.

Then as now, a corporation can enter into contracts, buy and sell property, rent the labor of as many employees as deemed necessary, and as well, hire or fire employees, sue and be sued, and so forth, just as any sole proprietor can. The corporation is liable for any risks arising from doing business, while, *on the other hand, the owners or shareholders of the corporation, being separate individuals, are not held personally liable for claims against the corporation, since they do not own the business.* Shareholders only are at risk to the extent of their investment in the corporation – they always stand to lose what they put in – but their other property is protected.

This is the basic principle of the *limited liability entity*: you own the company, the company owns the business. If there is a claim arising from the business, it can be satisfied from the company's property, but they cannot come after your house. The company stands between.

Historically, the corporation is the original limited liability entity. Corporation law has been refined and developed over the centuries to the point where it is rather complicated and cumbersome for smaller businesses. Successive generations of corporate managers have devised new and creative ways of bilking shareholders. Meanwhile, successive generations of legislatures at both the state and federal levels have created reforms and procedures to protect shareholders from the depredations of management. One result is that corporations must conform to a specific structure established by statute to maintain the validity of their status as persons separate from the owners.

When courts find that corporations have not complied with statutory requirements or its owners have otherwise failed to respect its independent status, judges may set aside the limited liability status and hold all shareholders liable as though they are simple partners in the business.

More recently the states have all adopted the Limited Liability Company [LLC] form of business entity. Designed to simplify legal requirements for smaller business, the LLC is a hybrid of the corporation's limited liability status with the contract-based relationship of a partnership. As such, LLC's have much greater flexibility in accommodating different kinds of management and operating structures than corporations. LLCs do not have the statutory process and record-keeping requirements to which corporations are subject, and are therefore easier to maintain for smaller businesses.

These are conventional, commonplace businesses – the LLC and the corporation – are based upon assumption of the primacy of capital over all other stakeholders or considerations. The managers of such companies have the primary duty to maximize profits for the owners. The *business judgment rule*, a central feature of American corporate law, holds managers free of liability to a company's owners so long as the managers act reasonably to maximize profits. Indeed, managers are at risk of liability if they take other considerations – the needs of employees, the surrounding community, or the environment – into account when making business decisions *unless required to do so* by state or federal law.

These assumptions have little to do with a cooperative, particularly one that workers own and manage. Managers *are* the owners and *are* the employees. Every cooperative must operate with positive cash flow in order stay in business, of course, but profits are not the only consideration. Wages, hours and workplace conditions, the personal development of individual owners, concern for the community around them, and natural environment are important purposes at many, if not most, cooperatives.

To make these distinctions clear and binding, they must be incorporated in your cooperative's organizational structure and organizational documents. What else makes the structural underpinnings of a worker cooperative different than an investor-owned business? Here are a few distinctions:

- All owners are natural persons. The basis for participation in a worker cooperative is the contribution of labor, and labor can only be provided by living human beings even where robots are used. Other types of cooperatives, such as purchasing associations, may include business entities as members, but no one has yet devised a way for a corporation to swing a hammer, clean a house, or shape a loaf of bread. This creates the structural question: *How do owners define the nature of our human membership and how do we decide who is to be admitted to, or be denied, ownership?*
- *All owners hold a single, equally valued stock share.* Equality of economic interest is a core principal of the cooperative movement. If one person owns a greater stake than another, then the benefits of ownership are not shared mutually. While there are equitable methods for recognizing and compensating individuals for seniority or skill, the basic unit of ownership should always be the same for each owner. The cooperative bylaws must establish the purchase value of that share and the process by which a new member can buy in.
- *One person, one vote.* Likewise, democratic control defines a cooperative, and rests on the principal of one vote for each person. Where investor-owned businesses permit individuals to own and vote multiple shares in different proportions, control of a cooperative rests on mutual agreement rather than economic clout. People vote, not shares. The cooperative's bylaws set out the ground rules for how and when decisions are made and votes are cast and counted.

- *Ownership tied to employment.* Because labor is the basis of participation in worker cooperative, if one ceases to provide labor then one cannot continue to be an owner. Therefore, if a worker leaves the cooperative for any reason – good or bad, including death and disability – their ownership ceases. It also follows that because the departing worker's share has value, the cooperative must be prepared to repurchase that share for fair value – fair both to the cooperative and to the person. Your structure must cover these transactions. Your bylaws must also provide a fair and consistent process for revoking membership. Such process is essential to protect the cooperative from non-performing members but also to protect every member from unfair rejection.
- *Demutualization barriers.* The cooperative is founded for mutual benefit; departure from this principal is known as “demutualization”. As many early cooperatives learned the hard way, in a successful cooperative, individuals or factions sometimes desire to take over ownership for their own benefit and to drop the cooperative structure. It is important from the start to organize the cooperative to resist demutualization, both for the value of cooperatives in general, but to avoid the creation of such factions. Barriers to demutualization can be simple: require a two-thirds or greater majority vote to dissolve or demutualize the organization. Such supermajority requirements allow the enterprise to take such a course in extreme situations, but only when nearly all of the members recognize the need for doing so and agree.
- *Patronage.* In investor-owned firms, shareholders are paid dividends as a share of the company's profits, in proportion to the number of shares they own. This is a return on their capital investment. Cooperatives do not extract profits to benefit shareholders, but they strive to have surplus revenue at the end of each year. Rather than rewarding shareholders in proportion to their invested capital each year, cooperatives reward members in proportion to their material participation in the business. For a consumer cooperative such as a grocery, participation is measured in terms of the money each member spends in the store during the course of the year, or their *patronage*. This term is used in other forms of cooperative as well. In agricultural co-ops, patronage is the value of the produce that each farmer sells through the cooperative in a season.

And in worker cooperatives, patronage is the number of hours that each member works during the year. So rather than receiving a return on capital, worker-owners receive a return on the labor that they have invested. The cooperative adds up all of the hours that each member worked during the year and divides it by the sum of the entire cooperative's operational working hours to determine each member's share of their patronage distribution.

Many worker cooperatives expand on these points with bylaws that further enhance the benefits of ownership and protect the cooperative form of organization.

- *Pay ratios.* While some worker cooperatives strictly adhere to a flat, uniform rate of pay for all workers, most acknowledge that workers with greater seniority, experience or special skills or credentials deliver greater value to the cooperative and should receive a higher wage. To reinforce the mutual nature of the business, however, these cooperatives cap the highest rate of pay in strict proportion to the lowest wage paid. For example, if a cooperative adopts a pay ratio limit of 1:5 and pays a starting wage of \$8 per hour, then no member of the cooperative can earn more than \$40 per hour until a new ratio is adopted by vote of the owners.

- *Individual capital accounts.* One inherent conflict in cooperative ownership is the emphasis on equality of ownership share versus the desire for individual workers to build wealth through their stake in the business. If the value of an individual's share grows over time, it creates differentiation and potentially friction between owners. On the other hand, if the share's value does not grow beyond the initial purchase price, an important reward is lost. One solution to this lies in individual capital accounts. With such a structure, the share price remains the same over time, but ownership of the share is tied to a personal account that represents the individual worker's stake in the overall value of the business. Each year in which the cooperative retains earnings or increases in value, a portion of that new value is allocated among all the members' capital accounts in proportion to the work that each contributed during that year.

This is not a cash account like a checking account from which one can withdraw money. Rather, capital accounts are a representation of the value of the business – known as capital or equity. Over time, capital accounts can accrue significant value that the member will ultimately receive upon retirement, or departure for other reasons written in the bylaws. Some firms allow members to borrow against their capital accounts to make significant purchases such as a car or a home. The capital account is an effective tool to represent each worker's wealth as contained in the cooperative.

- *Indivisible reserves.* Just as a cooperative can use individual capital accounts to allocate equity among all of the owners, it can also choose to allocate a portion of equity to *none* of the members, permanently. This creates incentive to manage the business as wealth held in common and a counter-incentive to demutualization.
- *Founder compensation.* In any business the founders typically invest of themselves quite heavily, in terms of their own money, time, sweat, and passion. If the founders are successful, then every co-worker will share in that success and enjoy a degree of prosperity. However, that shared prosperity may not adequately compensate the founders for their initial hard work and long hours, not to mention their emotional commitment. This can leave founders feeling like they should just do it for themselves next time. Cooperatives can choose to compensate their founders for that initial investment in a number of ways, such as fully accounting for their time investment in accumulated patronage hours and capital accounts, or more simply as a bonus wage payment, deferred until the cooperative has positive cash flow.
- *Consequences of dissolution.* No enterprise lasts forever, and even a prosperous cooperative may call it quits after a good run. Typically business assets are sold, all debts are paid and any funds left over are distributed proportionately to the remaining members. Many cooperatives instead choose – at the beginning in their articles of incorporation – to make a commitment to the cooperative economy and bind themselves to distributing net assets at dissolution to an economic justice charity, to other worker cooperatives, or to a cooperative support organization. This also serves as a further disincentive to demutualization.

These are other significant differences from investor-owned business that new cooperatives should consider and, if they choose, include in their organizational plan. They are decisions that will shape the management and culture of the cooperative. The original plan can and should be revisited and revised periodically, but the norms established at the outset have the greatest influence on the future of the enterprise.

In business, as in any other human activity, relationships are important. In business, these relationships are generally known as *contracts* and represent the economic promises that we make to each other in the course of business. A contract is a relationship, an agreement between two or more people. We write out our contracts to help us remember our agreements. This is so that every party to the agreement will know consistently what is expected of them in the relationship. Likewise, every party can be secure in receiving what they expect from the other parties to the agreement. The process of framing and writing out an agreement also helps us understand better the purpose of the agreement and to what we are agreeing. It literally puts our thinking “on the same page.”

Internal relationships. You should first decide upon a governance structure for your cooperative. Governance is the generally accepted term for the ground rules by which owners exercise their collective authority and make decisions together. The worker cooperative movement has developed a wide variety of effective governance models. These range from assuring all decisions are made by pure consensus to a fairly traditional representative board of directors and officers and everything in between. A detailed examination of these different models would easily fill another book. Exploring the governance structures of other cooperatives will help determine the most suitable structure for your cooperative.

Ultimately, your governance model should reflect the collective sensibility of all the owners. Remember that as your cooperative grows your governance model is not set in stone. It should grow and change with the business.

Governance is at root of relationships within the organization. The way decisions are taken should reflect the common values and goals of all owners. So start with a statement of those shared values: what is the purpose of this enterprise? What is your shared vision of success? These values and the way chosen to express them become the touchstone for decisions and actions through the life of your cooperative. Develop a governance structure; write it out together. Then fold that structure into your organizational agreements.

Governance structure is typically set out in a document called bylaws. Your bylaws should begin with your statements of purpose and vision. They should define the expectations of all owners, and include the process by which new members are brought in and the process by which members leave. They should outline in clear language how and by whom authority is exercised. They should be quite specific in addressing the unique issues noted earlier, such as individual capital accounts or vote margins for major decisions. Bylaws should include a process for resolving conflicts among members, and conflicts between and the cooperative. And they should define a process by which the members can change the bylaws in the future.

There are many sets of model bylaws available through the Internet or in business books. Worker-owned cooperatives often publish their bylaws. Many cooperative support organizations that provide various model bylaws on their websites. The U.S. Federation of Worker Cooperatives or the Canadian Worker Cooperative Federation both will help with your search.

However, just copying sample bylaws from this book or picking a set from another book, or from a website, then adopting them, is a risky shortcut. Bylaws must reflect how *your* cooperative chooses to govern itself. Sample documents are useful resources to see how other businesses describe their processes. Use them to help you design your own bylaws, but avoid the cookie-cutter approach.



External Relationships. Your cooperative legal entity is a creature of state statutory law. To create it, you must publicly invoke the protections of those statutes by filing a document with the state, Articles of Incorporation. Articles are a simple statement that gives notice to the government and the entire world that your organization is operating legally, and provides basic facts about its existence. Articles are filed with the state and are a public record.

While the format and details of articles vary from state to state, they must all contain certain essential information. First, they state what type of business is being created along with the particular statute authorizing its formation. Articles must state the name chosen and that will be used consistently in all transactions. The name must differ from all other businesses already on file with that state. The state will want to know where to find your firm. So you must provide a physical address.

One reason the state wants a physical address is the possibility that someone may want to sue the firm. The local sheriff must know where to deliver a summons. Because the cooperative is a new fictitious person with no corporeal existence – no hands with which to receive the summons – you will also need to appoint a living adult human to accept service. This person should have authority to let the organization know the sheriff has come calling to tell officers and lawyers to be present in a court!

Beyond this identifying information, articles should describe any significant aspects of its governance or financial structure. For a “vanilla” business corporation or LLC, such details are found in the authorizing statute. The cooperative organizational model is anything but vanilla. State your cooperative’s distinct elements – including any of the points listed above – in the articles.

Because articles are a public record, everyone who purchases an ownership interest of the entity is presumed to have notice of their contents and are contractually bound. The terms you include in your articles essentially become “private law” governing your cooperative. This makes the articles the highest statement of authority for the entity. Articles take precedence over Bylaws in any difference between their terms. For example, you may want to include an article about share ownership like this:

Ownership. Shares may only be owned by natural persons. No person may own more than one share. Only persons holding a share shall be entitled to vote in meetings of shareholders.

Likewise, you can to address issues such as constraints on demutualization in the Articles.

Demutualization. The limited liability shall not demutualize or otherwise depart from a cooperative form of ownership and management without the affirmative vote of three-quarters (75%) of all members holding shares.

It follows then that you would want to similarly restrict the ability to modify the articles:

Amendment. These Articles may be amended by affirmative vote of three-quarters (75%) of all members holding shares.

Some states require that Articles contain information about the capital structure of the company, such as the number of shares and the existence of multiple classes of share ownership. You may also need to identify one or more initial incorporators.

Finally, because your fictitious person has no corporeal existence, and because the state needs to be able to “touch” the company if it wants to serve a lawsuit summons or other legal notice, your Articles will need to identify a living person and a street address as a stand-in for the company for delivery of such official documents. Naturally you want this stand-in – usually referred to as “registered agent” – to be a reliable person closely connected with the business who will let you know if a legal notice arrives. Your “registered address” should be a place where you can reliably receive mail – your place of business is usually the best choice.

Governance Structures

The legal structure of most American cooperatives and other business organizations employ a traditional board & officers organizational structure. In such systems, all authority to run the business belongs to the owners, but is delegated to an elected Board of Directors. The Board exercises primary authority over the business and is ultimately responsible for its success or failure. The Board in turn hires Officers to execute specific high-level functions. The President manages the overall business, the Treasurer is responsible for its finances and the Secretary oversees the corporate records. Officer duties are usually set out more specifically in Bylaws. The Board might also establish committees, smaller groups that are assigned a particular function.

While the board & officers system can be quite hierarchical and in large corporations is subject to abuse, it is essentially democratic and can be a good fit for cooperatives. Many worker cooperatives operate smoothly with such a structure. A key principle in such organizations is for workers to keep their roles straight and exercise each role in the appropriate setting. You may be an elected Director, but on the work floor you only need to focus on your job responsibilities. Put on the “Director’s hat” when talking with fellow workers about the big picture issues of the business, and in formal meetings.

Other cooperatives find this system excessively hierarchical and oppressive. Worker co-ops have long been living laboratories for alternative organizational methods, often with great success. If your cooperative wants to manage itself with Consensus, Sociocracy or Autonomous Functional Committees, that will work and be perfectly “legal”. Just remember to describe your system clearly in your Bylaws and to give at least nominal recognition of the requirements of the statute you are organized under.

For example, if the cooperative statute says that an elected Board manages the cooperative, then you have to have an elected Board. If you really want to use a consensus-based decisional model anyhow, you still can: declare in your Bylaws that every owner is automatically a Director. Or if your cooperative doesn’t want individuals to hold specific offices but the statute says you have to have a President, Secretary and Treasurer, then state in your Bylaws that officer functions will be held by a committee. It might read as follows:

The duties of Treasurer will be carried out by the Finance Committee. The Finance Committee will consist of three or more owners. The Finance Committee will meet not less than once each week to review cash receipts, bank deposits, and bills, to make payments on behalf of the cooperative, and other activities to ensure the sound financial condition of the cooperative. The Finance Committee will provide a financial report to the cooperative members once each month.

The important point is to make sure your legal structure fits the requirements of the organizational statute. And then observe the structure you establish.

CHOICE OF LEGAL ORGANIZATION

Now that you have completed your market research, written your business plan, assembled your group of co-workers for this cooperative, and created a governance structure, it is time to organize your business as a legal organization. There are a number of suitable options available for worker cooperatives in most states. We do not recommend any particular choice of business entity here: a great deal depends upon your governance structure and the laws of the state in which you will operate. For this reason, we will describe these choices only generally. Other publications go into greater detail, and you should consider engaging a local attorney for specific guidance.

The internal structure you create for your cooperative is more important than the type of entity you choose. Remember, if you *operate as a cooperative*, then your enterprise *is a cooperative*. You may want to seek the advice of a business attorney, but ultimately you should trust your own judgment in this decision. We trust your judgment, too.

Cooperative Association. As we noted at the beginning of this chapter, there is little uniformity among the states' laws with respect to legal organizations for cooperatives. The cooperative statutes of many states were enacted generations ago for agricultural cooperatives. This may not be a good fit for a worker cooperative. On the other hand, several states have adopted statutes following a model promoted by the ICA Group that was specifically designed for worker cooperatives. Other states fall somewhere in between.

Most state cooperative association statutes create a governance structure similar to that of corporations, with an elected board and bylaws. Such resemblance does not extend to limitation of liability. For this reason, you must determine whether your state's cooperative statute protects its owners from claims against the business. We have found that most cooperative statutes do not limit personal liability except for debts of the cooperative.ⁱ This leaves co-op members at risk for personal injury, product liability, breach of contract or other sorts of claims brought against the cooperative. Only a few states limit the personal liability of members more broadly.ⁱⁱ In any event, be sure to obtain adequate insurance coverage as the first line of defense against liability for your cooperative.

Business Corporation. The original type of limited liability entity is also a suitable vehicle for a worker cooperative. While the evolution of the corporation, stock markets, and the Business Judgment rule has created a monster whose principles are antithetical to the values of a cooperative, the corporation as legal organization still remains a useful tool for small business. The corporation is the original limited liability entity; its owners are not subject to claims against the business. As we discussed above, you can establish the fundamental principles of cooperative ownership in your Articles of Incorporation. The tool is a corporation; the result is a cooperative.

Corporate law assumes the supremacy of capital – shares are voted, not people. If your cooperative decides to use a corporation, you must include specific provisions in your Articles to establish that cooperative principles govern the organization and that capital is subordinate to people. The sample Articles we include here are a good starting point for this. Corporations follow the shareholder, board & officer governance model. Tailor this to better suit the spirit of your cooperative.

Limited Liability Company. The limited liability company originated as a hybrid, combining the limitation of owner liability of a corporation with the less formal governance structure of a partnership. Where corporate governance is controlled quite specifically by statute, an LLC's structure is entirely a matter of contract between the owners. This offers great flexibility. Cooperative organizers can create a governance structure that fits their own organizational model rather than try to graft an alternative structure onto the rigid framework of a corporation. LLCs may be the ideal form of legal organization for some cooperatives.

As with corporations, LLCs are formed by filing Articles with the state – typically called **Articles of Organization** – that would contain information and overriding principles similar to those included in corporate Articles. As with corporations, LLC laws assume that money calls the shots: you need to embed cooperative principles in your LLC Articles.

The contract among the owners is known as the **Operating Agreement** and is the primary governing document of the LLC. Where a corporation must have shareholders, directors and officers in clearly defined roles, LLCs have only two types of people: members and managers. Members are the owners; membership in an LLC is a purely economic relationship to the business. Managers are the people with the authority to run the business and to deal contractually with customers and suppliers. In any given LLC the set of managers can be completely different from the set of members, or there can be partial overlap. A cooperative would naturally want for all members to also be managers automatically.

Beyond this simple framework, an LLC can be organized in any way that best suits the members. If a traditional board and officers structure makes the most sense, you can do it. If your cooperative wants to operate by consensus and functional committees, that, too is perfectly valid. Your Operating Agreement can describe these functions with great specificity or just establish a general outline of the organization to be supplemented by the customs and policies that you establish with experience.

ⁱ We cannot teach you how to read statutes here, but a reasonably intelligent person can figure it out, regardless of education. While some statute sections may have titles reading, “Liability of Members”, other statutes may require closer reading to ferret out the extent of personal liability. For example, North Carolina General Statutes section 54-113 is headed “Articles of Agreement” but concludes with the sentence, “No shareholder in any corporation organized under this Subchapter shall be personally liable for any debt of the corporation.” That means that owners are personally liable for claims against the cooperative *except* for claims on defaulted loans.

ⁱⁱ For example, Arizona Revised Statutes section 10-2061 states: “A member shall not be liable or responsible for the acts, debts, liabilities or obligations of the cooperative and the property of the members shall not be subject to execution therefore.” This indicates that owners are not personally liable for any claims against the co-op.

8 MANAGING WORKPLACE DEMOCRACY

FIDUCIARY OBLIGATIONS

MODEL ORGANIZATIONAL CHART

PRINCIPLES OF DEMOCRATIC DECISION-MAKING

LEVELS OF DECISION-MAKING POWER

FIDUCIARY OBLIGATIONS

What counts in any democracy is the way decisions are made, and by whom. What counts in any business is the quality of the decisions made, and by what procedures. Governance is a political function. Management is an economic function. The two tasks unite when workers own and manage a cooperative.

At times, doing so seems very difficult, especially as the cooperative commences daily operation, and owners have scant experience with the authority of a skill or of ownership. Or, it may be the new workforce owners have ample skills, are compliant when being given orders, each expecting to punch the time clock.

Most commonly in worker cooperatives is an elected board of directors who represent views from among the workforce, also are expected to see to it the board exercises fiduciary duties. For most, the phrase passes their lips for the first time ever. “The fiduciary what?” many ask.

Officers and directors have a common law fiduciary duty to the companies they manage, particularly with worker cooperatives where they are elected by other owners to serve and to protect every owner's best interests. Both have the duty of care and the duty of loyalty. Court decisions regarding these duties are numerous, too many, in fact, to review here. Let it be said, however, courts taken a dim view of either officers or directors who take liberties with this trust to act in the best interest of the corporation at all times, and hence, the employees.

Cases involving officers or directors of a workers' cooperative are rare, perhaps because few persons nominated and elected by peers want to let anyone down. A Google fails to turn up any, only references to case law resulting from misdeeds at capitalist corporations where board members or managers try to profit at the company's expense.

Officers and board members are expected to -

- Act within the constitution and powers of the cooperative

- Declare and have recorded in minutes any interest in a transaction or arrangement
- Promote the cooperative's financial success, avoiding conflicts of interest
- While serving as a board member or officers always execute judgment, skill, diligence and care
- Accept no benefit[s] from third parties at the expense of, or to the detriment of, the cooperative

Of course, board members or officers may go to court seeking relief from the consequences of allegations of failure to adhere to the fiduciary duties owed to the cooperative.

Also, officers and board members, or some other designated agents of the cooperative, are immune from liability to the cooperative for losses resulting from actions taken within their authority and powers. This is called the *business judgment rule*. There must be sufficient evidence, however, to demonstrate they acted in *good faith* with reasonable prudence and skill. Thus, law aside, officers and directors are able to meet the many challenging decisions they often must take immune from liability.

This legal flexibility allows owners, managers and board members - no matter what their role within the cooperative - to voice opinions to one another about policies or procedures, wages, hours and working conditions. Worker and board members usually work together to carry out due diligence when senior managers must be hired, or in establishing succession plans. In effect, even cooperatives operating in jurisdictions with no specific legislation establishing the Mondragon-style cooperatives, are able to use common corporate law to accomplish similar, or the same, ends.

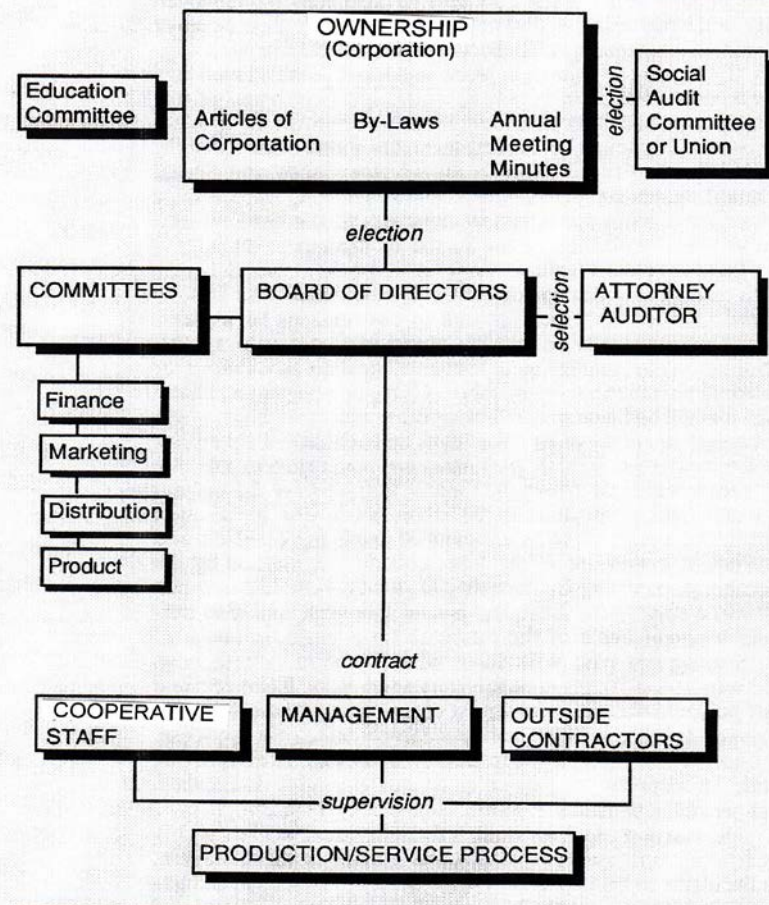
Nevertheless, in many startup cooperatives, and at times in businesses converted to worker cooperatives, years of being socialized to expect to be bossed, or trained to be a boss, can be enduring. So can be buried male-female or racial discrimination which have no place in the democratic workplace. Further, relatively few new cooperative owners fully understand their instinctive impulse to improve production, or to think up new, related products or services. Few managers have either education or experience planning and allocating work or wages democratically. Nervously, fear mixes with felicity, at least until profits, not losses, show regularly and in larger numbers along the bottom line.

MODEL ORGANIZATIONAL CHART

Chart 8-1 is a typical organizational chart of a worker-owned cooperative. It illustrates the types of activities, responsibilities, authority and decision-making power that must be considered when talking about, planning for, and managing workplace democracy.

Chart 8-1

ORGANIZATION AND STRUCTURE OF THE WORKER-OWNED COOPERATIVE



Wisely, workers and managers in these increasingly common businesses, remind themselves frequently that both are owners *not adversaries* as is so often the case in conventional firms. Together, they try using their own best work experiences to use the political and economic tools governing their business - collectively named fiduciary duties.

PRINCIPLES OF DEMOCRATIC DECISION-MAKING

Should they be stuck with an unworkable policy, comparison with similar labor-managed cooperatives provides important solutions. Contacting another cooperative was virtually impossible a quarter century ago. Barely a handful of workers' cooperatives existed. Today, with regional federations of cooperatives emerging, and the energetic U.S. Federation of Worker Cooperatives provides invaluable networking services among owners for these purposes, as does the Canadian Federation of Worker Cooperatives.

Before the Federation organized, worker owners looked mostly to written work on the Basques for guidance, either through Americans known to be in Mondragon, or Basques they

make contact with. Also, before Yugoslavia furiously breaks apart starting during the late 1980s, state-managed cooperatives starting up after World War II offer many crisp suggestions well before Mondragon becomes well known.

For example, Croatian economist Branko Horvat, outlines six principles that remain invaluable starting points long after his essay, "The Organizational Theory of Workers' Management," appears in the 1983 edition of the *International Yearbook of Organizational Democracy*. The American Society of Economists nominates Horvat for a Nobel Prize for this and similar work.

In small firms, he argues, the six principles come into play almost as a matter of course. In large firms, however, organizational communication demands more attention to detail and perhaps additional decision-making tiers. While Horvat's principles derive from both extremes, he describes them in terms suited for mid-sized firms.

The work unit is the first decision-making level, Horvat says. This is a small, homogeneous group that is a primary part of the production or service delivery process. Each work unit has social and management characteristics that correspond to the firm's larger political and economic functions. Informal communication is the norm.

In the work unit decision-making is face-to-face, a *direct democracy*. Everyone understands who makes decisions, and how. Because this happens naturally, owners who are not formal decision-makers learn the processes, thus are able to take the place of colleagues should one fall ill, leave the job, or who lose interest in that aspect of their work obligations. Opinions are seldom manipulated. Willful, unjustified opinions are infrequent, and prevail infrequently.

These basic work units join or "federate" with similar economic units as a work community. They, in turn, federate as an enterprise community. At each level, communication requires more attention. Decisions are spread about more widely. A formal or informal election process is necessary to select decision-makers.

Horvat's second principle acts to guarantee democracy. Whenever a work unit's decision substantially affects the interests of other work units, the decision goes to the work community level or, when necessary, to the enterprise level, to management, or to the board of directors depending on its complexity or potential impact on the bottom-line.

His third and fourth principles seek to insure that the best possible decisions are made and put into practice efficiently. While work units have the right to make decisions, they also bear the responsibility for the outcomes. Rights balance with specific sanctions well-known in advance. *The administration and the persons who implement decisions insist on competence, not democracy*. These principles establish the basis for managerial authority.

Horvat's fifth principle makes additional distinctions between the firm's political and economic functions. Politically, sought after policies can derive from the work unit, then go to the next federated level, if necessary to the entire work community and, finally, to the board. Administration of these policies is a professional or qualitative matter. *Authority for creating policies derives from the principle of one-person, one-vote; authority for administration derives from technical competency*.

So far, the principles make sense and seem well suited to the principles governing a labor-managed enterprise's internal dynamics, the central subject of this book. Still workplace democracy management is not easy.

Recognizing this reality, Horvat's sixth organizational principle suggests owners devise and institutionalize controls beyond democratic or bureaucratic tinkering, particularly a policy providing the means to resolve conflicts.

The Basques use a Social Council in each cooperative with authority to resolve conflicts. Owners in each department elect two persons to represent that department at the Social Council. First, this body gives owners still another voice managing the cooperatives' affairs. Each Social Council has wide prescriptive and advisory powers in personnel management. Its decisions are binding in such matters as wages, working conditions, including safety and hygiene.

The Social Council may tackle accident prevention, select one or more owners to administer social funds, even health and retirement programs. Social Councils normally meet once a month. They hear and act on subcommittee reports as need be. In addition to functioning as an advisory body, the Social Council serves as a means of communication by transmitting information from the directors to the owners on the job, and vice versa, and for owners at the job sites to give voice to their opinions to the board.

LEVELS OF DECISION-MAKING POWER

The challenge of sorting out who makes what decisions and when, how, and why can be made less difficult by keeping in mind most political decisions can be efficiently taken through a well-conceived electoral process. Economic decisions are essentially strategic. They must be made with due speed in response to particular situations and within a politically authorized policy framework. Horvat does not specifically sum up his ideas this way, but we do:

The individual owner is the starting point for both political and economic decision. She or he is the owner within each work unit who possesses the most knowledge about an issue growing out of their job assignment and, therefore, must have the primary right to be heard on those twin issues.

Getting acquainted with solving workplace problems is worthwhile, too! Solving problems usually involves six steps:

1. Recognizing or defining the problem.
2. Once defined, allowing individuals, or their work unit, to bring the problem to the attention of management.
3. Management, with the help of owners at the job site, gathers data and sort out options for a solution.
4. Owners and managers discuss options and make a decision.
5. Implementing solution to test, or taking action on the decision in some other fashion, including alerting the board.

6. Monitoring the outcome(s) and making any corrections.

For most owners, especially at industrial or manufacturing jobs, safety and health are usually paramount issues. Wages, hours and working conditions, along with a direct voice in scheduling are crucial in these jobs, too. For every owner, hiring and firing, wages, and working hours along with other aspects of the day's routine are of great importance.

When the board, or managers if given the authority, place all or most power over these decisions at worksite, they evoke in most owners a willingness to participate in self governance at other levels, sparking labor entrepreneurship. Political and economic issues at the job site provide a starting point for deciding which decisions fall under the authority of workers, for the manager, board, a social audit committee if there is one.

Grievances will surface, of course, owners being human. If the cooperative invests time and money preparing an in-house mediation committee, most issues resolve swiftly. If not, taking the most protracted, seemingly insoluble issues to a local mediation service is the next best option. Working beforehand with the local mediation service can prepare mediation staff to understand how your workers' cooperative differs from, or is like, a conventional business. This is prudent. Adequate ways for handling grievances and other complaints of workers fairly and expeditiously must comply with case or administrative law.

Who says how and when owners do their jobs is another matter of significance to owners. To prosper, the cooperative must design jobs that show people count. Owners, each with a financial stake at risk need to conclude individually that their work is meaningful, that it has variety and significance, and that they have an agreeable measure of autonomy.

The first Basque managers learned this lesson the hard way. Early on in Mondragon's history owners struck, not so much over wages or hours, but when a large number of owners felt managers were treating them as cogs in a factory system. The strike was short-lived to be sure, yet it prompted numerous changes in the roles and expectations of managers. Job design and job rotation become integral to work planning and management processes.

These or similar participatory practices may be disappearing as the Mondragon Cooperative Corporation becomes more of like any multinational buying conventional businesses around the world. A work-to-the-rule strike at Fagormastercook factory turned ugly in early 2011 with arrests and over 200 armed guards inside and outside around factory's perimeter.

Within Spain, however, each cooperative continues to ensure owners have a voice in decisions at the core of their jobs.

Research by behavioral scientists reveals that ideas for job enlargement, and the implementation of those ideas, seems to transcend ideologies. What makes a job important is the same in both traditional and labor-managed enterprises. Combining tasks often as workers become more and more proficient leads to formation of natural work units, not devised work units, ensuring every owner knows that his or her labor contribution is important.

Responsibility makes work meaningful particularly by giving owners authority to choose their work methods, deciding when their work is done, giving priority to each task, of, when necessary, advising or training new workers.

Over the years, the Basques use job rotation plans not only to ensure high owner morale, but also to curb seasonal slumps or economic downturns in their cooperatives. Most Basque owners learn several jobs during a career in the many cooperatives in and around Mondragon. Thus, when employment demands rise due to seasonal sales growth, or economic upturns, work is found in another cooperative experience either seasonal growth, or growth due to sales. There was no need to resort to a boom-or-bust hiring policies.

During the long European recession in the late-1970s, no owner within the Mondragon cooperative group was let go even though unemployment in the Basque province sometimes reached 24 percent.

In the United States most of today's workers' cooperatives set aside a regular time weekly to talk about short-term concerns such as current projects, business that may be coming in soon, scheduling, and cash flow. At Equal Exchange, for instance, a weekly workforce meeting is devoted to the history of worker cooperatives, management styles in worker cooperatives over time, or related topics - all aimed at giving owners sense of historic culture.

The entire workforce meets at some firms while at others work units, or federated work units, meet by themselves. The small meetings rely on minutes from other work units to keep up with the cooperative as a whole, or can elect a delegate to attend any larger meeting.

Meetings set to regularly, and that start or end at specific times, usually have uniform agendas that allocate time for each item allow owners to prepare to attend, knowing what to expect. One owner might manage the meeting, another keeps time and announces time, while a third makes certain tempers remain calm. Keeping meetings on tract to end within two hours - or less - is a way to prevent individuals' attention from spinning off.

While a growing number of owners reach decisions through consensus, a method pioneered by the Religious Society of Friends who, like worker owned cooperatives, sprang up in the mid-1600s in England. Some, although not all of today's Quakers as they have come to be known commonly, worship silently. Silence is a central practice and doctrine. Any one may rise and speak; but mostly voices as absent during the hour-long worship services.

This idea of sitting together with other men, women and children has a visible affect on participants, each unique to any other, has been taken up by dispute mediators. They caution arguing parties to remember that silence in the face of a verbal attack is not a sign of weakness but rather of a person solemnly considering the argument. Silence can be a useful element in consensus decision making.

Setting meetings with names like "Every Second Monday," or "On the First Tuesday after Labor Day", though complex sounding, can keep dates on individual's calendars well in advance, and thereby putting a share of knowing about a meeting on individual owners.

For short, one-or-two item agenda meetings try asking every person attending to stand up while talking over the items, make decisions, finally to decide who and how to implement those one or two decisions. The use of roll-about, extension desks with space enough for a laptop, files, and a briefcase are ideal props. Standing adds speed, but does not diminish thoughtfulness. Once seats are taken around a big desk the temptation is to see the meeting as time away from a dull routine.

Managers might prepare for meetings about major topics using stand-up meetings. Major topics arising from work units, from the cooperative's own internal need - major policy and planning decisions, work unit or annual budgets, wage evaluations and raises, marketing strategy, or changes in operating policies, and others, of course, might be set for a two-hour meeting each.

Keeping the two-hour, single-topic general membership meeting agenda on time, even if the single-topic agenda pushes an equally complex, urgent topic into the laps of a work unit gives that work unit both the opportunity to gain confidence, perhaps in-house celebrity because of the decision they take. Allowing work units power to write unambiguous rules giving them authority for problem-solving decisions with directly interconnected, related work units. This allows work units certain power to go along with the burden of authority.

Workers' cooperatives may scramble legal relationships between owners, managers who workers sometimes select but who mostly gain their jobs through selection by senior managers, and between senior managers and board directors to whom managers generally report. Directors always are owners of the cooperative for which they set policy. There are scant court decisions to use as guide or use as reference; and fewer administrative ruling. In fact, very few states charter the workers' cooperative.

The absence of settled law does not suggest owners in whatever capacity operate outside the law. However, by more or less abiding by corporate customs that case law, administrative rulings, law suits and legislative law create for conventional corporations, owners operate under the radar without major litigation. Therefore, to establish reciprocal relationships between these groups of owners requires time, education and, above all, trusting patience. But the process should not be left to chance without experienced legal advice.

Earlier description of the duties and responsibilities usually accompanying ownership, and of those of the owner directors, it is appropriate here to describe the more common powers of managers and the responsibilities of managers. While not inclusive, the list below is a guide:

Managers may have the most paradoxical, perplexing jobs in workers cooperative. There is a slogan some of the several dozen workers' cooperatives in San Francisco's Bay Area, use to differentiate workers' cooperatives from other, more familiar cooperatives, *No Bosses Here*. Yet managers there are in Bay Area workers' cooperatives, and most everywhere across America. And perplexing, too, since who bosses the bosses, usually managers who are owners?

In general, here is what managers expect to do in "boss-less" cooperatives.

- ☐ To coordinate and administer the cooperative's affairs in keeping with policies agreed upon by the board of directors.
- ☐ To develop reports and budgets, financial projections, and lending summaries for the board of directors and owners.
- ☐ To maintain an appropriate bookkeeping and accounting system and have those records examined by auditors outside the firm on a regular basis.
- ☐ To attend all meetings of the board of directors, make appropriate business and financial reports available to them, and offer options for decision. *But does not vote on those decisions.*
- ☐ To devote full time to the cooperative's affairs and do not engage in business concerns outside the cooperative or in competition with it.
- ☐ To join in hiring prospective owners and to cause owners to be suspended but only in accord with the cooperative's policies. Suspended owners have the right to appear before a general membership meeting with legal counsel to appeal the suspension. The manager has the duty to appear at the same general membership meeting with legal counsel to explain the suspension, and to recommend expulsion. *The manager does not vote on this matter.*
- ☐ To make recommendations to the board of directors, the social council, audit committee, union, or any other group that owners establish within the cooperative.
- ☐ To organize, administer, plan and control the financial and administrative operation of the cooperative, and to delegate those responsibilities.
- ☐ To oversee the production, sales, distribution, etc., of the cooperative's services or products.
- ☐ To evaluate and appraise the performance of owners, and other managers.
- ☐ To identify and to make available suitable training and educational programs to improve political and economic efficiency.

In sum, the obligation of managers is to effectively direct and to control the interplay of labor [owners] and capital [member equity, loans, or all other assets], and material [raw or unfinished products or undelivered services]. This mixture has the potential of becoming an emergency. Quakers have a typically cautionary warning: "In case of emergency. Please be quiet."

The obstacles facing worker-owners and managers are formidable, often difficult to surmount. At this writing, there is no national bank lending particularly to the workers'

cooperative. There is no college or university with a four-year undergraduate curriculum, no graduate-level degrees, or law school. Still, for many persons, including the hundreds of owners managing cooperatives, these hurdles are seen as opportunities. The workplace is an ongoing laboratory for industrial democracy and workplace participation.

9 DEMOCRACY ON THE WORK FLOOR

BRINGING DEMOCRACY TO THE WORK FLOOR

EDUCATION FOR OWNERSHIP AND PARTICIPATION

BRINGING DEMOCRACY TO THE WORK FLOOR

Worker owners face both ways like Janus, the Roman god whose name perpetually turns the calendar. We are owners and workers, words customarily filled with opposite legal and social meanings. Workplace democracy not only upends the traditional relationship between capital and labor, but also causes change in self-concept among workers who now are owners, too.

Sooner or later nearly every cooperative that workers own has to come to terms with their differing impulses. As workers, self-interest dictates a desire to govern their jobs. As owners, production demands that jobs are done predictably, and efficiently. The cooperative's policies dictate the way to do a job, not whims of an individual owner.

Take the experience of Almarinda Souza, a seamstress at Darwood Manufacturing Company, in Fall River, Massachusetts, for example. She was nominated to be president of the cooperative, but she stood and told fellow workers during a hectic workforce meeting called at a crucial moment in a buyout effort:

"I started sewing at this company nearly thirty years ago. Right after I got here I went to the boss and told him I had an idea I thought would save money. He told me, 'Almarinda, you are paid to sew, not think.' So I have kept my mouth shut since. Now, if we buy this company, if I don't think I don't get paid." Souza was elected unanimously to be chair of Darwood's Education Committee.

Practical application of work rules that result through widespread free and open discussion usually combine effortlessly on the shop floor. These new "rules" still need the review and the approval of the cooperative's elected leaders. Praxis is a twenty-five cent word defining the primary operational relationship between the owner and the cooperative, individually and as a group. No one worker has to "win" during these conversations. But every one must listen with respect. This relationship means this long list of assumptions:

- Workers are responsible and can make solid corporate decisions.
- Workers must have a decisive voice in governing the enterprise. The democratic principle of one-person, one-vote serves as the basis for participation.
- Corporate values must balance with human values.

- Equitable distribution of income is a must, and all financial affairs, particularly individual capital accounts, are to be administered prudently.
- To the extent possible within the given situation, small groups of owners are to be a part of problem-solving discussions.
- Decision-making authority shifts to the lowest possible level consistent with principles of sound management.
- Opportunities should exist for any person wanting to learn new skills or jobs.
- Ownership should be open to any person the cooperative employs, unless, of course, that person fails to attend to business.
- Any group of workers can prepare a list similar to this without much difficulty, fashion policies, including their ideas about the forms participation best suited to their firm.
- Finally, every owner expects to seek opportunities for cost-saving efficiencies on her job, plus ideas that may lead to new products, in effect, practicing labor entrepreneurship.

In the early developmental stages of worker-owned firms, the democratic election of policy-making boards that govern management seems to fulfill the workers' expectations that worker-ownership means self-managed work. Eventually, however, representational democracy, while necessary, is not sufficient, especially in more complex industrial settings where unions have an important role. The challenges in larger, industrial settings should be obvious.

Worker ownership alone does not automatically promote greater productivity or cooperation. While we believe ownership is a necessary precondition to achieve those goals, ownership in and of itself is not sufficient to accomplish those laudable ends. To give meaning to the practice of workplace democracy, owners themselves must plan to mediate conflict between managers and workers, balancing power and authority with accountability.

This is a common issue, and one surfacing quickly. Women frequently feel men dismiss their voiced ideas. Race or ethnic differences upset owners, too. Food brought to the canteen differing from locally commonplace foods unsettles appetites and dispositions, causing one or two go out, trailing disgust as they go. What to do?

People who are left out of decision-making talk are reluctant to speak "on the job," uncertain about what ownership really *means* on this "job", and for some their work is "just a job." Worker owners *must* invest time fashioning work ways and means they believe generate the practice of being owners. Workshops focusing on how to listen to differing views, while not dismissing views that differ are at the heart of workplaces where the meaning of cooperative, and of owner, seem to evolve hourly.

Even short, well-planned, mini-workshops make it possible for many very quiet people to speak out. A workforce leader, elected or not, asking the silent owner why he or she "tunes out meetings" "Everyone wants to hear what you have to say," she might say.

As much care should be given to the challenge of encouraging participating in the cooperative's business as given to writing the by-laws, the business plan, negotiating with lenders, or setting prices.

Each worker-owned cooperative, whether just opening for business or during the conversion from a business capitalists own to one labor owns, must undertake the sometimes painful process of fashioning the best way to become democratically self-governed. How 25 worker owners in small enterprise manage their work is likely to differ from the way 100 worker owners tend to business. But size is not only one factor shaping how workers govern the work floor itself. Other factors influencing how a business is organized include its purpose, the tools used, the markets, and, of course, the personalities of the owners.

Most, if not all, workers arrive at a democratic work site hardly ready participate in the governance of any business, or to usefully involve themselves in decision-making. Some workers may never want to learn the skills it takes to take part in managing a cooperative business. But for those who do, shopfloor owners, managers and the boards of directors –all - must be prepared to address vexingly, original issues resulting when the necessities of production mix with the politics of democracy enterprise.

For many new cooperative owners, a starting point assumption is that owners organize work to suit capital's needs. This is the drill: In a sole proprietorship, a publically traded company, employees work at the direction of managers, and manager's work solely to impress the chief executive officer or his allies among the directors or major shareholders. The same likely holds in smaller businesses where there may be several owners.

Very few Americans are brought up to think of themselves as owners. This may differ in other nations, but from infancy through elementary schools, Sunday schools, secondary schools, even graduate schools we learn – perhaps socialized is more accurate - to believe teachers know what we need to learn, preachers know what we should think about spiritual matters and church authority. We think professors teaching what and how they were taught must be at the forefront of educational wisdom.

Consequently, and understandably, some workers, while respecting the boss even if they seldom see her or him, think managers know what is best for the company, often more so than the owner. Managers give orders, employees carry out orders.

This phenomenon is easily seen at wine and whiskey stores. The man at the cash register tells a clerk to "Take that case out to this man's car." No please. No thanks. This is my job. I'm the boss when the owners aren't here. That is one of your jobs. Finally, it easy to see why employees share few corporate goals with managers and why adversarial interests can – and do – emerge.

The separation between the formulation of decisions and their execution upends tradition when labor controls capital and cooperation is the organizing medium for work. How?

First, both owners and managers own the company, not necessarily as equals in know-how or experience, but as equals each with an equal investment and each with equal voice through one-person, one-vote.

Second, owners hire capital through loans or accumulated savings as needed. In conventional firms, the person with capital, or persons in charge of growing the assets, is in charge, renting labor when and how they see fit.

Third, for optimal cooperative health and profitability, both owners and managers have information they must share.

Fourth, because owners are managers, they, as much as a "boss," must accept responsibility for *effective, productive* dialogue. In idealistic theory - and a growing number of firms find this idea is quite practical - there are no bosses. Still these cooperatives figure out ways to ensure thoughtful decisions are reached with as much insight from everyone directly affected as possible.

Fifth, since workers and managers are equal owners, their obvious best work strategy is to have goals that are mutually inclusive.

Sixth, again ideally, worker cooperatives are mutually inclusive, collaborative work places.

Education is the first means by which capitalist barriers fall, or where these socialized roles can be deconstructed. Even long standing, profitable worker cooperatives - Equal Exchange in Massachusetts being but one example - have regularly scheduled workshops to learn more, ever-more, about being a nationally known distributor of products grow or produced thousands of miles away.

Who gets to learn what must be redefined so that the many cognitive, intellectual and vocational skills that make a business prosper are restored to labor. In an unpublished paper written in 1977, Jaroslav Vanek, an economist teaching at Cornell University and an early theoretician of worker-ownership in modern-day Europe, writes:

The Rochdale Pioneers, forerunners of all cooperative movements today, were well aware of the significance of education for the liberation of the worker. When they wrote down the fundamental principles of their movement...they knew it was the ignorance of the wage earner of how to do things, how to organize production, that enslaved him. Thus, they resolved to allot some portion of their meager resources to education. Education, and more generally, the transformation of the human consciousness, that is the precondition and the very lifeblood of any successful and lasting effort to bring about self-management and economic democracy.

The place to start learning workplace self-governance is with the job itself, and, ironically, from workers themselves, since they do the job – whatever the task – repeatedly, and,

consequentially, they know the job inside out. William "Big Bill" Haywood, the legendary Industrial Workers of the World leader, always brought workers to their feet shouting approval as he shouts, "The bosses' brains are under the cap of the working man."

Politically and rhetorically, his assertion still rings true today. Workers nowadays work at a hundred-score repetitious jobs. And in a few hours, they know instinctively how to do the job, and see ways to improve production as did for Almarinda Souza in Massachusetts. Yet they seldom know much, if anything, about production. finances, markets, or that sometimes their job is only the first step in a process that will take what they make overseas and back before it is a final product.

The single most instructive way to widen the distribution of experience and skills - the knowledge these unique business require from individuals and collective whole - is to involve the aspiring owners from the outset in putting together the cooperative, or any other labor-managed enterprise, commencing with the feasibility study and proceeding to the comprehensive business plan. Learn by doing, as John Dewey, perhaps the most influential philosopher of education in the last century, might say.

Fashioning ways for effective dialogue to take place between rank and file owners, then separately, at least two, perhaps three layers of managers, is the next critical step. Two actions to consider *before* any action at a buyout happens may help avert workforce divisions.

Some consultants with experience in buyouts situations use a cooperative agreement that, they explain, answers questions about cooperation as an organizing principle for businesses. Usually, they expect every aspiring owner to sign, but signing is voluntary. Once signed, the owners should be certain the consultant[s] work with a disparate group of individualists, if possible, elected.

Women and men planning to invest in a cooperative may insist on these written, preliminary agreements which can include tentative policies for hiring and firing, governance, wages, hours and working conditions, thereby giving everyone a sense of what may change once they become owners. Other work-related topics such as agreeing on dispute resolution techniques can be part of the agreement. At the same time, they are fleshing out rights. They intend to reclaim and to use.

These temporary agreements become the ground rules to start mulling over how eventually to manage and to govern each unique cooperative. Cookie cutters worker cooperatives are not. Consultants often want to include six or seven statements they know from experience can head off or diminish conflict about who is making decisions during tense "moment-by-moment, face-to-face interactions."

First, try to diminish every verbal power play an owner may make to intimidate another owner, or attempts to control or manipulate a situation with threats. To counter these or similar power plays, wise consultants stop everything. They say directly and firmly to the person or the group trying such a maneuver:

This is how those words make her or him feel, then ask if other persons feel the same. Listening carefully to any remarks, the consultant reminds all present they have an agreement to work cooperatively and respectfully with one another, offering an example of how to cooperatively resolve problems.

Second, agree to communicate openly about those actions that relate directly and immediately interacting as if they are in business already.

Third, agree that every member's opinions are equally valuable and deserve equal consideration. Also agree again to cooperate trying to find solutions that take into consideration every person's expectations.

Either of these two approaches, or both together, are adaptable. They are straight forward enough so that alternatives emerge easily, with or without consultants.

Another tool available to would-be owners planning to take democracy to the shop floor is a decision agreement. This agreement also is best made before financially or politically risky decisions have to be taken, thus avoiding numerous conflicts. Later, if the buyout is a success, decisions may be impossible to reach if the company is running three shifts daily, seven days a week, or is a taxicab company whose owner-drivers are literally all over a city and cannot easily attend face-to-face meetings.

Decisions are equally difficult to reach if owners are worn out after an eight-hour shift. By taking care to make decisions inclusively during the buyout, owners unable to take part often trust every decision with objectivity. But don't leave that owner out the next time a crucial decision has to be taken!

Nevertheless, consider including at least these six points in a decision agreement:

- Spell out exactly who - owners, as a group or as representatives, managers only, or the steering committee - make what decisions.
- Agree on and write down exactly what decisions owners - as many as possible - vote on, then how and to whom the voting results are given. List the types of decisions owners expect the manager only to vote on, likewise, the decisions steering committee only makes.
- Use small groups to formulate decision options to a larger group, or authorize making a decision for the larger group.
- Separate decisions into categories such as policy, management, shop floor, or between operational, logistical, procedural and policy matters.
- Put a decision on appeal or in a decision review process in place before a group makes its first decision.
- Make sure everyone making a decision uses the same information and that the information is accurate and complete.

Still another step that prepares workers for shop floor full participation and democratic self-management is setting a date and time for an all-owner general assembly - after the buyout

legally closes. Owners attend the general assembly - in effect, their cooperative's first general assembly, an event to be held annually.

At this first gathering, owners can speak about the values or beliefs they want to guide policymaking in daily operations, particularly wages, hours and working conditions. Be warned, however, men and women hoping to become owners but who are hard-pressed to find the money to buy into the cooperative may think a statement of business philosophy only remotely relates to their immediate needs.

Charts 9-1 and 9-2 below illustrate ways to measure the degree of participation in decision-making. These charts are illustrative only and would-be owners can easily devise ways of their own of greater value.

While these charts list only three categories, a chart to locate the various levels of participation in decision-making within a specific cooperative. Chart 9-1 describes a specific way to determine how much decision-making power workers had over their jobs before the buyout. Power is defined as the ability to influence or to take decisions in each listed categories. By asking fellow owners to mark the form twice - once to indicate the degree of control they had in their traditional company. A second marks indicate how much control they want as owners over their work now that the buyout is a success. To help write by-laws, the work rules, or to attend all financial decisions costing over \$50,000?

Chart 9-1

DEGREE OF POWER IN DECISION-MAKING IN A WORKER-OWNED COOPERATIVE

<i>Categories</i>	<i>Degree of Power of Worker-Members</i>				
	<i>None</i> 1	2	<i>Some</i> 3	4	<i>All</i> 5
<i>Task Related</i>					
Tools used	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Schedules	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Safety	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Training	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Quality control	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Production	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Supervision	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>Administrative Functions</i>					
Resource allocation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Plantwide work schedules	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Cost control	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Meeting strategic goals	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Budgeting	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Marketing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Purchasing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Others	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>Strategic Planning</i>					
Setting goals	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Selecting products	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Determining policies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Acquisitions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Selecting management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

This chart gives evidence the workforce and administrators need to appropriately locate decision-making power. If the workers check all the 5's in each of the three categories, it may indicate they want too much power and, in doing so, put off individuals with management experience from seeking to become cooperative owners. If they check all the 1's, that may indicate new managers may have too much sway.

Another way to look at who exercises decision-making power is to sort out the degree of power by role: worker owners, manager owners, owner board members. Chart 9-2 illustrates one way to indicate where power in the past is vested, but, in contrast, where your group wants it to be situated in the future. You can prepare another list to best suit your own hopes the cooperative.

Chart 9-2
DEGREE OF CONTROL EXERCISED BY WORKERS

<i>Types of Decisions</i>	<i>Decisions Are Made By</i>		
	<i>Managers or Board unilaterally</i>	<i>Managers & Workers by consensus</i>	<i>Workers unilaterally</i>
<i>Task Related</i>			
Tools used	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Schedules	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Safety	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Training	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Quality control	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Production	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Supervision	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>Administrative Functions</i>			
Resource allocation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Plantwide work schedules	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Cost control	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Meeting strategic goals	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Marketing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Purchasing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Others	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>Strategic Planning</i>			
Setting goals	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Selecting products	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Determining policies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Acquisitions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Electing management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Still another tool owners may use to define the dimensions of their relationships with one another is to look at the roles they must assume. Chart 9-3 is a short questionnaire owners might use with board members, or supervisors, and managers. Ask owners in these or similar roles to evaluate their own roles as key personnel. These questions are illustrative only. You group should formulate one reflecting your situation.

ROLE ANALYSIS FOR ELECTED OFFICERS AND MANAGERS

A] *Expectations*

- What do my fellow workers expect of me?
- What do my fellow elected members expect of me?
- What do I expect of myself in this role?
- Will I have to change or will these expectations be modified as I carry out my work?
- How do I learn about fiduciary obligations, and when?

B] *Limitations*

- What are the legal restraints on my job?
- What are the social limits?
- What are the financial limits?
- What are the time constraints?
- Can or should these be changed?

C] *Priorities*

1. What are the priorities of the job I have elected to perform?
2. What are my priorities for that job?
3. Are there particular organizational needs at this moment?
4. What skills do I need to learn to do this job?

This is a very subjective questionnaire. There are no readily apparent, hard-and-fast formulas to give the survey any weight. Therefore, answering these most difficult questions is a greater challenge as a group, rather than individually or having one manager provides answers.

In 1985, Seymour Specialty Wire Company, a Connecticut brass manufacturer, became at that time the largest industrial democratic Employee Stock Ownership Plan [ESOP] in America. A United Auto Workers local led the buyout, relying heavily on nearby chambers of commerce, churches, and civic groups, each with some financial reason to keep the business from closing. As is the case with every business, the basic policy at Seymour, before and after the buyout was to make money.

But employee-owners tried to extend their ideals for democratic group management to the shop floor by using techniques similar to the previous suggestions. Despite good intentions, plus a board of directors elected by ballots cast one person, one vote, almost immediately management and employees come to loggerheads over issues of work organization and how to run the shop floor, in particular, and the company, in general. The honeymoon was over.

Neither side budged, partly because neither side had a widely agreeable idea about how to make money by working together, rather at odds with one another has they had for decades.

One elected officer summed up the situation: "Seymour is its own worst enemy."

During the hectic, high-pressure buyout process, transforming traditional manager-worker relationships was put on hold. The workers' goals were thought to be too idealistic to be dealt until after the company changed hands. But as the ink dried on the dozens of legal and financial documents necessary to transfer ownership, including indebtedness, work on those challenging, intertwined administrative issues started.

Virtually every Seymour manager had the same job he held before the buyout. Many of them were still held in contempt by the men on shifts #1 and #2. But on the overnight shift #3 seldom seen harmony quickly emerged and productive work got done without complaints being filed despite having the same foreman. What was going on?

One of the authors of this book, Adams, then director of education at the ICA Group in Massachusetts, was employed to assist the troubled firm undertake an owner-centered, company-wide goal setting process include the board of directors and the least paid floor sweep. Eventually four goals were agreed on. One surprises no one. It was to organize democratic ways to make decisions, and to make those decisions stick. The idea, called the Workers Solving Problems [WSP] was fleshed out, then copies were given to every employee-owner to think over, to comment on, and to discuss then vote on during clusters of workers at their workplaces, during three shifts.

A large, joint labor-management team was selected and, assured by the overwhelmingly positive voice vote given the draft, they announce after several tense meetings, the policy is: "Any problem which is under the direct control of any working unit can be discussed. Once all the options have been considered, each shop floor working unit can make a decision about those problems."

The union leadership gave the program its full endorsement, insisting, however, that any labor problem in the labor contract with the company could be discussed in the WSP process, *but* "Subjects that are applicable to the Labor Agreement [are] to be channeled through appropriate committees for review."

The WSP Program committee published a guide spelling out the worker's responsibilities. It contained accountability forms to ensure records were available so that every employee could write down who took what decision and when. The guide ends with a cautionary note: "Before taking action, look at all the options, double check the information, and, if there is a strong feeling among fellow workers that the proposed decision makes neither dollars nor common sense, respect those feelings. Workers should take the decision to the next level of the program."

The booklet encouraged workers to achieve group goals collaboratively. The WSP Program was to promote face-to-face interaction between managers and workers through small groups. An elaborate decision-making flow chart developed, and two departments agreed to test making decisions in tandem rather than one manager taking decisions without asking employees for their input. That was the way "things get done" before the buyout.

The test runs in the two departments and proves promising. So every department and every shift adopts the decision-making chart, implementing throughout Seymour's nearly differing 20 worksites, including huge furnaces' melting and refashioning copper wire. For several months 15 working groups in every part of the 250-person firm's operations, but focusing on decision-making, problem-solving responsibilities customarily belonging managers only, and selecting or electing decision-makers.

Seymour owners also created two tests they believed necessary to keep in mind before taking any action that might *extensively* or *significantly* change the employee-owned and managed manufacturing company. The first was the Extensiveness Test. The second was the Significance Test. To teach every owner about the tests and their purposes, each WSP working group answered the following in writing:

The Extensiveness Test

- How many persons will be effected, and how?
- How much time will be involved?
- How much money will it cost?
- How much money will be saved?

And the same with the Significance Test helps to determine the impact the decision could have on Seymour Specialty Wire.

The Significance Test

- Will this decision change the basic nature of Seymour?
- Will this decision effect the survival of Seymour?
- Will this decision improve company profits?
- Will this decision harm or advance worker participation?

Finally, both management and union agreed that decisions should center on just production issues initially, but could broaden as experience allowed. However, many of Seymour's supervisors and middle managers opposed or reluctantly agreed to go along with the WSP. They feared their authority and control would sweep away to workers. Top managers, whose early support helped create the WSP, felt under siege. A steady stream of middle managers, and supervisors were arriving at their desks daily to complain.

Managers claimed, correctly, employees were asking for more and more information about workplace decisions managers continued to make unilaterally, still considering those decisions to be their prerogative. The workers wanted to know about traditional management decisions. Annual elections for the board of directors became a way to vote against someone or some policy instead of promoting someone to a new leadership position, or for some innovative policy.

Despite a sincere attempt to apply the ideals of democracy, support for the WSP collapsed with senior managers and some board members changed their minds, dropping their support when the company's earnings fall. By 1991, Seymour Specialty Wire is operating under bankruptcy law, joining Hyatt-Clark, Atlas Chain and other industrial buyouts that failed to make

changing worker-management relations a mandatory, central goal from the outset.

Jeremy Brecher, a noted author who lived not far from Seymour Specialty Wire, closely watched its conversion and failure, wrote in 1988:

Governance remains an unsolved problem. Workers need a direct way to participate in policy-setting. The goal-setting procedure at Seymour, in which small groups met to list and prioritize goals, which were then collated by a committee of their representatives, worked well and might be one part of a model.

An annual plan voted on by employees is traditional in some producer cooperatives and might be made a regular part of governance in a buyout. Maybe major decisions should be preceded with something like an 'environmental impact statement' so that implications for the company and workers can be intelligently discussed. These ideas and others will not eliminate conflict by any means, but they may channel that conflict in a more constructive framework.

The experience at Seymour pointed to a larger, less tactical lesson for workers seeking to govern their own economic lives. Each worker-owned firm has a political role to fulfill. Scores of policy decisions are made at Seymour that the workers, as voting owners, expect would be evaluated in terms of their impact on each owner, their work, and their community, not just the bottom line.

The Extensiveness and Significance Tests are evidence of their foreboding concerns. However, evaluations did not take place often enough. While Seymour had a governance policy, neither the union nor the management understood, nor cared about a theory of democratic governance, or of a democratic firm.

The search for such a theory is never a central element of the buyout, the WSP Program, or a condition of employment. We believe that a widely agreeable vision of the theory undergirding a democratic firm, coupled with clear goals of transforming the social relations between board members, managers and workers is essential

These steps may lessen the impact of what seems an inevitable, painful conflict such as at Seymour, and other, similar firms, causing disappointment, costing individuals, their union, if a local is in place, and towns and cities serious tax revenue loss.

EDUCATION FOR OWNERSHIP AND PARTICIPATION

There is no college or university in the United States with a four-year curriculum devoted entirely to the preparation of young or older persons for productive work in worker cooperatives. Individuals are able to design independent studies at Southern New Hampshire University In Manchester, New Hampshire.

However, in the early 1900s, a stand-alone, unaccredited school for ownership, operated in Duluth, Minnesota. The Work Peoples' College is in business for working women and men, mostly from Minnesota's northern mining towns, or from St. Paul and Milwaukee. The school moved to Duluth from St. Paul where it was founded by Finnish Lutheran Evangelicals to teach church members to learn how to read English. In a few months, students split to form the Work People's College when they could learn or start and to manage cooperatives, to staff union locals, mostly International Workers of the World locals, write and edit union newspapers for Finnish or Swedish laborers, or to become an owner and the manager of some 20 unique resident-owned boarding houses. Women or men who rented rooms in these boarding houses became owners, too.



The relationship between the management of democratic cooperatives and learning can be organic. Democratic management encourages adults to learn. All owners have the right to know about business details, but as importantly, every owner has the *responsibility to know* how their company works, plus to think about ways to improve its performance.

As some educators and social critics note frequently, who controls how work is organized, its purposes, and who reaps the profits of work, usually affects the means by which society distributes the stock of knowledge, as well as the ways in which teaching and learning is carried on.

When, and if, labor-managed enterprises are abundant in a city or region, as is the case in Mondragon, expectations on the ways and means of education change dramatically. They change to such an extent that Basque owners tax themselves by paying the costs of education that prepares the next generation for cooperative management, product development, financial management, or the ever-widening range of educational opportunities.

As noted earlier, when Father Arizimendi took up priestly duties in Mondragon, the town's one industry, a lock manufacturer, allowed but 11 sons of managers or supervisors to attend a vocational school the firm operated in order to supply *its* labor needs. Years later, Father Arizimendi started a different school, Alecoop, an almost self-financing vocational school where students studied academic topics half a day, the worked to produce parts or services to businesses in Mondragon. Today, Alecoop, as well as Mondragon University, together offer vocational, undergraduate, graduate and postgraduate degrees in a broad range of topics, and special institutes preparing students to speak and read the many European, Latin American languages, and English.

The Basques are proving that worker cooperatives create jobs, yes, but the large numbers of persons hoping to work at a cooperative democratize knowledge, too. When workers own the factory or their jobs, knowledge adds directly to their ability to control work, and to *increase the value added* by their machinery, their labor, and their knowledge. Education becomes one means to achieve economic self-governance. If economic these aspirations are to unfold, then learning must be continuous *and* concurrent with those economic ends.

In the United States, where capital firmly controls labor and the means of production, knowledge is monopolized for the profit of those who own or manage capital. Elsewhere, where the state controls the means of production, knowledge is for the benefit of those who govern both the factory and the state

The International Co-operative Alliance, a non-governmental organization since in operation since 1895, today represents 355 million members from 170 cooperative organizations in 70 nations. The Alliance reports that financially successful cooperatives "make provision for the education of their members, officers and employees and the general public, in the principles and techniques of cooperation, both economic and democratic."

Every one of the Basque cooperatives allocate ten percent of the firm's net profits to education. Through the concept of worker-ownership, individuals assume responsibility for their workplaces; through self-defined education, workers gain control over what is to be learned, when, and how. Workers who recognize what they need to know to successfully mind their own business need to find teachers who have the ability to transfer knowledge to help them fashion aims, methods, curriculum and a means of evaluation that fit their specific needs. Often, as peers, they can teach each other.

CONCLUSION

WHAT IS THE FUTURE OF WORKER COOPERATIVES IN NORTH AMERICA?

THE NEXT PHASE OF WORKER COOPERATIVE DEVELOPMENT

To conclude this book's 2nd edition, we - Frank T. Adams and Gary B. Hansen - compiled an update to show how workers worldwide were gaining ownership, growing equity, while managing the businesses where they invest labor. To end this 3rd edition, we summarize the numerical growth and organizational maturity of workers' cooperatives in America and Canada.

To revise *Putting Democracy to Work* a third time, we enlisted Thomas A. Beckett of Hendersonville, North Carolina, an attorney whose practice centers on worker cooperatives, to write a chapter on the legal aspects of organizing worker cooperatives, and provide other assistance as needed.

In this edition, we avoid much mention of Employee Stock Ownership Plans since the ESOP Association, founded in 1978, has grown well beyond our singular purposes. There are 1,400 companies with 750,000+ employee-owners at last count. The Association provides regular, first-rate workshops, plus insightful reports on the several ESOP ownership forms, especially the Democratic ESOP, the ESOP we are most attracted to and about which we have written elsewhere. It should be noted that Hansen and Adams wrote several pamphlets about ESOPs in 1989 and 1992 that have been widely circulated, and these can be obtained through the Firestorm Café and Books at www.firestorm.coop or digitally accessed on the Internet in the cooperative section of Gary B. Hansen's website at garybhansen.com.

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What do we make of where and what the worker cooperative movement was between 1987 and 1992, when the first two editions were published, and where and what has this movement become today, in 2012?

The number of worker cooperatives in America grew slowly in the two decades between 1992 and 2012, often in geographic concentrations – and for varying reasons. Several examples: the Arizimendi Bakeries in the San Francisco Bay area focus on retail stores supported by upscale coffee shops, plus professionally experienced start-up and support staffs. Bakeries secure considerable start-up capital that comes from the surpluses they generate. A well-staffed and managed loan fund, the Cooperative Fund of New England expands cooperatives and multi-stakeholder firms in that region, including the Pioneer Valley Alliance of Worker Co-operatives – credit unions, farms growing organic greens and vegetables, chicken producers, a solar voltaic, home schoolers and others cooperatives “are dedicated to building a sustainable local economy” in Western Massachusetts and Southern Vermont.

In Minnesota and Wisconsin much of the expansion in those two states can be attributed to the historically generative role worker cooperatives in the region's labor history. And, as well, the important educational contributions made by the University of Wisconsin. Also, worker cooperatives flourish in both St. Paul and Minneapolis where there are dozens of opportunities in cooperatives, large or small, among friends or owners, for peers to exchange ideas and skills necessary.

Much the same holds for the Northwest with a large number of worker-owned cooperatives. Plus, there is an annual retreat for cooperative owner/members at Breitenbush Retreat and Conference Center, itself a worker-owned cooperative and intentional community on 154 acres of wildlife sanctuary in the Willamette National Forest, Oregon.

In general, however, it is fair to say that there is no unified, nationwide effort to form worker-owned cooperatives. There is no free standing, worker-owned and managed educational center that operates regionally or nationally to support the formation of worker cooperatives. More importantly, with regard to learning, where can aspiring worker cooperative owners, or those owners with particular topics they want to learn determine go to obtain these skills? Although a handful of colleges and universities can be identified around the country that offer courses on worker cooperatives, and their offerings are now identified on the america.coop website, there still are too few worker cooperative learning resources available.

This may be changing, however.

In Austin, TX, Texas Cooperatives, a nonprofit that operates a lively website, including live broadcasts of Amy Goodman's *Democracy Now*, and the Cooperative Business Institute, where low-income individuals can prepare business plans, learn about balance sheets, as well as other tools for basic business management.

In late 2009, 40 persons gathered to see how much interest and energy there was for starting a worker cooperative network in New York City. They represented worker-owned cooperatives, non-profit incubators of worker co-ops, and support organizations. Most represented low-income, immigrant-driven businesses. By mid-year 2010, the NYC-Cooperative Network was operative, still fleshing out what, beyond meetings, would glue the Network. Participating are Beyond Care, Cooperative Home Care Associates, Colors Restaurant, Green Worker Cooperatives, Rebuilders Source, Thirdroot Community Health Center, We Can Fix It! and Workers Development in the City of New York.

Cooperation Works continues its outstanding educational workshops with financial support from the U.S. Department of Agriculture, plus attendees' tuition,

The new American Worker Cooperative web blog (america.coop), recently started by Joe Marraffino, is beginning to provide more and more information about and resources for those interested in starting, promoting and learning more about worker cooperatives. It provides lots of stories, resources and information, including websites, where viewers can learn about worker cooperative developments and activities now going on in America.

How has the growth of worker cooperative support organizations fared in America over the past 25 years? Member cooperatives of the U.S. Federation of Worker Cooperatives can be

found spread sparsely across the country and in diverse industries, although most are small firms. The Federation, created in May 2004, grows slowly, too, now numbering 70 worker cooperatives or democratic workplaces with over 1,500 individual owners. There are more worker cooperatives in the United States, and often with many more members. These firms, and their owners, it seems, have yet to see the value of federating. One cooperative boasts of more than 750 owners. Another expects to have more than 2,000 owners by 2015. Some are industrial firms with strong reputations for fine, lasting products. Others are in the service industries, such as taxi operators, or several home care providers. These, too, are respected for reliability, and care for customers.

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In Canada, as of 2006, there were 346 worker cooperatives with 13,209 owners, according to government data. Revenue totaled \$470 million and assets total \$326 million. Revenue from the forestry sector alone, almost exclusively in Québec Province, was \$278 million – 59 percent. An estimated two-thirds of worker cooperatives in Canada operate in Quebec, engaging about 10,000 worker-owners.

How have worker cooperatives grown in Canada? In 1985, there were 98 businesses with 6,577 owners and \$98.3 million revenue. The sale of lumber and plywood totaled \$61.6 million. In English Canada, significant development was also generated with the creation of Tenacity Works – the Worker Cooperative Fund, financed by the Government of Canada in 2000.

In Canada, worker cooperatives are federating through the Canadian Worker Cooperative Federation [CWCF]. That nation, according to government data has 300 cooperatives with over 15,000 owners. The estimate of the number of cooperatives and owners is much lower. The federation's goals include advisory services on such universal matters as governance, finance, marketing, etc., for being a political voice for worker ownership, and creating ways to form new cooperatives. The Federation has a \$1.5 million grant from the Canadian government to use as capital funds for new cooperatives through a revolving loan fund, Tenacity Works.

WHAT IS THE FUTURE OF WORKER COOPERATIVES IN NORTH AMERICA?

In Canada in 2007 and 2008 the Canadian Worker Cooperative Federation (CWCF) conducted a survey among worker co-ops. Thirty-eight Anglophone co-ops, almost all of which were CWCF members, and 30 Francophone cooperatives (almost all are not members of CWCF) completed it. To identify worker cooperative success factors, the study carried out structured interviews with representatives of 13 co-ops across Canada.

In May 2010, CFWC staff completed a unique analysis of *The Worker Cooperative Sector in Canada: Success Factors, and Planning for Growth*. Authors are Hazel Corcoran, executive director of the Canadian Worker Co-operative Federation since 1995, Peter Hough is financial officer of CWCF, and the manager of Tenacity Works, the CWCF's revolving loan fund, and David Wilson, CWCF's communications and member services manager

The respondents to the CWCF survey listed the five factors that had contributed most to their success. These included

1. Highly motivated, values-based founders.
2. Business generally in large economic sectors which provide the necessary opportunity to develop a sustainable market niche based on competitive and quality goods and services.
3. A learning capacity and culture within the organization.
4. Available technical and industry resources to assist with the challenges of business and co-operative organizational development and training. These include networking within the co-op sector organizations such as federations, provincial associations and resource groups.
5. Access to capital and creative financing including members significant commitment to sweat equity.

The researchers then asked the informants how they defined success and to describe the ways in which their cooperative was successful. In their answers a number of factors stood out:

Longevity – simply having the co-op continue operations thus providing long-term employment;

Living wages – providing a sustainable livelihood to the members;

Meaningful work – many of the cooperatives have a commitment to a democratic workplace and particular social and environmental goals that make working in the co-op more than just a job;

Personal development – the cooperative provides the ground for growth and becoming better people;

Financial success, profitability – this provides the capacity to achieve many of the other goals of the cooperative; and,

Values-driven products – producing the market place and their communities values-driven goods and services that make a difference in the lives of their customers and communities.

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On January 24, 2012, the American Worker Cooperative blog (america.coop) placed on the Internet the seminal 1984 book *Worker Cooperatives in America*, edited by Robert Jackall and Henry M. Levin, and published by the University of California Press. In their concluding chapter Jackall and Levin first summarized the three historical continuities that have influenced the creating of worker cooperatives over the years: (1) effects of economic conditions; (2) effects

of technological changes; and (3) the effects of social upheavals. They then stated that those who would seek to achieve the success of worker cooperatives in America would have to address the following six issues:

1. The dissemination of information about worker cooperatives.
2. The creation of legal vehicles for the formation and continuation of worker cooperatives.
3. The education and training of cooperative workers.
4. The financing arrangements for worker cooperatives.
5. Technical assistance for worker cooperatives.
6. Ownership structures.

The recent Canadian study discussed above identifies most of the same issues identified in 1984 by Jackall and Levin. Yet, it appears that even in Canada, where the environment has been more hospitable to worker cooperatives than in the United States, the growth of these cooperatives has not been as robust as hoped during the past 20 years. This conclusion raises the further question: why not?

Are there additional, critically important elements missing from these lists, or is something else needed beyond the six or seven items listed that have been overlooked or not yet identified?

Our answer to this important question, after studying and writing about worker cooperatives for over a quarter of a century, is that this has, in fact been the case. There *is* something missing! We have come to the conclusion that the six or seven items on the above two lists are in fact necessary but not sufficient to accomplish more extensive growth of the worker cooperative sectors in America and Canada.

Before giving *our* answer to the question about what is missing or needed to accomplish more extensive growth of the worker cooperative sectors, it is appropriate to set out another person's take on the lack of robust growth of worker cooperatives in the past few decades. Melissa Hoover's keynote address at the semi-annual meeting of the Eastern Conference of Worker Cooperatives is insightful, using the "cockroach" as a metaphor.

Melissa started her remarks by citing the biometrics work of her brother in studying cockroaches and learning from nature. The most successful systems are not those that are perfectly engineered, she said, "It's the ones that can adapt to failure. Robustness is linked to adjustment." She then compares the success of the Arizmendi worker cooperative development approach in California to the shaky cooperative development efforts occurring in the United States and the failure of the U.S. Federation of Worker Cooperatives (USFWC) to create a network of interlinked cooperatives that can rely on each other.

Some cooperative development efforts are successful and others seem to fail. She suggested that the failure of the USFWC to create a successful network by doing some of the same things that the Arizmendi people were doing is an effort to adapt to failure. "How well it adapts to failure lies not in it, not in the cooperative developers, but in the Association it is a part of and grows from."

After reviewing the recent history of the USFWC from its founding in 2004 and the modest growth of worker cooperatives in the larger landscape, Melissa goes on to ask: “where do we go from here?” First, she cites her friend Ta-Nehisi who said “Once you let go of the dream of utopia, once you understand that even your success will generate more problems, you start to take some measure of joy in the greater struggle itself.” She said this was how she felt about worker cooperative development. Melissa then outlined some of the problems and challenges she felt the worker cooperative movement needed to address, and how she hoped they would respond. Her final comment was: “This utopian notion that the worker cooperative can be perfected really misses the beauty of worker cooperatives. The problem is, itself, beautiful.”

THE NEXT PHASE OF WORKER COOPERATIVE DEVELOPMENT

Our conclusion about what is needed to achieve more robust growth in creating worker-owned cooperatives, beyond what has been accomplished over the past two decades, builds on Melissa Hoover’s “cockroach” analogy as a basis for adaptation and positive growth.

What has been missing from the various lists or what else is needed to achieve greater success? Equally important, can the problem(s) be identified and addressed, or the missing element(s) provided in such a way as to facilitate the faster and more robust growth of the worker cooperative sector during the next two decades than has been achieved during the past two decades?

When reading the worker cooperative literature and the growing number of stories about worker cooperatives now available on the American Worker Cooperative web blog and elsewhere while working on this new edition of *Putting Democracy to Work* and reflecting on our own experience, we have come to the conclusion that the missing piece of the puzzle is something we call an “active and systematic group entrepreneurship” mindset.

We believe this important puzzle piece was not specifically identified or spelled out in either the Jackall & Levin book in 1984 or in the recent (2010) Canadian study, or even in the article in the *GEO Newsletter* that identified several worker cooperative development models and approaches (*GEO Newsletter*, Vol. 2 Issue No. 8, 2011):

The missing puzzle piece is: *adopting a philosophy emphasizing the creation of an active, group entrepreneurship program that has as its primary objective the systematic incubation of multiple, successful worker-owned cooperatives in a community or region.* This means that the promoters and developers of worker cooperatives must thoroughly understand and wholeheartedly embrace the concept of *active labor and group entrepreneurship through systematic and continuing worker cooperative incubation*, and include this concept as an essential part of their philosophy, objectives and organizing strategies. *Furthermore, it means that they must also create and maintain an integrated set of support institutions needed to provide the essential technical assistance, financial support, educational and other services needed to incubate, support, and sustain on a continuing basis, a large scale worker cooperative system with multiple worker cooperatives in a community or region.*

It means that organizers and technical assistance providers must make a conscious decision to adopt an action-oriented group entrepreneurship and worker cooperative incubation mindset that is internalized and operationalized by the leadership of a group, community or

development organization to undergird all of their efforts to systematically incubate worker cooperatives on a significant scale; and that their efforts from the outset must be more clearly focused on promoting and facilitating the implementation of “active group entrepreneurship” and “systematically incubating *multiple* worker cooperatives” rather than just encouraging or helping a handful of idealistic individuals seeking to create their own small independent or freestanding worker cooperative in which to work and have ownership rights.

Why do we take this more forceful, far reaching position and emphasize it so strongly? Our position, based on our own experiences over the past 25 years, is rooted in the history of worker cooperative development during the 20th Century and the first part of the 21st Century.

The two most significant and successful worker cooperative incubation efforts in history, in our judgment, have been the Indusco or Chinese Industrial Cooperatives (CIC) movement in China in the late 1930s and the development of the Mondragon worker cooperative complex in Northern Spain, that began in the mid-1950s. From the outset, both of these endeavors adopted an active group entrepreneurship approach to build an integrated system that would be based on the systematic, continuing incubation and expansion of worker ownership through the creation of a significant number of worker-owned cooperatives and their essential support institutions. The remarkable success achieved by Indusco after its inception in 1938 under very difficult conditions was phenomenal, even though it may have faltered after seven or eight years as a consequence of events beyond the control of its founders in war torn China. But, from the outset they did have a vision of what dynamic group entrepreneurship and the systematic incubation of worker cooperatives means and what was needed to achieve their goal of generating a substantial number of viable worker industrial (or production) cooperatives, providing jobs for thousands of worker-owners, and they organized and worked to make it happen. As a consequence, they were able to build an integrated support structure and worker cooperative system that emphasized ownership and control of large numbers of successful production cooperatives by the workers.

The founders of Indusco included a visionary, Helen Foster Snow, who came up with the idea and worked tirelessly for years to bring it into existence and help it grow. Indusco also had some very competent individuals like Rewi Alley and several others, to provide leadership and direction to their endeavors, and they had a significant number of “Bailie boys,” Chinese engineers who had been trained in Detroit under the auspices of Henry Ford, to provide the technical expertise to actually design and build industrial cooperative enterprises. Finally, they had some gifted educators to organize and run innovative training and education programs for their members and for younger people who wanted to become part of the movement. For example, they had George Hogg, who became the Principal of the famous Sandan School, one of a number of educational institutions created to provide educated and skilled workers for Indusco enterprises, until his untimely death.

The Mondragon system in Basque country of Northern Spain also started with a key individual who had an understanding of active group entrepreneurship, and together with some other highly motivated individuals, diligently worked to make it happen. They also had a visionary, Father Jose Maria Arizmendi, and some others, including the young Basque engineers with technical expertise who approached him to help them create enterprises and jobs for themselves and others in their community. The founders also attracted some very competent leaders to help them build the essential integrated incubation, support, educational and financial

mechanisms that were needed to make the group entrepreneurship incubation, expansion and ownership dimensions of their enterprises feasible and highly successful.

Thus, in both the Indusco and Mondragon experiences, the additional dimension necessary for success---a commitment to achieve successful group entrepreneurship and enterprise incubation on a larger scale, as defined above, were present, in addition to the six or seven criteria identified by Jakall & Levin in their 1984 book, and also identified by the more recent Canadian study cited above. They also understood and used the cockroach principle of adapting to their environment to achieve success, and not being wedded to a utopian vision of the world.

What has happened in America during the last part of the 20th and early 21st centuries? How does it compare with the Indusco or Mondragon historical examples discussed above? From our vantage point, in 2012, it appears that the founders of only two worker cooperative incubation efforts in the U.S. that have been carried out in the past two decades appear to have understood, in part, the importance and centrality of the concept of dynamic, *active labor and group entrepreneurship* to achieve successful worker cooperative incubation on a larger scale. It also appears that they have sought to adopt and use an integrative and systematic approach to achieve success on a more substantial size or scale. It appears that most worker cooperatives started in the past two or three decades have been small enterprises started by a handful of idealistic people seeking to create a business in which they can work and fulfill some of their social or economic objectives, but not as part of a larger or more systematic effort.

Two worker cooperative endeavors that we have observed that may be intending to do this in a more systematic way, or who are now attempting to do this, are the somewhat modest, but successful, efforts made by the Arizmendi Cooperatives in the San Francisco Bay area, and the more recent efforts now underway by the Cleveland Foundation to organize the Evergreen cooperatives, which according to their literature is in the process of systematically incubating some worker-owned cooperatives in Cleveland, Ohio. At this point in time it appears that in these two instances the founders have started their efforts with an understanding of the importance of emphasizing *active group entrepreneurship* and using an integrative approach to carry it out. They appear to understand that this approach should/must be an essential part of their plans, and that this concept may be critical to the ultimate success of their efforts.

The Arizmendi group in California appears to have used the active group entrepreneurship and incubation concepts in a limited way, and appears to have achieved modest growth and success thus far. We do not know enough about this group to draw any conclusions about their underlying philosophy and objectives for further expansion and growth, although Joe Marraffino has written several articles for the *GEO Newsletter* setting out the basic features of Arizmendi Association Cooperative Development Model.

From our vantage point the Evergreen active group entrepreneurship and incubation approach appears to be more ambitious at this point in its development, but it is also deviating significantly from the traditional concepts of worker ownership and control of the incubated cooperatives as adopted by the Mondragon system, and we are not sure about what Evergreen's underlying goals and objectives really are for its incubated worker cooperatives, and what this model will be or achieve when it matures.

We do know that from the outset, the Evergreen cooperative incubation efforts do include starting with a somewhat different ownership and financing structure, unlike the approach pioneered by Mondragon, and that the Evergreen developers are trying to create a hybrid ownership approach. This raises some important questions about ownership and control of a cooperative by the worker-members, and it is unclear at this point whether the hybrid approach being adopted by Evergreen will prove to be successful over time. At this point we have some reservations about their concept of shared ownership and governance with non-worker stakeholders, but only time will tell whether this hybrid ownership model will prove to be successful, or as good as those that have relied on the more traditional Mondragon ownership and governance approach that has proved to be quite successful.

The first significant effort to address our concerns and to provide a systematic analysis of what might/must be done to move worker cooperatives to a higher level of development in the coming decades in the United States and Canada was made by the publication in October 2010 of the report: *Sustainable Economic Democracy: Worker Cooperatives for the 21st Century*, by the MIT Community Innovators Lab (CoLab). This report was authored by Nicholas Iuviene, Amy Stitely, and Lorlene Hoyt. As stated in an abstract of their report, they concluded that “Worker cooperatives, when configured in a network with rooted institutions, can promote progressive, place-based, and endogenous economic development.”

Their report “explores the worker cooperative as a neighborhood, municipal, and regional strategy for generating wealth. Using the two cases of the Mondragon Complex in Spain and the nascent Evergreen Cooperative Initiative in Cleveland, Ohio, they “put forth a general framework for building a scalable cooperative network in post-industrial cities in America.”

The CoLab report sets out a three part framework that outlines a process for developing “cooperative economic development strategies for neighborhoods, cities, or regions.” The framework is distilled into three interconnected parts, all of which should be pursued simultaneously:

- an appropriately defined geographic area,
- the cooperative network (“the ecosystem”), and
- an endogenous (internally driven) economic development model.

We end this new edition of *Putting Democracy to Work* with the following challenge: that many more worker cooperative visionaries, leaders, promoters, developers and potential owners will learn more about both the ***necessary and sufficient*** aspects of successful worker cooperative incubation, and begin to address and overcome what we believe will be one of the most important and challenging issues preventing the more robust growth of the worker cooperative sector during the coming decades in America and Canada, that of devising and implementing economic development strategies for creating a considerably larger and more robust worker cooperative sector. We sincerely hope they will be successful in doing this, and that this new edition of *Putting Democracy to Work* will help accomplish this objective.

AFTERWORD

BY PROFESSOR JAROSLAV VANEK
CORNELL UNIVERSITY

With the disappearance of the Soviet Union and the Soviet Bloc most people in the West, including many political leaders, think that capitalism and political democracy have won a final victory worldwide.

In my opinion, taking such a position is a grave error--an error reflecting more the pride than the intelligence of Western leaders. The only honest, true statement that we can make is that indeed the systems of the Soviet Bloc, based on planning and state capitalism, were significantly inferior to the Western systems in the important area of allocation of resources. This inferiority, together with the authoritarian and non-democratic political system, was the essential causes of the demise of the Eastern Bloc.

Both through practical observation and theory it can be shown that there is at least one other economic system which is superior to both the Western private and former Soviet state capitalism: the system based on broad application of democratic principles within the factories and outside the factory doors; let's refer to it as economic democracy. This system is not only superior to both capitalist systems, but also it permits Western countries to shed their systemic schizophrenia of democracy in politics and autocracy in the economy. Adoption of economic democracy would also permit the countries of the former Eastern Bloc to move forward rather than retrogress.

It is in this context that *Putting Democracy To Work* represents a significant contribution. The book is valuable especially because, next to a fairly extensive literature dealing with theoretical and empirical aspects, it represents a rare effort to implement economic democracy specifically implementation on the level of the firm. In fact, this rarity is twofold, not only within the field of study of economic democracy, but also within the area of general business implementation. Whereas, we have hundreds of business schools teaching how to organize capitalist corporations, we have very little material and resources to assist those who want to form democratic firms.

The spirit of assisting those who want to create democratic firms or systems is what underlies this afterword. Whereas Adams and Hansen deal with the concrete aspect of entry and running of democratic firms, I would like to address some broader practical aspects of the subject which, I feel, the reader/user of the book should know. Because in the West we live in an overwhelmingly capitalist environment and because in the East economic democracy comes up as an alternative to market capitalism, my arguments are presented in comparative way.

The first thing to note, and which could never be overemphasized, is that like political democracy, economic democracy vests the power of control in personal rights--i.e. the rights of persons on the basis of equality among people. Such power under capitalism is vested in the rights of property or ownership. It is confusing to speak of economic democracy as worker ownership. But it is possible to avoid such confusion by saying that indeed the definition of democracy, as stated here, is unalienable. It would take a new constitutional amendment to define our economy in those terms. Short of such an amendment we must use the existing legal definitions and statutes which define firms and corporations in terms of ownership: hence economic democracy is conceived of in terms of worker ownership. But to have true economic democracy, the voting ownership shares must be allocated to all who work, one share per member.

Even more significant is the notion that whereas the motor [motivational base of capitalist firms and systems] is maximization of profit, the democratic firm's motor is maximization or optimization of the members' income or welfare. This renders the two systems as different as night and day. In the first, all working humanity enters with a negative sign (as a factor of production in a profit formula, where profit equals = revenue minus labor costs minus other costs). In the democratic system, all working humanity enters with a positive sign because the very welfare and income of the working members of the firm are the operating objective.

This simple difference is of greatest significance in all those countries--and they are by far the majority in the world--where labor is relatively abundant with respect to capital and natural resources. Given such abundance, labor will always tend to be pauperized in one system (save perhaps for labor endowed with lots of "human capital"), and reach decent human conditions in the other. In both the instances of former socialist countries and the developing world, this distinction ought to be taken with utmost gravity. Is it not true that in a household living under subsistence conditions, under the "sword of the negative sign", many children die of utmost poverty and those who survive often are handicapped for life owing to malnutrition?

But let us turn to a careful comparison between the two systems, one based on democratic principles, the other on the power of control based on the property rights of capital. The fact that the capitalist system outperforms by far the former socialist systems in terms of efficiency of resource allocation is by no means a reason that only such criteria ought to be used by those considering economic democracy as a solution. It is necessary to evaluate the capitalist system with respect to the democratic solution, and it is necessary to do so not only in the context of efficiency of resource allocation, but from a number of other points of view. Here, I try to produce, in a most summary manner, such a comparison based on both the empirical and theoretical evidence of which I am aware. For easy organization I will do so under twelve separate headings.

Efficiency of Resource Allocation: As we noted already, this efficiency is one of the great strengths of a capitalist market economy. However, the economy based on markets and democratic firms is at least as good. Both systems allocate resources efficiently in an ideal model; and both deviate somewhat from the ideal, the capitalist primarily because of its inherent monopolistic or oligopolistic tendency, and the democratic primarily because of its comparative slowness of responding to changing market conditions.

Incentives Efficiency: This is the great strength of the democratic firm, confirmed by both theory and practice. Whereas under capitalist conditions good work performance must be based on costly supervision, alienating assembly lines or threat of job loss, under democratic self-management, workers tend to supervise each other, knowing that losses of efficiency or negligence must be covered from the aggregate income of all participants.

Distributive Justice and Efficiency: In the capitalist economy, labor is dealt with as any other productive cost, its price being determined by the market. By contrast, under economic democracy, income distribution depends not only on market forces of scarcity but also on forces of collegiality and group solidarity. This invariably renders the distribution of income more equitable and just. Moreover, where relative scarcity of certain skills occurs, the self-managing process often leads to training or retraining to overcome such scarcity and thus contributes to the training and educational process.

Capital and Materials Use: Especially in the context of developing countries and countries of Eastern Europe, it is a welcome fact that democratic firms tend to use capital equipment and raw materials, fuels, etc. more effectively. In French construction firms, such capital productivity can be as much as one hundred percent higher than in comparable capitalist firms; and this is not something to be frowned on, especially in a poor economy.

Human-Social Efficiency: It is possible to evaluate firms and systems from the point of view of how well they match involvement of people with their right to participate. Here again, the democratic system outperforms the other alternative. Under democracy, those who spend eight hours a day for twenty years in a vital involvement in a place of work have the full power of control, while they have no such power under capitalist conditions and are actually controlled by the owners, who often diversify their portfolios and never see the factory they own.

Job Security: In many cases, especially with older persons or persons with families, job security may have greater value than maximization of income. Under the self-determination of the democratic firm, this is invariably reflected in statutes of the firm which make it very difficult to throw someone out of work. By contrast, in capitalist situations, especially in times of recession when it is impossible to find alternative jobs, people tend to lose work indefinitely or for long periods. And such losses then tend to aggravate the situation through the so-called multiplier effect, whereas the situation is improved if people retain jobs in individual firms and are not threatened by unemployment.

Risk Allocation: In the American capitalist economy, perhaps more than 50 percent of new firms die in the first years of their operation. In Mondragon, a significant empirical case of economic democracy in a market economy, such failures are almost nonexistent. Moreover, it is possible to diminish riskiness for workers in democratic firms by creating special non-voting securities or debentures which allow the external investors, or the supporting structures of the democratic firms, to assume some of the risk in exchange for increased expected (average) capital returns.

Monopolistic Tendency: Especially for countries of the former socialist bloc, it is significant to realize that democratic firms tend to be smaller, while efficient, and thus lead to much more competitive market structures than capitalist firms. In fact, leaving a system of state monopolies, it is by far most desirable to use the democratic way of privatization or denationalization. Such a procedure is more naturally based on self-determination of former plants belonging to large governmental monopolies. In fact, the processes described in this book can be most helpful in such an endeavor.

Ecological Implications: There are many reasons why democratic systems and firms will behave far more responsively--because of the presence and life in and near the firms of the decision makers--than when the decision makers live thousands of miles away, or up-wind, from their plants. There is also a strong locational presumption that smaller and more numerous plants in a democratic industry will be spread around in more pleasant smaller towns and cities. This compares with megalopoli like New York City or Chicago which grew over the years into a repository if not dumping ground, and easy access loci for industrial labor with all its social and human-tragedy implications so well known from our American experience.

Educational Implications: In capitalist firms and systems, the dynamic essence of growth is capital accumulation. Under economic democracy, while not neglecting capital accumulation, the dynamic essence is education, consciousness formation and technical capacity. Both the empirical experience of the best democratic systems like that of Mondragon and economic theory point in that direction. In the specific case of countries of Eastern Europe--which must make a tremendous leap from the past into the future--and the case of the developing countries, this may be the necessary ingredient of any forward motion.

Political-Social-Economic Harmony: Last, but not least, in contemplating systemic choices, is the internal consistency and harmony between democratic principles in all spheres of life--the economic, the social and the political. This is fulfilled in a democratic country by economic democracy. A well-known political scientist, Carole Pateman, argues that unless political democracy is matched by economic democracy, the former will be eroded critically if not irreparably. No other than President Dwight Eisenhower warned the American people against the dangers of the military-industrial complex, an expression of oligopoly capitalism. The dangers of unevenly distributed wealth and income in American politics are well known, and they are not diminishing. A daily practice of democracy in one's place of work and a far more equitable distribution of wealth and income cannot but lead all who adopt economic democracy to a more genuine, fully democratic world in the future.

It would have been beyond the scope of this afterword to provide extensive practical and theoretical substantiation of the various conclusions. But one practical argument is so powerful and so straightforward that it must be made in conclusion. If we were to ask which instances of the varied capitalist forms of economic and business organization encountered today are the most successful, the answer would be very surprising and very supportive of our above conclusions:

When we think of Western success stories, we think of the economies of Germany, of Japan, of the production systems of Volvo in Sweden, of the American ESOPs, or the American system of profit sharing. In each instance, capitalism borrows from full economic democracy substantial degrees of participation by workers and employees as an instrument to increase

productivity. And these "borrowings" work very well, and constitute an important, if not exclusive cause of the systems' superiority. This happens even though the "democratic" methods are imposed or permitted by the capitalist owners as an instrument of inducing higher productivity and profit. We may ask: How much better results and more genuine results will be or are obtained if democracy is not partial, not an instrument of profit, but something emanating from the will and desire of those who work in an enterprise?

Let me now turn to the actual process of introducing and using democracy in a productive organization. I can be brief for two reasons. First, this is what the book is about; and second, I have much less direct experience in this area than the authors. But I have some experience, having used this book and manual-type materials of my own in my classes for graduates and undergraduates, and even in attempting to start worker-owned firms. Moreover, I know the Mondragon experience and have benefitted from friendship with Father Jose Maria Arizmendi, whose contribution to Mondragon has become for me, as for the authors of *Putting Democracy to Work*, a life's inspiration.

The Mondragon inspiration, and systematic work as economist on the subject of economic democracy of the past thirty years (including critical study of Yugoslavia), lead me to a number of conclusions which ought to be useful to those implementing or intending to start economic democracy:

1. ***Market economic democracy is an entirely different species from market capitalism.*** The support structures of Mondragon are the best illustration, but there are many other aspects to this general proposition. This difference must be taken into consideration for optimal results in economic democracy.

2. ***The need for support structures suggested by Mondragon and general analysis is imperative.*** Ideally, as in Mondragon, these structures should assume the form of second level cooperatives--or in former socialist countries, of bottom-up controlled institutions, perhaps transformations of former ministries and planning bodies. The areas of concern should be, as in Mondragon, raising of funds, creation of firms, insurance, technical training and education, market coordination, technology and any others needed by the member (participating) firms.

3. ***The "new species" of economic democracy calls for not only new institutions but also new instruments;*** in particular, new debt instruments permitting the working firms to diversify risk while not surrendering control.

4. Especially in the former socialist countries and less developed countries, all of which call for foreign investments, ***new instruments and institutions will be necessary for the preservation and flourishing of economic democracy*** because of the systemic incongruence between lender and receiver. The support structures, properly adapted and organized, can serve this important purpose.

5. While we do not have space to elaborate fully on this subject, ***those hoping for optimal economic democracy must resolve the many potential "schizophrenic" problems and issues arising from using the ESOP form of worker ownership.*** Here they must remember that capitalist firms maximize profit, while democratic firms maximize income and welfare of members--the dilemma of the positive and the negative signs noted earlier. Closely related is the fundamental law that--as in Mondragon--under economic democracy, workers must hire capital (at a price) as much as under capitalist conditions capital hires labor.

6. Here is a lesson from my own experience as teacher with forming democratic firms. It involves a marriage of Arizmendian economic democracy with ideas of Ivan Illich and Paulo

Freire. *It is possible to start democratic firms as a dialogical self-steering process of those who will later form, together with others, the enterprise. The process is based on weekly-or other periodic-meetings practicing continuous social reflection followed by action by the whole group or its self-designed task forces.*

The process can continue through time indefinitely as the spinal cord of the democratic firm, even once it starts operation, and even when and if it subdivides later into new firms to accommodate needs of growth. For many, the process can fulfill also their educational needs, needs which are real because emanating from solutions to real vital problems. All this increases the educational efficiency, creates real economic democracy, gives livelihood to people, creatively fills possible idle time (e.g., that in former socialist firms finding themselves with temporary idle capacity and refusing to lay off their friends).

This book should serve as inspiration, guide and tool for those seeking practical ways towards economic democracy.

ADDENDUM

LEARNING THAT MAKES THE EAGLE FLY

BY FRANK T. ADAMS

PROPONENTS:

ALIMARINDA SOUZA, WILLIAM SYLVIS, LELAND STANFORD, ROYCE S. PITKIN

ALMARINDA SOUZA

Seamstress,
Fall River, Massachusetts, 1985.

In 1985, employees of a sewing factory in Fall River, Massachusetts - a company that invents designs and manufactures the fabled Palm Beach men's moist - buy the firm. Most of the new owners are highly skilled seamstresses; there mechanics, of course, a receptionist, bookkeepers and individuals to maintain huge, three-floor building in downtown Fall River.

The company is driven into Chapter 11 bankruptcy by second generation heirs of the two founding brothers. To save members' jobs, Local 624 of ACT 2, New England Regional Joint Board, led by Brown Zwirner, the Local's business agent, assists employees with the transaction, as does the Industrial Cooperative Association [ICA], a consulting firm fixated on workers owning the businesses their labor yield profitable firms or not.

Once the deal is done, and, finally, all financial documents signed, Zwirner organizes an all-owner meeting, leaving heirs of the founders without invitations to attend, a first for each one. They are no longer owners. She introduces me as an ICA educational consultant. She gives them my background, asking if they want to question me. Some do; others sit silent. They are, after all, owners. The meeting is on the floor of factory's huge sewing room. When their questions are asked, and answers given, Zwirner calls for a show of hands to decide if I am acceptable. I am, in spite of a few Southern phrases needing explanations, and a slight, unfamiliar, regional accent. Their first goal is to take political control of business.

Zwirner and a few seamstresses set an agenda before the democratic event. The first action item is to elect the firm's officers. The second is to elect a board of directors, and, finally, they are to select a budget committee from among entire workforce. Almarinda Souza is chosen president and a director.

Immediately, she stands asking to speak.

"Years ago, when I first started working for the other company, I went to the boss and said I had an idea I thought would save the company some money. He told me, 'Almarinda, your job is to sew, not to think. Go back to your sewing machine.' Since then, I've kept my mouth shut. Now, if I don't think, I might not get paid."

Her fellow owners clap loud and long, some even shouting "Be Tha' Pres! Be Tha' Pres!" A disappointed but boisterous crowd gathers around her, before slowly heading for exit doors. As she prepares to leave for home to cook supper for her family, I ask one question: "What do you want to learn?" "Oh," she says, "I'll have to think about that more."

In a few months, virtually every new owner knows what they each want to learn to make certain their investment pays off. Souza, Zwirner and I survey every owner from the board to janitors for their suggestion, singular or plural. The education committee reviews the survey's results, arranges for classes for no more than 10-12 persons around topics in most demand, and peers to teach one or two people less sought subjects.

As every group, large or small, gets underway either Sousa or Zwirner remind participants the aim is to remind everyone has an obligation to increase their own knowledge, plus whatever they will be learning, adds value to the clothing they make as well as to the cooperative they own.

Each group decides how long they expect their "course" to last, and how to show what they learn individually or as a group. No tests. No lectures. No shaming any one. No class longer than an hour. At least one "class" a week at a time the group decides. The cooperative pays instructors; owners do not expect pay while learning.

So, in this way, they launch a factory-wide effort to take *fiscal control* of their business.

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WILLIAM SYLVIS

Iron Molders' International Co-operative and Protective Union,
Philadelphia, Pennsylvania, 1859

Despite never pouring a ladle of molten pig iron as an employee, or going to formal school more than a few weeks ever, William H. Sylvis, becomes president of the Iron Molders' International Co-operative and Protection Union by delegates in convention on July 5, 1859, in Philadelphia. He is 31 years old.

Molders at the time pour molten pig iron into wooded forms making products such the heads for carpenters' hammers, axe heads, parts for wood burning stoves, or industrial machinery. There dozens of molding factories in Southwestern Pennsylvania where Sylvis is born.

When Sylvis is 9, his father, Nickolas, helps build canal barges or repairs wagons but is frequently out of work and poorly paid when he does have a job, dies. Maria, his widow, is left desperately poor. Schools cost too much for her to enroll William. Two years later, she arranges for him to work and to live on a kinsman's farm not far from their home in Armaugh, Pennsylvania. He's to do odd jobs on the farm in exchange for food and lodging. The boy is small in stature; farm work is taxing.

These relatives, however, busy themselves teaching him to read and to write. He enrolls in a nearby school, but leaves after a few weeks. School is too expensive. He never returns to a schoolhouse. Instead, knowing how to read, read he does - every book in his kin's unusually large library; and then books he borrows from the few nearby public libraries.

He decides to learn a trade, leaving the farm to become an iron molder. He is 18 when a factory owner offers him an apprenticeship. Openings are abundant. Young, durable men are much sought after. The work is hazardous, steamy hot year around. Working conditions are commonly wretched. His occupational goal takes a crippling detour. Somehow, a ladle of molten pig iron spills on his legs, leaving them badly scared. A shoe burns off, his foot still inside. He is left with a badly deformed foot. He's unfit for such hard, heavy work.

Nevertheless he never leaves the iron molding industry. Slowly, he is able to take up administrative tasks union leaders fob off on him, earning the teenager a bit of money, importantly, but of equal importance for his career, earning him many friends among the rank and file in Pennsylvania. In 1855, representatives from 31 locals met in Philadelphia taking the first steps toward organizing iron molders.

Four years later, 531 molders from 46 locals, most all in Pennsylvania or New Your state, gather again in Philadelphia. The delegates recognize his knack for administration, electing him the union's first president. He sets out immediately to grow the union by bringing big groups of molders from sprawling factories in Ohio and Illinois.

However, the outbreak of the Civil War hampers his organizing goals. Locals shrink, or simply stop meeting as molders leave for the battles. Dues don't get collected, or if payment is made, the money does not reach Philadelphia. Factory owners mount vigorous bust-the-union drives.

Before the Civil War, the Iron Molders vote to oppose war. Sylvis was a leader among members seeking adoption of that anti-war resolution. But when war breaks out, he organizes a group of union members to enlist in the Union Army. Because of his disabilities, the military will not accept him. Instead, he stays in Philadelphia fending off increasing successful union-busting practices.

The union is nearly fiscal collapse. There are barely 2,000 dues-paying members, just 15 locals and \$1,600 in the bank. By 1862, with the Civil War still raging, Sylvis undertakes three regional tours - to the Midwest, to New England, even to the South. Factory labor is scarce, due mostly to the war. The workers themselves are grouchy. They walkout unexpectedly, or work to the rule causing production slow-downs. If owners refuse pay raises, some molders walk off the job, knowing they can easily find work. Their spontaneous bursts of anger harm the union. Dues go unpaid.

He starts new locals or revitalizes others until there are 6,000 members, and \$25,000 in the bank.

At the conclusion of his long year on the road, membership totals 8,615. Of these, more than 300 are women of the Collar Laundry Union, in Troy, N.Y., the first all-female union in the U.S. The Iron Molders, perhaps the only trade union to seek women as members, give the Collar Laundry Workers considerable assistance organizing. After the War, they become Iron Molders Local #2.

Being a laundress is a dangerous job, too. They work 12 to 14 hours a day for very low pay in what the laundresses call sweatshops. Working conditions are often unsafe, as laundresses use boiling water, strong chemicals, to clean the collars, as well with starch and hot irons. If a collar is damaged during the process, the cost of repair or replacement is subtracted from the worker's pay. Except for the spaces narrow aisles open, the work floors of most sweat shops are a mass of large iron pots for boiling soapy water, boiling rinsing water, boiling starchy water, drying racks, ironing boards, tables to stack, then sort by collar neck size. Walking the narrow aisles is necessary - and dangerous. Every laundress relies on her agility to avoid harm.

Long paddles stir the mass of collars; equally long hinged tongs pick the collars from pot to pot, and finally to hang on drying racks.

The success Molders have using unions inspires Kate Mullaney, only 19 at the time. Mullaney along with a co-worker, Esther Keegan, convince 300 laundresses their fellow workers to strike. They do on February 23, 1864. Six days later, laundry owners gave in to their demands about working conditions, plus raising wages 25 percent.

Later that year, during the Iron Molders convention, in order to still some opposition to the decision to include women in the trade union, Sylvis suggests and wins approval to make an attempt to organize a national labor trade union, the National Labor Organization. This policy decision is, according to some historians today, the first such effort [which may be the case by ignoring the swelling labor unrest among miners in western states at the time, who, with other unions, are sufficiently numerous and influential that by 1802 the International Workers of the World [IWW] forms, also aiming to represent workers nationwide.]

Sylvis, nevertheless, is swiftly becoming the most progressive trade union leader in the nation.

The laundresses, newly minted Iron Molders, commence thinking about starting a cooperative to manufacture stoves. Simon Mann, first president of Local 2, starts planning with members almost immediately. If such a business could get going perhaps some spouses of the laundresses might find better paying work then the wages in Troy's numerous textile manufacturers. That was the idea driving the creation of a stove factory cooperative.

Experiences at the foundry teach both Mann and Sylvis that if the Iron Molders promote the formation of worker cooperatives some form of a uniform educational program must be in place. They open a small space in the Molder's Philadelphia for a union team with operating experience in cooperatives to write and publish pamphlets on budgets, profit allocations plans, dispute resolution, and similar topics cooperative business owners must be familiar with.

Though Mann later becomes the superintendent of the largest stove foundry in Chicago, he and Sylvis use the personal educational aspiration among each Molder, helping them learn what working together is, teaching they need to know.

Meanwhile, the effort by Sylvis' to open membership in the Iron Molders to more tradesmen fails, defeated by a long history racial conflict over jobs, and by hatreds spawned by the Civil War. Sylvis has been holding talks with Isaac Myers, a founder of Baltimore's most successful business owned by African-Americans, the Chesapeake Marine Railway and Dry-Dock Company. The firm, founded in 1866, after two years after race riots sparked by white shipyards workers spark in furor among large number of African-Americans, and several death, who caulk the wooden ships as skillfully as the whites, if not better.

Myers starts a dry dock business at Kennard's Wharf at the end of Philpot Street, the place in Baltimore where a young slave, Frederick Douglass, in the 1820s, lands in the 1820s from the plantation on which he is born on Maryland's Eastern Shore. The company hires white and black workers. Douglass works there a year, then disguised and with a passport of a friend, leaves for New York ready to launch his career eloquently working to do in slavery.

The company, operating as a cooperative, secures a charter in 1864, starts operating, quickly becoming a singularly important part of the city's shipbuilding industry. Myers and a group of men from among Baltimore's respected white and African-American leaders, employ an agent to lease the land, equipment, dry dock, and the railway. They charter the firm as the John Smith Company. Two years later, with business growing regularly, the assets are re-chartered as Chesapeake Marine Railway and Drydock. With a proviso the lease is to exist 40 years. Due to a misunderstanding, however, the lease expires and is not renewed in 1884. The cooperative shuts down.

On the eve of Sylvis' next visionary effort, the formation of the National Labor Organization, he meets with Myers. They have cordial talks about adding workers from the busy dry dock into the Iron Molders fold. Further, Sylvis tells Myers of his ideas forming a nation labor union, hoping, he tells Myers, that African-American tradesmen will be active in that national effort, too. Myers agrees to attend the NLO convention when it opens in Baltimore later.

All but one of the resolutions leaders of the National Labor Organization introduce win approval without debate over language or purpose. However, the one is a contentious discussion about opening the NLO to "colored" members. A.C. Cameron, focuses on the position held by most, including Sylvis, "...interests of the labor cause demand that all workingmen be included within the ranks without regard to race or nationality..." A minority dissents; the resolution fails. Myers listens silently, as he does, begins planning to form a similar organization for African-Americans.

In December that year, over 200 African American mechanics, engineers, artisans, tradesmen and trades-women, and their supporters meet in Washington D.C. to form an organization to pursue of equal representation for African-Americans in the workforce. Frederick Douglas is among them. His newspaper, *The New Era*, is chosen as the official organ of the Colored National Labor Union as it came to be known in the national press. Douglass, as

president of the organization the press dubs the Colored National Labor Organization, declares with characteristic passion, "...the most killing refutation of slavery is the presentation an industrious, enterprising, thrifty, and intelligent free black population."

Sylvis dies young, age 41, in 1869, not long after these two national trade union advocacy organizations form. His death is unexpected. There is no succession plan preparing a leader to take his place. Foundry owners across the nation intensify opposition to the union. Both the NLO and the Colored NLO commence to withering into history.

His history with the Iron Molders, the collar workers and the iron stove cooperative influence rank and file union members to form businesses they own and manage. They gain knowledge, too, over how to use what production teaches. Plus, they their businesses provide means by which to pay for new knowledge as necessary.

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LELAND STANFORD

Founder, Central Pacific Railroad, Industrialist; Stanford University; U.S. Senator
Stanford, California

Senator Leland Stanford, at the time he introduces a bill to spur the formation of worker cooperatives in 1885, is the wealthiest man in the United States Senate. He is one of four founders of the Central Pacific Railroad, along with other rewarding industrial investments. His bill in 1887 asks for consideration by the Senate to encourage the formation of worker cooperatives, allowing their organization access to banks and education. Afterwards, he tells a newspaper reporter:

"From my earliest acquaintance with the science of political economy, it has been evident to my mind that capital was the product of labor, and that, therefore, in its best analysis thee could be natural conflict between capital and labor...between effort and the result of effort...I have always been fully persuaded that, through co-operation, labor could become its own employer and cease to labor for hire."

Fellow senators ignored his bill. It never got out of committee. The trustees he names to govern Stanford University ignore him, too. His grant to start the university stipulates the school "shall teach the right and advantages of association and co-operative." And if his proposal to the Senate, or of being ignored by the trustees, bothers Stanford, his reaction is poorly recorded, if at all. His purpose for the university is "...entirely forgotten from the University's collective memory."

As remarkable, perhaps, labor activists, including William Sylvis, Isaac Myers or others, particularly those active or Philadelphia and Baltimore, do not pay much to Stanford, either to his Washington speeches or to California philanthropy. Nor do today's advocates for worker cooperatives realize how Stanford's ideas prefigure current political challenges worldwide, but

especially in the developed, capitalist western nations. He could be a writer for Occupy Movement:

“In a condition of society and under an industrial organization which places labor completely at the mercy of capital, the accumulations of capital will necessarily be rapid, and an unequal distribution of wealth is at once to be observed. This tendency would be carried to the utmost extreme, until eventually the largest accumulations of capital would not only subordinate labor but would override small aggregations.”

As historian Lee Altenberg writes in his essay "Beyond Capitalism: Leland Stanford's Forgotten Vision," the ideas he espouses are not uniquely his own. The vision of a cooperative commonwealth - a system of worker-owned cooperatives - formed the core of a mass political movement in the United States, the Populists, which was at its zenith in the 1880s.

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ROYCE S. PITKIN

Goddard College, Founder and President
Plainfield, Vermont

[Transcribed from a film clip - "The Ideas Upon Which Goddard College Was Founded: A Talk by Tim Pitkin."]

We said we that we were going to start a School for Living in which students would deal with real problems and issues. And then we went on to say...there were four principles that we were going to live by and try to apply in the operation of the School for Living. Incidentally, that phrase came from Ralph Flanders, who at that time was an industrialist in Vermont.

One of these principles was that thoughts should be tested by action. In other words, if you have an idea, you ought to put that idea to the test. It wasn't much use just having ideas. That was fun, but if all you did was have ideas that didn't amount to anything in this world. On the other hand, we said if you acted without thought that was rather stupid. We were going to test the notion that thought should always be tested by action.

We said, further, as a second principle that learning proceeds most effectively when the learner feels the need. Now this has obviously some implications for the whole teaching business - for the business of the curriculum.

It meant that in building a curriculum you had to build it in recognition of what the students saw as their needs. Otherwise you didn't get very effective learning going on. And those of you who have been to school will, I think, sympathize with that point of view. I'm sure there were times that you were supposed to be learning things for which you saw not the slightest need and in which you had extremely limited interest. So we set out to build a curriculum based on what the student perceives as his need.

This is quite a different approach you see. Now in all the institutions that I had gone to there was a presumption [that] the erudite, learned people who constituted the faculty somehow or other, having never seen me, having never heard of me, knew what I ought to study when I went to their institution.

Which I think if you look at hard and fast is sheer arrogance to presume, without knowing a person at all, that you can prescribe what kind of curriculum he ought [to] have. But that's exactly what they did when I started at Cornell and that's what they did when I transferred to the University of Vermont. I managed to escape some of it and to get out around but by and large we were supposed to do what they thought. I didn't always perceive the need, except to meet their requirement.

The third principle which we said was to promote maturity and self-reliance. Students should carry responsibility for their own program. And we thought this should apply not only with regard to their academic program, but it ought to apply to all the things they did in the institution - the social life, work program, studies, off-campus performance, those were all part of the curriculum. We were using curriculum as an all-inclusive term. We had no extracurricular activities. Everything was curriculum.

Moreover, we felt that if one was to carry the responsibility they had to accept the consequences of carry[ing] that responsibility. To be very specific they were allowed to choose their own courses out of the courses we offered. [Before each semester opens, both faculty and administrators post two or three word descriptions on 3x5 cards of courses they will offer, and what class room will be used to meet and discuss fully what content is envisioned. *Author's note*]

In effect, what we said was that if you took this particular kind of program, you have to accept the consequences of carrying that responsibility. You see, this was a different story with me. I had to take, for the most part, heat the people said I had to take. That way, if it didn't go well, I could blame them. Now, after all, you fellas are responsible. I didn't choose this. You told me I had to take it.

We took that a little further, incidentally, over the whole field of marking and reward. We said we'll offer no extrinsic rewards. Virtue must stand on its own two feet, as it were. We're not going to give any marks. You cannot work for a mark at this institution because we won't give any. We are not going to give examinations. You have to examine yourselves. We are not going to make up honor roles.

One function of the college ought to be more effective in bringing about a better life for everybody. I suppose we were a little idealistic about that. But anyway that's what we said. However, we did not have a blueprint for society. We did not have in mind a particular kind of society. We were not working for a cooperative society, although many of us were very interested in cooperatives. We were not working for a socialist society, although many people were very much interested in Socialism. Although we were accused of being Communist, we were not working for a communist society.

We thought we were the wave of the future. This was 1938.

We said, secondly, that it ought to be democratic, all levels of income - the very poor and the very rich. One notion was we would make those who could afford the full cost pay it and those who couldn't would be funded by the richer students.

Some work was needed to make the campus run. Everyone had to work, even faculty and the staff. No matter how much money you had. Savings were used to provide reductions in tuition for those who could not afford the full amount. You could not tell the rich from the poor. One of the things came out of the work program was the spirit of democracy in a variety of ways. As students they had a say in how the work was done. They help develop the policies, and they did that in a variety of ways.

These discussions came to be known as Community Government. It was not exactly like the New England Town Meeting because they are more active than Town Meetings. Town Meetings ordinarily occur just once a year. Community Government meetings occur every Monday night at 7:30.

The notion of Community Government meetings involved students. Faculty and staff discuss the problems of the institution itself, then the developing policies. They helped determine the kind of rules affecting social life. They had a great deal to say about who was on the faculty.

Community Meetings were something fearful and wonderful to behold. At the outset, of course, they were small meetings. They were compulsory, not by order of faculty, but by vote of the community. Everybody had to attend. The theory, again the democratic theory, that if you are going to benefits of democracy you jolly well make a contribution. One contribution was to come and to listen. Or come and participate if you have something to say.

It's amazing how much debate you can get on what seems like a very minor issue. But they didn't feel abashed at raising any type of question. They couldn't necessarily bring about a change to policy, but they could make you about it. Time and again they would give me heck about something I was doing or wasn't doing. Of course, this had an impact. You can't listen for three or four every week to that kind of thing and not be affected.

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FRANK T. ADAMS

Owner, Author
Knoxville, Tennessee

Workers who own the means of production commonly use the tools of democracy to manage their firm's political affairs. Less commonly, however, do they use the tools of fiscal management that workers like themselves invent and test since the mid-1800s to manage their firm's financial affairs.

This phenomenon is not an either/or choice, but rather a both/*and* proposition. The moment many persons become owners they feel ready to vote on leadership - supervisors, managers, members of a board of directors. Too many more sense they are inadequately prepared to keep the books, be the treasurer, negotiate with lenders, contractors, suppliers.

This hobbles the likelihood of that cooperative's success, and worse since the day-to-day operations are left usually to an ever-smaller number of persons. The workers cooperative requires fundamentally altered self-concepts the workforce gains slowly, often unevenly.

This is analogous to that moment at each New Year's Eve when past familiarities give way to uncertainties of the future.

In general, educational activities are organized in all societies, no matter what the dominant ideology - capitalist, state-centered or religious - in accord with four basic components: informal, non-formal, formal and international. We can see these kinds of education taking place throughout our daily lives.

Informal takes place intentionally but is self- or group directed. No city, state, church or business association pays for the way to learn, or determines how and when classes or courses will be taught by whom. Yet informal is usually intentional. For example, two or three friends in a workplace may teach other friends some techniques to produce more with less stress, exertion - during breaks at work, but more often in homes, bars, or similar "invisible" places. Informal education is used as a method to control their working lives. Youngsters share privately with one another at most schools "the skinny" on prospective required courses or teachers.

Non-formal is intentional, too, but is carried out systematically by teachers in workshops, short-term courses during vacations, and aim to specifically transfer knowledge, change behavior, or stop, say, drug abuse. Expect to be paid, either by a government agency, non-profit group, even participants themselves. Participants may receive recognition, a plaque, certificate, a raise.

Formal education is too common in the United States to deserve much explanation. Public schools kindergarten through graduate, even post graduate schools abound. Charter schools, born in the South as a means to thwart court orders to desegregate public schools, flourish but for additional reasons. Private educational services are an industry themselves. Formal education's influence is vast and influential casting permanent shadows over the lives of hundreds of thousands, deservingly praising some while leaving others with a sense of inferiority. Aged graded, grade separated, and other hierarchies are commonplace, as are teachers certified states or agencies the state controls.

Work, itself, teaches but we are seldom taught to learn how to learn through work. John Dewey - and his adherents - was one of the first American scholar philosophers to recognize learning did result from doing. In fact, "learning by doing" is shorthand for progressive education, meaning usually very small, seemingly disorganized colleges, or experiments seeking to determine effectiveness of small classes.

Learning through work can be included as an element of the informal typology but which is incidental to working itself, unintentional as work goes along. This learning derives from the task itself, or how the task is organized within the enterprise. Historically, steelworkers, glassmakers, farmers, and countless other occupations have sparked social reform from lessons learned incidentally.

Almarinda Souza, William H. Sylvis and Kate Mullaney are but three persons who own work and learn through working collectively, thus adding financial value to themselves and to fellow owners. They refuse to accept the imposed illiteracy as expressed by Marge Bonacci, a 23-year employee at a grocery the store. She was among employees who bought an A&P grocery store in Philadelphia as the chain sold underperforming stores in the early 1980s.

"When we first started out," she said, "I thought, 'Oh, my God, we'll never be able to do this. We're not smart enough. They said to me, 'You're on the governance committee.' I said, 'Who me?' My God I'm a deli person. I slice meat. How do I know what manager does'?"

Not long after Marge Bonacci expresses her pessimism the grocery closed.

APPENDICES

Appendix A

Preparing in Advance of a Closure

Checklist of Early Warning Signs of Plant Closings

Even before a plant closure is announced, unions, employees and the community can be prepared for the possible need to act quickly to save jobs. Developing early warning systems in the community and plant, negotiating collective bargaining protections and monitoring investment can enable the rapid response that is necessary should a plant close. The following checklist suggests issues that can be addressed prior to announcement of a plant closure. Early preparation increases likelihood of developing an appropriate response to threatened job loss.

The following questions often can be answered by employees. Early warning systems permit employees and the community to plan for potential closures.

Is the cost of raw materials, energy, packaging, and transportation greater in your region than in other regions where your company has plants?

Yes *No*

	<i>Yes</i>	<i>No</i>
Is your plant a considerable distance from sources of raw materials, energy, or from consumer markets?	<input type="checkbox"/>	<input type="checkbox"/>
If your plant is owned by a larger parent company, does your plant or division fall below the company's target profit rate ("hurdle rate")?	<input type="checkbox"/>	<input type="checkbox"/>
Have there been few significant new investments at your plant in recent years?	<input type="checkbox"/>	<input type="checkbox"/>
Has the company stopped doing maintenance tasks? Have maintenance schedules changed?	<input type="checkbox"/>	<input type="checkbox"/>
Has there been a noticeable depletion and non-replacement of parts inventories?	<input type="checkbox"/>	<input type="checkbox"/>
Have there been significant decreases in new or replacement parts inventories?	<input type="checkbox"/>	<input type="checkbox"/>
Has an innovative competitor developed a product that makes the one you make less marketable?	<input type="checkbox"/>	<input type="checkbox"/>
Has your company's share of the market declined?	<input type="checkbox"/>	<input type="checkbox"/>
Has your company lagged behind in developing new products which could be produced at your plant?	<input type="checkbox"/>	<input type="checkbox"/>
Has the range of products produced by your company contracted?	<input type="checkbox"/>	<input type="checkbox"/>
Has your plant or company been bought out by a conglomerate or merged with another corporation?	<input type="checkbox"/>	<input type="checkbox"/>

	<i>Yes</i>	<i>No</i>
If it has, has the parent company expanded into new or different activities or product lines where your plant doesn't seem to fit?	<input type="checkbox"/>	<input type="checkbox"/>
Is the new management demanding every possible cost cut?	<input type="checkbox"/>	<input type="checkbox"/>
Have executives in your company recently begun complaining about a "bad business climate," high taxes, or excessive government regulations?	<input type="checkbox"/>	<input type="checkbox"/>
Is the production technology used at your plant being replaced by more up-to-date methods in other companies, regions, or countries?	<input type="checkbox"/>	<input type="checkbox"/>
Alternatively, is new technology going to be introduced in your plant which could lead to significant job losses?	<input type="checkbox"/>	<input type="checkbox"/>
Has your company opened a new plant in a low-wage state or country which makes the same product you do?	<input type="checkbox"/>	<input type="checkbox"/>
Has the company purchased land in a low-wage area suitable for industrial development?	<input type="checkbox"/>	<input type="checkbox"/>
Has your company hired a "union busting" consultant or law firm to represent it in dealing with the union?	<input type="checkbox"/>	<input type="checkbox"/>
Has management been complaining about high wages and benefits or "restrictive" union work rules?	<input type="checkbox"/>	<input type="checkbox"/>
Has management been collecting information which could be used in shifting production to another site?	<input type="checkbox"/>	<input type="checkbox"/>

	<i>Yes</i>	<i>No</i>
If it has, has the parent company expanded into new or different activities or product lines where your plant doesn't seem to fit?	<input type="checkbox"/>	<input type="checkbox"/>
Is the new management demanding every possible cost cut?	<input type="checkbox"/>	<input type="checkbox"/>
Have executives in your company recently begun complaining about a "bad business climate," high taxes, or excessive government regulations?	<input type="checkbox"/>	<input type="checkbox"/>
Is the production technology used at your plant being replaced by more up-to-date methods in other companies, regions, or countries?	<input type="checkbox"/>	<input type="checkbox"/>
Alternatively, is new technology going to be introduced in your plant which could lead to significant job losses?	<input type="checkbox"/>	<input type="checkbox"/>
Has your company opened a new plant in a low-wage state or country which makes the same product you do?	<input type="checkbox"/>	<input type="checkbox"/>
Has the company purchased land in a low-wage area suitable for industrial development?	<input type="checkbox"/>	<input type="checkbox"/>
Has your company hired a "union busting" consultant or law firm to represent it in dealing with the union?	<input type="checkbox"/>	<input type="checkbox"/>
Has management been complaining about high wages and benefits or "restrictive" union work rules?	<input type="checkbox"/>	<input type="checkbox"/>
Has management been collecting information which could be used in shifting production to another site?	<input type="checkbox"/>	<input type="checkbox"/>

Appendix B

A Preliminary Feasibility Assessment for a Worker Buyout: Screening Out Inappropriate Cases

Adapted from Julia Parzen, Catherine Squire, and Michael Kieschnick, Buyout: A Guide For Workers Facing Plant Closings, Sacramento: Department of Economic and Business Development, State of California, Second Printing, September 1983, pp 27-35.

Because the preliminary feasibility study's purpose is to be quick and inexpensive, it is only a means of identifying those cases where an employee buyout is very inappropriate (or appropriate). The preliminary feasibility study should take less than a month to complete and cost very little (usually less than \$5,000). If funding is not easily available, it can be prepared by qualified volunteers from community or government offices (such as the State Office of Economic Development) on a pro bono basis by university business school faculty and students, consulting firms, or by public interest or non-profit groups with low overhead. Finally, the preliminary feasibility study should employ readily available sources of data that answer the specific questions described in the following sections:

A) *Are the present owners amenable to an employee buyout?*

Yes No

- 1) Is there language in your union agreement giving you first option to buy?
(See Union Agreement)

☐ ☐

- 2) Is the standard language in union agreements giving management exclusive rights to manage and ter-

minate employees removed from your agreement? (See Agreement) ☐ ☐

3) Has management been publicly willing to entertain an offer from employees or at least been neutral about such an offer? (Meet with management, read press clippings) ☐ ☐

4) Is management willing to contribute a nominal sum toward the feasibility study or to consider a decision to dedicate land, structures or equipment to the employees currently or in the future? (Meet with management) ☐ ☐

If the answer to the first question is yes, then lack of support by management should not be a problem. If it is no, then the answers to the other three questions are more critical. If the answers to questions 2 through 4 are also no, then management will probably be unwilling to negotiate a buyout with employees. As a result, a successful buyout is unlikely, and will be possible only if there is both significant media and public support, and a feasibility assessment indicating very clear benefits to employees and investors.

B) *Is your firm organized in such a way that a smooth transition to employee-ownership is feasible?*

Yes No

1) Do you have an experienced manager, or group of experienced managers, who are willing to manage your employee owned firm? ☐ ☐

2) Do the skills of your workforce meet the needs of your employee owned firm? ☐ ☐

3) Does your plant have on-site personnel, marketing, finance, and general administration functions? ☐ ☐

- 4) Is your plant operated as a profit center? (Is it required to document both its revenues and costs?) ☐ ☐
- 5) Does your plant produce its products without receiving inputs from other management-owned plants or transferring outputs to other management owned plants for finishing? ☐ ☐

All of the above questions indicate whether a smooth transition is possible. The commitment of skilled top and middle managers is crucial. Nevertheless, if potential managers exist, expert economic and legal advice by an outside consultant can substitute up to the point that a final decision to proceed is made. If the answer to one or more of questions 2 through 5 is no, then it is important that there be time to reorganize the firm before it closes and that there be committed management. If there are only a few months available (not enough time to reorganize), then an employee buyout is only advisable if plant market factors are both very positive, improving the chances of continued interest once the plant closes.

C) *Are the products produced at your plant facing declining, stable or growing markets?*

To answer this question in the preliminary feasibility analysis, you should rely on published analyses and industry experts. Prime sources of data on your industry available in libraries (such as public business libraries, university libraries, or major bank libraries) or from your company are as follows:

- ☐ **Standard & Poor's Industry Surveys**
- ☐ **Value Line Investment Survey**
- ☐ **Department of Commerce's U.S. Industrial Outlook (Annual)**
- ☐ **Moody's Industrial Manual** for your corporation or other firms in your industry (Annual)
- ☐ **Walker's Manual of Western Corporations**

- ☐ Dun & Bradstreet, Inc., **Key Business Ratios**
- ☐ 10k report of your corporation (look at statement of President)
- ☐ Market studies prepared for your corporation
- ☐ Trade journal articles on your industry located through the **Business Periodical Guide** and **F&S Guide**

Industry experts whose opinions you should seek out include the following:

- ☐ The analyst for the appropriate industry from the Bureau of Industrial Economics, Department of Commerce, Washington, D.C.
- ☐ The trade association staff for your industry's trade association.
- ☐ Market analysts from market research firms or security analysts for your industry (ask reference librarian at a business library or get names from articles in trade journals).
- ☐ If possible, sales and production managers at your firm.

Using these data sources and others that become available, it should be possible to find sufficiently good answers for screening purposes to the following questions:

- | | <i>Yes</i> | <i>No</i> |
|---|--------------------------|--------------------------|
| 1) Do industry sources anticipate stable or growing demand for your industry's products? | <input type="checkbox"/> | <input type="checkbox"/> |
| 2) If there is a recession or slump in your industry, is it projected to end within 6 months to a year? | <input type="checkbox"/> | <input type="checkbox"/> |
| 3) If there are new or existing products taking market share away from (replacing) your product: | | |

- | | | |
|--|--------------------------|--------------------------|
| a) Can your plant possibly produce the competing product? | <input type="checkbox"/> | <input type="checkbox"/> |
| b) Are there possible new markets or niches for your product? | <input type="checkbox"/> | <input type="checkbox"/> |
| 4) Are other producers of your product maintaining or increasing capacity or production levels? | <input type="checkbox"/> | <input type="checkbox"/> |
| 5) Are foreign firms or plants expected to maintain constant or declining share of U.S. sales over the next few years? | <input type="checkbox"/> | <input type="checkbox"/> |
| 6) If your product is sold to other industries (rather than consumers), do industry sources indicate strong demand for these industries' products? | <input type="checkbox"/> | <input type="checkbox"/> |
| 7) If there are obvious alternative uses for your plant, are the answers to the above questions for the alternative uses or products affirmative? | <input type="checkbox"/> | <input type="checkbox"/> |
| 8) According to industry analysts and plant managers, how does your product compare to that of other domestic and foreign producers: | | |
| a) Average quality equal or better | <input type="checkbox"/> | <input type="checkbox"/> |
| b) Average prices equal or lower | <input type="checkbox"/> | <input type="checkbox"/> |
| c) Perception by customers equal or better. | <input type="checkbox"/> | <input type="checkbox"/> |

It is important that most of the eight screening questions be answered "yes". It is imperative that at least the answers to 1, 2, 3 and 8 be positive for your product or for alternative products.

D) *Is it possible for your plant to be an efficient producer in your industry?*

To answer the following questions, historical data will be needed on your plant. For part (1) of D in particular, it may be difficult to obtain the necessary data. Thus, if you cannot obtain data on your plant's current profitability, skip part (1) and go directly to part (2).

1) How does the profitability of your plant of firm compare with other firms in your industry?

a) Data needs include one to three years of historical data for your facility on profits before taxes, sales revenue, net worth, and Robert Morris industry-wide financial data (for the SIC code that most closely corresponds to your firm*) on profit/sales and profit before taxes/tangible net worth.

b) Procedures for performing the comparison are provided in worksheets 1 and 2.

Yes *No*

c) Criteria for judging the results are as follows: Has your average profit/sales ratio for the last three years been positive? (See line 4 of worksheet 1).

☐ ☐

Is the average profits/sales ratio for your firm less than 50 percent of the industry average? (Your firm may not be competitive in your industry.)

☐ ☐

Is the average profit before taxes/tangible net worth ratio for your firm less than the industry average for the lower quartile? (Your firm may not be competitive in your industry.)

☐ ☐

Exhibit 1

ROBERT MORRIS DATA

	Current Data				Comparative Historical Data			
	O-25M 2 %	150M-1MM 9 %	1-10MM 21 %	10-50MM 6 %	ALL 38 %	6/78-1/77 All 36 %	6/77-1/78 All 38 %	6/78-1/79 All 45 %
INCOME DATA								
Net Sales			100.0		100.0	100.0	100.0	100.0
Cost of Sales			72.1		68.5	63.7	65.1	66.5
Gross Profit			27.9		33.5	36.3	34.9	33.5
Operating Expenses			22.7		28.3	29.3	28.8	28.3
Operating Profit			5.3		5.2	7.0	6.2	5.2
Other Expenses			5.0		6.0	9.0	5.0	5.0
Profit Before Taxes			4.8		4.6	6.1	5.7	4.6
% Profit Before Taxes/ Tangible Net Worth			35.2		22.0	38.7	37.2	35.2
Profit Before Taxes			20.9		22.0	24.5	27.5	22.0
			9.0		9.0	10.9	9.9	9.0

* The SIC code for your firm can be determined from descriptions in Standard Industrial Classification Manual, 1972, available at any business-oriented library. Examples of the two ratios from Robert Morris that are needed are indicated with arrows in Exhibit 1.

Worksheet 1

PROFIT BEFORE TAXES/SALES RATIO YOUR FIRM

(\$s in 000's)	Years		
	19__	19__	19__
1) Total Sales Revenue	\$ <input type="text"/>	<input type="text"/>	<input type="text"/>
2) Profit before Taxes	\$ <input type="text"/>	<input type="text"/>	<input type="text"/>
3) Profit/Sales Ratio: Line (2) / Line (1) multiplied by 100	\$ <input type="text"/>	<input type="text"/>	<input type="text"/>
4) Average of the three years for firm	\$ <input type="text"/>	<input type="text"/>	<input type="text"/>
5) Industry Average Profit/Sales Ratio	\$ <input type="text"/>	<input type="text"/>	<input type="text"/>
6) Average of the three years for the industry	\$ <input type="text"/>	<input type="text"/>	<input type="text"/>
7) 50% of the Industry Average	\$ <input type="text"/>	<input type="text"/>	<input type="text"/>

Explanation for Worksheet One

- Line 1) Total sales from top line of the firm's income statement for the last three years years.
- Line 2) Profit before taxes located on the firm's income statement for last three years.
- Line 3) Line (2) divided by Line (1) multiplied by 100.
- Line 4) Sum of Line (3) divided by 3.
- Line 5) Industry Average Profit/Sales Ratio from Robert Morris data for same three years.
- Line 6) Sum of Line (5) divided by 3.
- Line 7) One half of Line (6).

Worksheet 2

**PROFIT BEFORE TAXES/TANGIBLE NET WORTH RATIO
YOUR FIRM**

(\$s in 000's)	Years		
	19__	19__	19__
1) Stockholder's Equity	\$ <input type="text"/>	<input type="text"/>	<input type="text"/>
2) Intangible Assets	\$ <input type="text"/>	<input type="text"/>	<input type="text"/>
3) Tangible Net Worth: Line (1) minus Line (2)	\$ <input type="text"/>	<input type="text"/>	<input type="text"/>
4) Profit before taxes	\$ <input type="text"/>	<input type="text"/>	<input type="text"/>
5) Profit before taxes/ tangible net worth: Line (4) / Line (3) x 100	\$ <input type="text"/>	<input type="text"/>	<input type="text"/>
6) Average of three years for firm	\$ <input type="text"/>	<input type="text"/>	<input type="text"/>
7) Industry Average Ratio (lower quartile)	\$ <input type="text"/>	<input type="text"/>	<input type="text"/>
8) Average of three years for the industry	\$ <input type="text"/>	<input type="text"/>	<input type="text"/>

Explanation for Worksheet Two

- Line 1) Stockholder's equity from the firm's balance sheet for last three years; include common stock plus paid-in surplus and retained earnings and subtract the value of any treasury stock.
- Line 2) Sum of all intangible assets shown on balance sheet for last three years such as "goodwill" and "cost in excess of net assets of acquired companies."
- Line 3) Line (1) minus Line (2).
- Line 4) Profit before taxes located on the firm's income statement for last three years.
- Line 5) Line (4) divided by Line (3) multiplied by 100.
- Line 6) Sum of Line (5) divided by 3.
- Line 7) Industry Profit before taxes/tangible net worth ratio for the lower quartile of firms from Robert Morris data for same three years. This figure should be taken from the bottom row of figures because this row represents the lower quartile.
- Line 8) Sum of Line (7) divided by 3.

2) *Has your plant been maintained and can major capital expenditures be avoided?*

a) Data needs include plant maintenance records, plant capital spending budget, industry data on technologies employed and new facilities built, and data on profit after tax and depreciation expenses. If these data are not available, use your best judgement.

b) Criteria for evaluating these data are as follows:

	<i>Yes</i>	<i>No</i>
<input type="checkbox"/> If your plant and equipment are older than the average for the industry, have they been maintained?	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Have all major capital expenditures that are necessary to maintain the facility, or meet government regulations (especially pollution) been made?	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Does your plant have processes and technologies at least as current as those used by the majority of your industry (based upon your market research)?	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> *If your plant has not been maintained or has not met government regulations, would the cost be reasonable to make necessary expenditures? A benchmark is whether the cost crudely estimated to get your facility in good condition would be less than six times your plant's average cash flow (profit after tax plus depreciation expenses) for the last three years.	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> *If your plant's processes and technologies are not current (based upon your market research), would the cost be within reason to make		

necessary expenditures? A benchmark is whether the cost crudely estimated to make required maintenance on your facility and obtain the new technologies would be less than six times your plant's average cash flow (profit after tax plus depreciation expenses) for the last three years.

☐ ☐

** Skip this question if data on the profitability of your plant is not available. If these data are available, add together profit plus depreciation expense for last three years and divide by three. Then multiply the result by six. The capital cost of new equipment should be smaller than this result.*

If the answers to the first three questions above are yes, then your plant is in good condition and up to date. If the answers are no, then you need to consider how costly it will be to bring it up to date. A benchmark is provided in the fourth and fifth questions. If the answers to all five questions are no, then a successful buyout is unlikely because of poor plant maintenance combined with high capital costs. A minimal requirement is that either the plant is adequately maintained or that costs of achieving adequate maintenance are not exorbitant.

E) Summary of the results of the preliminary feasibility study

At the completion of the preliminary feasibility study, the following questions should have been posed and answered:

	<i>Yes</i>	<i>No</i>
<input type="checkbox"/> Is there enough time before the closure? (See Factors for Success)	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Are the present owners amenable to an employee buyout? (See Section A)	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Is your firm organized in such a way that a smooth transition to employee-ownership is feasible? (See Section B)	<input type="checkbox"/>	<input type="checkbox"/>

- ☐ Are the products produced at your plant facing stable or growing markets? (See Section C) ☐ ☐
- ☐ Is it possible for your plant to be an efficient producer in your industry? (See Section D) ☐ ☐

In an optimal buyout situation all of the answers will be yes. This will rarely be the case. In most cases, the most important questions are the last three. While there will often be special circumstances beyond the scope of this manual, in general, affirmative responses to the last three questions and, in particular, those about efficiency of production and market for the product, are crucial.

Appendix C

ICA MODEL BY-LAWS FOR A WORKER COOPERATIVE VERSION II-1983

THE ICA GROUP
One Harvard Street
Brookline, MA 02445
Landline telephone: 617-232-8765
Fax: 617-232-9545
Internet address: ica@ica-group.org

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Article I Corporate Affairs

- 1) **Name.** The name of the corporation is _____
(hereinafter referred to as the corporation).
- 2) **Registered Office.** The address of the registered office of the corporation is _____.
- 3) **Fiscal Year.** The fiscal year of the corporation shall end on the last day of (*month*) in each year.
- 4) **Execution of Instruments.** All deeds, leases, transfers, contracts, bonds, notes and other obligations authorized to be executed on behalf of the corporation shall be signed by the President or the Treasurer except as the directors may otherwise determine.
- 5) **Corporate Records.** Copies of the following documents shall be kept at the principal office of the corporation or at the office of the Clerk, but need not all be kept at the same office: (a) the Articles of Organization and By-laws, (b) records of all meetings of incorporators, directors, and members and (c) the stock and transfer records containing the names of all members and the record address and the stock held by each. These records shall be available to members for inspection at reasonable times and for purposes consistent with good faith exercise of membership rights and responsibilities in corporate affairs.
- 6) **Article of Organization.** The Articles of Organization are hereby made a part of these By-laws, and the purposes of the corporation shall be as set forth in the Articles of Organization. In the event of any inconsistency between the Articles of Organization and these By-laws, the provisions of the Articles of Organization shall be controlling. All references in these By-laws to the Articles or Articles of Organization shall be construed to mean the Articles of Organization of the corporation as amended from time to time.

Article II Membership and Membership Shares

1) **Membership Organization.** The corporation shall operate on a cooperative basis, with earnings and losses allocated on the basis of patronage in accordance with Article III and with voting by the members in accordance with Article IV.

2) **Eligibility.** Membership shall be limited to natural persons who: (1) patronize the corporation through contributions of their labor on a full-time or part-time basis, (2) have been approved by the Board of Directors or its designees, and (3) have paid or agreed to pay a membership fee in an amount determined by the Board of Directors. Neither the Board nor its designees may discriminate on the basis of race, age, sex, sexual preference, religion, or national origin when considering a person for membership. Except as otherwise determined by the Board, an employee must either be accepted as a member or terminated as an employee within a trial period of _____ months of employment.

3) **Membership Shares & Membership Fee.** The corporation has a single class of common voting stock, hereafter referred to as "membership shares." Each member shall own one and only one membership share, and only members may own such shares. The cost of a membership share shall be determined by the Board of Directors and shall have no preemptive rights to membership shares issued to new members. No capital stock other than membership shares shall be given voting power, except as otherwise provided by law.

4) **Transfer Restrictions.** No membership share or interest therein may be sold, assigned, or otherwise transferred, voluntarily or involuntarily, by operation of law or otherwise, except for a transfer to the corporation.

5) **Membership Termination.** Upon voluntary or involuntary termination of a member's employment by the corporation, except for temporary layoffs or absences, his or her membership shall be terminated and the membership share shall be redeemed by the corporation for consideration determined in accordance with Article III. No member may be terminated involuntarily without written notice and a right to a hearing before a body designated in the Operating Rules.

6) Certificates for Membership Shares. Each member is entitled to a certificate representing his or her membership share in such form as prescribed by the Board of Directors. The certificate shall be signed by the President or Vice-President and by the Treasurer or Assistant Treasurer when it is issued. Each membership share shall set forth conspicuously on the face or back of the certificate either: (1) the full text of the restrictions prescribed in section 4, or (2) a statement of the existence of such restrictions and a statement that the corporation will furnish a copy of such restrictions to the holder of such certificate upon written request and without charge. In case of the loss, destruction, or mutilation of a membership certificate, a duplicate certificate may be issued in its place, upon such terms as the Board of Directors may prescribe.

Article III The Internal Capital Accounts

1) Internal Capital Accounts - Definitions. The corporation shall have a system of internal capital accounts to reflect its net worth, and to reflect the allocation of the net worth among the members. The following definitions shall apply to terms used in this Article III.

The net worth is the difference between the assets and liabilities on the corporate books (kept according to the Generally Accepted Accounting Principles (GAAP)).

The internal capital accounts consist of the individual capital accounts and the collective account, and may include a start-up losses account. The sum of the (net credit) balances in the internal capital accounts is the net worth of the corporation.

An individual capital account is maintained for each member, and it records the part of the net worth ultimately to be returned to each member.

The collective account is the unindividualized portion of the net worth that is not to be returned to the individual members during the lifetime of the corporation.

The start-up losses account is an optional debit-balance contra-account to the collective account which records the start-up losses to be allocated to the individual capital accounts

over an extended period of time. The *start-up period* is the period from the beginning of operations up to but not including the first fiscal year with positive account net income. The *amortization of start-up losses* is the process of transferring debits from the start-up losses account to the individual capital accounts in proportion to patronage over an extended period of time following the years when the start-up losses were incurred.

The accounting net income is the book net income for the fiscal year computed in accordance with the Generally Accepted Accounting Principles. The accounting net income, positive or negative, is divided into the collective net income and individual net income.

The individual net income is fifty percent (50%) of the accounting net income. It is that part which will immediately or ultimately be allocated to the individual members as interest on their individual capital accounts or as patronage allocations.

The collective net income is fifty percent (50%) of the accounting net income. It is that part which will only affect the collective account. The collective net income minus the corporate taxes equals the self-insurance allocation.

The corporate taxes to be subtracted from the collective net income are all those taxes including the federal corporate income tax which have not been treated as an expense in determining the accounting net income.

The self-insurance allocation is the collective net income minus the corporate taxes, and it is allocated to the collective account.

The labor patronage of a member or non-member is the total number of hours worked for the corporation during the fiscal year (regardless of the rate of pay). The *members' patronage* is the total number of hours worked by members during the fiscal year, and the *non-members' patronage* is the total number of hours worked during the fiscal year by workers in their trial period. The *total patronage* is the sum of the members' and non-members' patronage.

(Or, if the other definition of "patronage" is used, then the above paragraph is replaced by: "The *labor patronage*

member or non-member is the total labor compensation received from the corporation during the fiscal year. The *members' patronage* is the total labor compensation received by members during the fiscal year, and *non-members' patronage* is the total labor compensation received by workers in their trial period. The *total patronage* is the sum of members' and non-members' patronage.”)

The patronage dividend is the positive amount of net income that is allocated to the members in proportion to patronage as described in section 1381 of the Internal Revenue Code of 1954 as amended (hereinafter referred to as the IRC). It can take the form of *non-qualified* patronage dividends (as defined in section 1388(d) of the IRC) or *qualified* patronage dividends (as defined in section 1388(c) of the IRC). A *non-qualified* or *qualified written notice of allocation* is the certificate issued to each member specifying the amount of the respective non-qualified or qualified patronage dividend allocated to the member and retained in the corporation.

The negative patronage allocation is the negative amount allocated to the individual capital accounts of the members in proportion to their current labor patronage. A negative patronage allocation may result from current losses or from an allocation to the individual capital accounts from the start-up losses account.

The payment period for a fiscal year is defined as eight and one-half months after the end of a fiscal year. The *patronage calculations and allocations* are to be completed within the *payment period*.

The individual capital account statement is an accounting statement issued to each member during the payment period for a fiscal year which details all the changes in the member's individual capital account for that fiscal year.

The capital contributions to the internal accounts include the membership fee and any additional paid-in capital in excess of the membership fee.

The membership fee is the cost of the membership share. A *redemption* of a written notice of allocation is a distribution of the amount of the notice in cash or other property to the member, ordinarily a fixed number of years after the issuance of the notice.

The termination distribution refers to the distribution of cash and/or notes of indebtedness to an ex-member or an ex-member's estate which is triggered by termination or retirement and which is not a payment in redemption of a written notice of allocation.

The dissolution distribution refers to a distribution, if any, of cash or other property to members and ex-members following the sale, liquidation, or dissolution of the corporation.

1.A) Individual Capital Accounts. Each member shall have an individual capital account.

The balance in the individual capital account results from and is increased by: (1) the initial membership fee, plus any other paid-in capital from the member in excess of the membership fee, (2) the accrual of interest on the total balance in the individual capital account at the rate prescribed by these by-laws, or (3) the amount of any written notice of allocation of patronage dividends issued to the member. The balance is decreased by: (1) the application of negative patronage allocations (losses from current operations or, if applicable, losses from the amortization of start-up losses), or (2) the redemption in cash or notes of indebtedness of a written notice of allocation previously issued to the member and recorded in the member's account.

1.B) The Collective Account. The balance in the collective account results from and is increased by: (1) the self-insurance allocation, and (2) any gifts or grants to the corporation which are not to be allocated to the individual capital accounts. The balance in the collective account is decreased by negative self-insurance allocations.

(If your cooperative wishes to simplify the By-laws by not having any Start-up Losses Account, then the following section 1.C should be deleted in its entirety — along with references to the Start-up Losses Account elsewhere in the By-laws.)

1.C) The Startup Losses Account. The corporation may establish a contra-equity debit-balance account called the "start-up losses account." During the start-up period, the cooperative will allocate only 20% of the current losses, i.e., the individual net income (which is negative during the start-up period) minus the interest on the individual capital accounts, among the individual capital accounts on the basis

of labor patronage. The remaining 80% is allocated to the startup losses account. The debit balance in the start-up losses account is increased by such allocations. In each of the four years after such an allocation to the start-up losses account, one-fourth of that loss allocation is distributed to the individual capital accounts on a current patronage basis. The balance in the start-up losses account is decreased by these patronage loss distributions to the individual capital accounts.

2) Net Income. The accounting net income of the corporation shall be allocated among the internal capital accounts in accordance with these By-laws.

2.A) Interest on Individual Capital Accounts. The individual capital accounts shall accrue interest at an annual rate of _____ percent compounded annually. The interest which accrues on the individual capital accounts for a fiscal year is subtracted from the individual net income to yield the net income allocated according to patronage.

2.B) Patronage Allocations - General. In accordance with the law, patronage dividends shall not be declared on non-member patronage, nor shall they exceed the tax-basis net income.

2.B(1) Positive Patronage Allocations. If the individual net income, minus the interest accrued during the fiscal year on the individual capital accounts is positive, then the corporation shall declare that patronage net income as a patronage dividend in accordance with section 1381 of the IRC. The patronage dividend is allocated among the members in proportion to their patronage. Each member receives a fraction of the total patronage dividend equal to the ratio of his or her member patronage to the total members' patronage for the fiscal year.

2.B(1a) Written Notices of Allocation. In any proportions determined by the Board of Directors, the patronage dividend may be paid in cash, in non-qualified written notices of allocation, and/or in qualified written notices of allocation. During the payment period for the fiscal year, the corporation shall deliver to each member the cash patronage dividend and/or the written notices of allocation showing the amount of any patronage dividend for that fiscal year retained in the corporation and credited to his or her individual capital ac-

count. Unless approved by the Board of Directors, the written notices of allocation shall be non-transferable. In the absence of such board approval, any transfer of allocation notices, whether voluntary or involuntary, shall be of no effect against the corporation and shall not entitle the transferee to receive payment from the corporation.

2.B(1b) Written Notices and Individual Accounts. The amount of patronage dividends paid to a member in non-qualified or qualified written notices of allocation shall be credited to the member's individual capital account. When allocation notices are redeemed or cancelled, the member's individual capital account shall be accordingly debited. The net income treated as retained patronage dividends credited to the members' accounts may be used for any and all corporate purposes.

(If your cooperative wishes to simplify the By-laws by not providing for the use of qualified (as opposed to non-qualified) written notices of allocation, then the following section 2.B (1c) should be deleted in its entirety — along with the references to “qualified” written notices elsewhere in the By-laws.)

2.B(1c) Qualified Written Notices of Allocation. By becoming a member of the corporation, each member shall be deemed to have consented to include in his or her taxable income any qualified written notices of allocation (within the meaning of section 1388 of the IRC) received by him or her at its stated dollar amount, in the manner provided by the section 1385 of the IRC, and to pay the tax thereon. In accordance with section 1388(c) of the IRC, at least twenty percent (20%) of each member's patronage dividend to be paid in cash and qualified written notices of allocation must be paid in cash.

2.B(2) Negative Patronage Allocations - General. The individual capital account of each member shall be debited with the fraction of the total negative patronage allocation equal to the ratio of his or her member patronage to the total members' patronage for the fiscal year. If a negative patronage allocation is applied against a portion of an individual capital account represented by a written notice of allocation, the amount of the written notice is accordingly reduced. A written notice is cancelled when its amount is reduced to zero.

(If the cooperative is not using a startup losses account,

then the following sections 2.B(2a) and 2.B(2b) can be deleted.)

2.B(2a) Startup Losses. During the start-up period, only twenty percent (20%) of the individual net income, minus the interest on the individual capital accounts, shall be allocated to the individual capital accounts in accordance with patronage. The remaining eighty percent (80%) shall be debited to the start-up losses account. After the start-up period (in the first fiscal year with a positive accounting net income and thereafter), the entire retained individual net income, minus interest on the individual accounts, shall be allocated to the individual capital accounts in accordance with patronage.

2.B(2b) Amortization of Start-up Losses. An allocation to the startup losses account shall be amortized on a straight-line basis over a four year (4) period. After each of the four fiscal years following a loss allocation to the start-up losses account, one-quarter (25%) of such an allocation shall be reallocated to the individual capital accounts in accordance with patronage. Five years after the end of the start-up period, the start-up losses account will be empty and may be eliminated from the books of the corporation.

2.B(3) Individual Capital Account Statements. During the payment period for a fiscal year and after all the internal account changes which relate to that fiscal year, each member shall be issued an individual capital account statement. This statement shall include the previous balance in the member's account, the accrued interest, the positive and/or negative patronage allocations to the account, the redemptions or distributions from the account, and the resulting current balance in the member's account. If all or part of any written notices of allocation were cancelled by any negative patronage allocations to the account, then the account statement shall specify the notices and amounts cancelled.

2.C) Collective Net Income - General. Fifty percent (50%) of the accounting net income (positive or negative) is the collective net income. The collective net income minus the applicable corporate income taxes yields the self-insurance allocation to the collective account.

2.C(1) Federal Corporate Income Tax. As described in Subchapter T of the IRC, this corporation, as a corporation operative on a cooperative basis, shall deduct from taxable income: (a) any amounts paid during the payment period for the taxable year (eight and one-half months after the end of the fiscal year) as patronage dividends paid in cash, qualified written notices of allocation, or other property (except non-qualified written notices of allocation), and (b) any amounts paid in redemption of non-qualified written notices of allocation. Otherwise, the federal corporate income tax shall be computed as in a corporation not operating on a cooperative basis.

2.C(2) The Self-Insurance Allocation. Positive self-insurance allocations shall be credited to the collective account. The net income credited to the collective account may be used for any and all corporate purposes. Negative self-insurance allocations shall be debited from the collective account.

3) Capital Contributions and Distributions.

3.A) Membership Fee. Each member shall pay to the corporation in cash or other property an initial membership fee in an amount determined from time to time by the Board of Directors. The membership fee shall be credited to the member's individual capital account. Any additional capital paid in by a member in excess of the membership fee shall be credited to the member's individual capital account.

3.B) Redemption of Written Notices of Allocation. All written notices of allocation credited to a member's capital account shall be redeemed in cash within five (5) years of their date of issuance unless the Board of Directors determines that a postponement of the redemption is appropriate.

Add if appropriate: The immediately preceding sentence notwithstanding, if a subordination agreement executed by the corporation or the member to whom the notices of allocation were issued requires that the corporation delay or withhold any payment with respect to a written notice of allocation, then such subordination agreement shall govern the timing of payment of such written notices of allocation.

The internal capital account credits, evidenced by written notices of allocation, shall be paid off in the order of their date of issuance, the oldest allocation notices first, except that the Board may give first priority to the estates of deceased

ex-members. In determining the oldest notices, all allocation notices of the same fiscal year shall have the same priority. If any payment is not sufficient to cover all redeemable notices, a proportionate part of the dollar amount of all the redeemable notices shall be paid. When a member's allocation notice is paid off, the member's internal capital account shall be accordingly debited.

3.C) Termination Distributions. Upon voluntary or involuntary termination of a member's work in the corporation (excluding temporary layoffs), his or her membership share shall automatically be deemed to have been transferred to the corporation in return for the consideration specified in this paragraph, and the membership share shall be returned to the corporation. The account balance in the terminating person's internal capital account shall be fixed after the adjustment at the end of that fiscal year, and the account shall be closed to any further patronage allocations. The written notices of allocation represented in the account, plus any otherwise unpaid interest, shall be redeemed in accordance with Section 3.B (above). After the year-end adjustments, if the portion of the account not represented by written notices of allocation has a positive balance, then that balance shall be paid to the person in consideration for the membership share in some combination of cash and promissory notes as the Board of Directors shall deem appropriate. The promissory notes issued, if any, shall be payable in full within five (5) years of being issued and shall have such other terms as the Board of Directors shall deem appropriate.

Add if appropriate: The immediately preceding sentence notwithstanding, payment of the notes may be subordinated to the payment of any other obligation and delayed or withheld entirely at any time in accordance with the terms of any subordination agreement to which the cooperative or the payee of the notes, or both, are parties, and the maturity date of the notes may also be extended if the cooperative's Board of Directors determines that the financial condition of the cooperative necessitates such extension.

After the year-end adjustments, if there is no balance in the person's individual capital account which is not represented by written notices, then the membership share shall be returned to the corporation for no consideration.

3.D) Dissolution Distributions. On the sale of all the assets, liquidation or dissolution of the corporation, any residual

assets left after the payment of all debts and individual capital accounts shall be distributed in proportion to patronage to all the previous and current members, or their heirs; except that no distribution need be made to any person who fails to acknowledge, in a timely manner, receipt of notice of liquidation. It shall be deemed sufficient notice to a current or former member to send notice of liquidation by certified mail, at least 30 days before distribution of any residual assets, to the person's last known business or residence address. Any amounts unclaimed after sufficient notice shall be distributed in proportion to patronage to all previous and current members who acknowledge receipt of notice of liquidation.

(an alternative Section 3.D. is as follows:)

Dissolution Distributions. The capital represented by the collective account is not to be appropriated by any members as individuals. Accordingly, on the sale of all the assets, liquidation or dissolution of the corporation, any residual assets left after the payment of all debts and individual capital accounts shall be distributed to charitable organizations.

Article IV Membership Meetings

1) **Annual Meeting.** The annual meeting of the members shall be held on the *(No.) (day)* in *(month)* at *(hour)*. The location of the annual meeting shall be fixed by the Board of Directors or by the President. The annual meeting shall be held for the purpose of electing the Board of Directors, and for any other lawful purposes that are: (1) prescribed by law, by the Articles, or by these By-laws, or (2) specified by the President or by the directors or by at least 10% of the members. If the annual meeting is omitted on the day specified herein, a special meeting may be held in its place and any business transacted shall have the same effect as if transacted at the annual meeting.

2) **Regular Meetings.** Regular meetings of the members may be held without call or formal notice at such places and at such times as the President or a majority of the members may from time to time determine, provided that each member shall be given notice of the determination.

3) **Special Meetings.** Special meetings of the members may be called at any time by the Board or by the President. Upon written application of 10% of the members, a special meeting shall be called by an officer. Special meetings may be called for any lawful purpose.

4) **Notice of Meetings.** A written notice of each annual or special membership meeting stating the time, place, and purpose shall be given by the Clerk or by the officer calling the meeting, at least seven days before the meeting, to each member either: (1) in person, (2) by leaving the notice at the member's residence or usual workplace, or (3) by mailing it to the member's address as shown on the records of the corporation. Notice need not be given to a member if a written waiver of notice, executed before or after the meeting by such member, is filed with the records of the meeting. Each member shall notify the corporation of her or his current mailing address.

5) **Quorum.** A majority of the members at the time of the meeting shall be required to constitute a quorum at any membership meeting.

6) **Voting and Proxies.** Each member of record at the time of the meeting is entitled to one and only one vote on any matter requiring membership voting. Voting by proxy shall not be permitted.

7) **Action at a Meeting.** The President, Chairperson, or other designee, as determined by the Board of Directors, shall preside at membership meetings. When a quorum is present at a membership meeting, a majority of the members present and entitled to vote shall decide any matter to be voted upon by the members, unless a larger vote is required by law or by the Articles or these By-laws. A secret ballot is required if requested by any member present at the meeting. The corporation shall not directly or indirectly vote any share of its stock.

8) **Action Without Meeting.** Any action to be taken by the members may be taken without a meeting if all members entitled to vote on the matter consent to the action in writing. Such written consent shall be filed with the records of the meetings of members, and shall be treated for all purposes as a vote at a meeting.

Article V The Board of Directors

1) **Powers.** The Board of Directors may exercise all the powers of the corporation, including the power to issue stock, except as otherwise provided by law, by the Articles, or by these By-laws. In the event of a vacancy in the Board of Directors, the remaining directors may exercise the powers of the full board until the vacancy is filled except as otherwise provided by law.

2) **Election and Size.** The number of directors shall be determined at the first meeting of the incorporators and thereafter at each annual meeting of the members in accordance with the law and subject to change as provided in section 4 of this Article. The incorporators shall elect the initial directors at their first meeting, and, thereafter the members shall elect the directors at each annual membership meeting or special meeting held in its place. A director need not be a member.

3) **Vacancies.** Any vacancy in the Board of Directors, occurring between the annual membership meetings, may be filled at a special meeting of the members or by a majority of the directors then in office.

4) **Enlargement of the Board.** The number constituting the Board of Directors may be increased and one or more additional directors elected at the annual meeting or any special meeting of the members.

5) **Tenure.** Except as otherwise provided by law, by the Articles, or by these By-laws, directors shall hold office until their successors are elected. Any director may resign by delivering his or her written resignation to any officer or to a meeting of the Board of Directors, effective upon receipt or at some later time specified. No director resigning or removed shall have any right to any compensation as such director for any period following his or her resignation or removal, or any right to damages on account of such removal, unless provided by a written agreement or by a resolution of the remaining directors.

6) **Removal.** A director may at any time be removed from office (1) with or without cause by a vote of a majority of the members or (2) for cause by a majority of the directors then in office. A director may be removed for cause only after

reasonable notice and opportunity to be heard before the body proposing to remove the director.

7) **Meetings.** Regular meetings of the Board may be held at such places and times as the Board may from time to time determine. Special meetings of the Board of Directors may be called at any time by the President or by the Clerk at the request of three or more of the directors.

8) **Notice of Meetings.** Notice of the time, place, and purposes of any meeting of the Board shall be given to each director by an officer or by one of the directors calling the meeting. Notice shall be given to each director in person or by telephone or by telegram sent to the director's last known address not less than twenty-four hours before the meeting, or by written notice mailed to such address at least 72 hours before the meeting. Notice need not be given to any director if a written waiver of notice, executed by the director before or after the meeting, is filed with the records of the meeting or to any director who attends the meeting without protesting the lack of notice.

9) **Quorum.** At any meeting of the Board of Directors, a majority of the directors then in office shall constitute a quorum.

10) **Action at a Meeting.** If a quorum is present, a majority of the directors present may take any action on behalf of the Board of Directors, unless a larger number is required by law, by the Articles, or by these By-laws.

11) **Action by Consent.** Any action by the directors may be taken without a meeting if all directors then in office consent to the action in writing and the written consents are filed with the records of the directors' meetings. Such consent shall be treated as a vote of the directors for all purposes.

12) **Committees.** The directors may elect committees and may delegate thereto some or all of their powers except those which they are prohibited from delegating by the law, by the Articles, or by these By-laws. Except as the directors may otherwise determine, any such committee may make rules for the conduct of its business.

Article VI Officers

1) **Elected Officers.** A President, Treasurer, Clerk, and Chairperson shall be elected annually by the Board of Directors at its first meeting following the annual membership meeting or following a special meeting held in place thereof. Other officers may be elected by the Board of Directors at its discretion.

2) **Qualification.** Each officer shall be a member, and the Chairperson of the Board shall be a director. Any two or more offices may be held by the same person.

3) **Tenure.** Except as otherwise provided by law, by the Articles, or by these By-laws, the term of office of the officer shall be determined by the Board of Directors. Any officer may resign by delivering to any director his or her written resignation, effective upon receipt or at some later time specified. No officer resigning or removed shall have any right to any compensation as such officer for any period following his or her resignation or removal, or any right to damages on account of such removal, unless provided by a written agreement or by a resolution of the directors.

4) **Removal.** The Board of Directors may remove any officers with or without cause. If an officer is removed for cause, he or she is entitled to reasonable notice and an opportunity to be heard by the Board of Directors.

5) **Vacancies.** If any office becomes vacant for any reason, the Board of Directors may elect a successor or successors, who shall hold office for the unexpired term, except as otherwise provided by law, by the Articles, or by these By-laws.

6) **Chairperson of the Board.** The Chairperson of the Board (or, in his or her absence, a temporary chairperson selected by the Board) shall preside at all meetings of the Board and shall have such other duties and powers as determined from time to time by the Board.

7) **President.** The President shall be the chief executive officer of the corporation and shall, subject to the direction of the Board, have general supervision of the business of the corporation. The President shall have such other duties and powers as the Board shall determine from time to time. The

President has the power to enter into contracts in the name of the corporation, and such contracts shall be binding on the corporation and not subject to reversal by the members.

8) **Treasurer.** Subject to the supervision of the directors, the Treasurer shall have: (1) general charge of the finances and custody of the funds of the corporation, (2) power to endorse for deposit or collection all notes, checks, drafts, and other obligations or payments to the corporation and to accept drafts on behalf of the corporation, and (3) shall cause to be kept accurate books of account, which shall be the property of the corporation. If required by the Board of Directors, the Treasurer shall give bond for the faithful performance of duty.

9) **Clerk and Assistant Clerk.** The Clerk shall be a resident of the state of _____. The clerk shall keep at his or her office or at the principal office of the corporation those documents described in section 5 of Article I and such other documents as the Board of Directors shall determine, and shall have such other duties and powers as determined by the Board. In the absence of the Clerk at a meeting, an Assistant Clerk (if any) or a Temporary Clerk designated by the person presiding at such meeting shall perform the duties of the Clerk.

Article VII Indemnification and Insurance

1) **Indemnification.** The corporation shall indemnify each of its directors and officers against all liabilities and expenses, including amounts paid in satisfaction of judgements, in compromise, or as fines and penalties, and counsel fees reasonably incurred or paid by him or her in connection with the defense or disposition of any action, suit, or other proceeding (whether civil or criminal) in which he or she may be involved, while in office or thereafter, by reason of his or her having been such a director or officer; except with respect to any matter as to which he or she shall have been adjudicated in any proceeding not to have acted in good faith in the reasonable belief that his or her action was in the best interests of the corporation, or with respect to any matter as to which he or she shall agree or be ordered by any court of competent jurisdiction to make payment to the corporation. The right of indemnification herein provided for shall be in addition to any other right which any such person may have or obtain, shall continue

as to any such person who has ceased to be a director or officer, and shall inure to the benefit of the heirs of any such person.

2) **Insurance.** The corporation may purchase insurance to cover any liability or expense reasonably incurred by members, officers, or directors by reason of their having been members, officers, or directors.

Article VIII Amendments

1) **By Members.** The members shall have the power to make, amend, or repeal these By-laws by a vote of a majority of the members present at the membership meeting, provided that the notice for such meeting indicated a change in the By-laws was to be considered.

2) **By Directors.** The Board of Directors shall have the power to make, amend, or repeal these By-laws by a vote of a majority of directors, provided that:

a) The Board may not make, amend, or repeal any provision of these By-laws which by the law, by the Articles, or by these By-laws requires an action by the membership;

b) The Board may not make, amend, or repeal any provision of these By-laws which alters the procedure for making, amending, or repealing the By-laws or which alters the provisions for removal of directors;

c) Not later than the time of giving notice of the membership meeting next following the adoption, amendment, or repeal by the directors of any By-law provision, notice thereof stating the substance of such adoption, amendment, or repeal shall be given to all members.

Article IX Operating Rules

1) **Operating Rules.** Written rules, separate from these By-laws, may be established by the members or by the Board of Directors. These Operating Rules may be added to, amended, or repealed at any meeting of the members or the Board, by a majority of the quorum. The Operating Rules shall be

binding on all members and directors, unless inconsistent with the law, the Articles, or these By-laws. A current copy of the Operating Rules shall be maintained by the Clerk, and a copy shall be available to any member requesting a copy.

Appendix D

EDUCATIONAL NEEDS ASSESSMENT FOR WORKER-OWNED COOPERATIVES

The following questions should be answered by members of the cooperative. The completed surveys can then be tabulated and a report prepared. The report will provide a basis for completing an educational plan, and for obtaining needed education and training for worker-members.

- | | <i>Yes</i> | <i>No</i> |
|--|-----------------------------|--------------------------|
| A) Are you a member of your co-op's board of directors? | <input type="checkbox"/> | <input type="checkbox"/> |
| B) Are you a manager or supervisor? | <input type="checkbox"/> | <input type="checkbox"/> |
| C) Do you serve on any committees? | <input type="checkbox"/> | <input type="checkbox"/> |
| D) If you do not hold an elected office now, do you want to hold an office in the future? | <input type="checkbox"/> | <input type="checkbox"/> |
| E) How long have been a shareholder? | <hr/> <i>Months / Years</i> | |
| F) Assuming there was no cost to you, how much of your time would you be willing to spend (during any one year) at workshops learning skills in the following areas? | | |

Circle one each row

Governance

- | | | | | | |
|--|-------------|----------------|--------------|---------------|----------------|
| 1) How to develop or improve co-op by-laws. | <i>None</i> | <i>4 Hours</i> | <i>1 Day</i> | <i>2 Days</i> | <i>2+ Days</i> |
| 2) How to govern your co-op. | <i>None</i> | <i>4 Hours</i> | <i>1 Day</i> | <i>2 Days</i> | <i>2+ Days</i> |
| 3) Your rights and responsibilities as a co-op member. | <i>None</i> | <i>4 Hours</i> | <i>1 Day</i> | <i>2 Days</i> | <i>2+ Days</i> |
| 4) How to hold an election. | <i>None</i> | <i>4 Hours</i> | <i>1 Day</i> | <i>2 Days</i> | <i>2+ Days</i> |
| 5) How to protect your rights. | <i>None</i> | <i>4 Hours</i> | <i>1 Day</i> | <i>2 Days</i> | <i>2+ Days</i> |

Decision-Making

- | | | | | | |
|--|-------------|----------------|--------------|---------------|----------------|
| 6) How to improve the decision-making process in your co-op. | <i>None</i> | <i>4 Hours</i> | <i>1 Day</i> | <i>2 Days</i> | <i>2+ Days</i> |
| 7) How to be a more effective member of your organization. | <i>None</i> | <i>4 Hours</i> | <i>1 Day</i> | <i>2 Days</i> | <i>2+ Days</i> |
| 8) How to chair a meeting. | <i>None</i> | <i>4 Hours</i> | <i>1 Day</i> | <i>2 Days</i> | <i>2+ Days</i> |
| 9) How to be a board member. | <i>None</i> | <i>4 Hours</i> | <i>1 Day</i> | <i>2 Days</i> | <i>2+ Days</i> |
| 10) How to be a more effective supervisor. | <i>None</i> | <i>4 Hours</i> | <i>1 Day</i> | <i>2 Days</i> | <i>2+ Days</i> |
| 11) How to be a more effective leader. | <i>None</i> | <i>4 Hours</i> | <i>1 Day</i> | <i>2 Days</i> | <i>2+ Days</i> |
| 12) How to get your ideas about running the business made into policy. | <i>None</i> | <i>4 Hours</i> | <i>1 Day</i> | <i>2 Days</i> | <i>2+ Days</i> |
| 13) How to help committees reach decisions about your co-op. | <i>None</i> | <i>4 Hours</i> | <i>1 Day</i> | <i>2 Days</i> | <i>2+ Days</i> |
| 14) How to give and take criticism. | <i>None</i> | <i>4 Hours</i> | <i>1 Day</i> | <i>2 Days</i> | <i>2+ Days</i> |

15) How to resolve conflicts in a group. *None 4 Hours 1 Day 2 Days 2+ Days*

16) How to listen to fellow workers. *None 4 Hours 1 Day 2 Days 2+ Days*

17) How to be a member of a standing committee such as planning or finance. *None 4 Hours 1 Day 2 Days 2+ Days*

Communications

18) How to write letters and reports. *None 4 Hours 1 Day 2 Days 2+ Days*

19) How to improve your knowledge as a worker-owner of what happens daily and weekly in your business. *None 4 Hours 1 Day 2 Days 2+ Days*

20) How to produce a newsletter for your co-op. *None 4 Hours 1 Day 2 Days 2+ Days*

21) How to write songs and plays about working and cooperative life. *None 4 Hours 1 Day 2 Days 2+ Days*

Legal Issues

22) What are the tax laws in your state. *None 4 Hours 1 Day 2 Days 2+ Days*

23) How to lower your taxes. *None 4 Hours 1 Day 2 Days 2+ Days*

24) How laws help or hurt worker-owned businesses. *None 4 Hours 1 Day 2 Days 2+ Days*

25) How to approach legal issues facing your cooperative. *None 4 Hours 1 Day 2 Days 2+ Days*

26) How to change those laws affecting worker-owned businesses. *None 4 Hours 1 Day 2 Days 2+ Days*

Outside Help

27) How to use consultants.	<i>None</i>	<i>4 Hours</i>	<i>1 Day</i>	<i>2 Days</i>	<i>2+ Days</i>
28) How to use an accountant.	<i>None</i>	<i>4 Hours</i>	<i>1 Day</i>	<i>2 Days</i>	<i>2+ Days</i>
29) How to use a tax specialist.	<i>None</i>	<i>4 Hours</i>	<i>1 Day</i>	<i>2 Days</i>	<i>2+ Days</i>

Financial Management

30) How to read and understand your co-op's financial statement.	<i>None</i>	<i>4 Hours</i>	<i>1 Day</i>	<i>2 Days</i>	<i>2+ Days</i>
31) How to keep the co-op's books.	<i>None</i>	<i>4 Hours</i>	<i>1 Day</i>	<i>2 Days</i>	<i>2+ Days</i>
32) How to collect overdue accounts.	<i>None</i>	<i>4 Hours</i>	<i>1 Day</i>	<i>2 Days</i>	<i>2+ Days</i>
33) How to negotiate a contract.	<i>None</i>	<i>4 Hours</i>	<i>1 Day</i>	<i>2 Days</i>	<i>2+ Days</i>
34) How to distribute co-op profits.	<i>None</i>	<i>4 Hours</i>	<i>1 Day</i>	<i>2 Days</i>	<i>2+ Days</i>
35) How to compute your co-op's cash flow.	<i>None</i>	<i>4 Hours</i>	<i>1 Day</i>	<i>2 Days</i>	<i>2+ Days</i>
36) How to get the credit your business needs.	<i>None</i>	<i>4 Hours</i>	<i>1 Day</i>	<i>2 Days</i>	<i>2+ Days</i>

Productivity

37) How to collect information you need to make a decision.	<i>None</i>	<i>4 Hours</i>	<i>1 Day</i>	<i>2 Days</i>	<i>2+ Days</i>
38) How to figure how productive you are every day.	<i>None</i>	<i>4 Hours</i>	<i>1 Day</i>	<i>2 Days</i>	<i>2+ Days</i>
39) How to figure how productivity affects profits.	<i>None</i>	<i>4 Hours</i>	<i>1 Day</i>	<i>2 Days</i>	<i>2+ Days</i>
40) How to improve and control the quality of your products or services.	<i>None</i>	<i>4 Hours</i>	<i>1 Day</i>	<i>2 Days</i>	<i>2+ Days</i>

41) How to lower production costs. *None 4 Hours 1 Day 2 Days 2+ Days*

42) How to plan for new products and services for your cooperative. *None 4 Hours 1 Day 2 Days 2+ Days*

43) How to develop and/or understand your co-op's business plan. *None 4 Hours 1 Day 2 Days 2+ Days*

Sales and Marketing

44) How to sell your co-op's product. *None 4 Hours 1 Day 2 Days 2+ Days*

45) How to deal with customer/client complaints. *None 4 Hours 1 Day 2 Days 2+ Days*

46) Where your co-op fits into the business market. *None 4 Hours 1 Day 2 Days 2+ Days*

Personnel Management

47) How to handle grievances. *None 4 Hours 1 Day 2 Days 2+ Days*

48) How to hire new members. *None 4 Hours 1 Day 2 Days 2+ Days*

49) How to fire members. *None 4 Hours 1 Day 2 Days 2+ Days*

50) How to establish sick leave and other personnel benefits. *None 4 Hours 1 Day 2 Days 2+ Days*

51) How to deal with discrimination and prejudice in your co-op (i.e. sexism, racism, ageism, etc.) *None 4 Hours 1 Day 2 Days 2+ Days*

52) How to establish a probationary period policy for new employees. *None 4 Hours 1 Day 2 Days 2+ Days*

53) How to establish co-op procedures for buying back the shares of worker-owners at retirement or termination. *None 4 Hours 1 Day 2 Days 2+ Days*

General

- | | | | | | |
|---|-------------|----------------|--------------|---------------|----------------|
| 54) How to use a computer or a microcomputer. | <i>None</i> | <i>4 Hours</i> | <i>1 Day</i> | <i>2 Days</i> | <i>2+ Days</i> |
| 55) How to meet the special needs of certain groups (e.g. women) within your business. | <i>None</i> | <i>4 Hours</i> | <i>1 Day</i> | <i>2 Days</i> | <i>2+ Days</i> |
| 56) How to teach other members of your co-op new skills. | <i>None</i> | <i>4 Hours</i> | <i>1 Day</i> | <i>2 Days</i> | <i>2+ Days</i> |
| 57) How to organize and run a day care center in your co-op. | <i>None</i> | <i>4 Hours</i> | <i>1 Day</i> | <i>2 Days</i> | <i>2+ Days</i> |
| 58) How to change work in your co-op so that work usually done by women only can be done by men and vice versa. | <i>None</i> | <i>4 Hours</i> | <i>1 Day</i> | <i>2 Days</i> | <i>2+ Days</i> |
| 59) How to improve your management practices. | <i>None</i> | <i>4 Hours</i> | <i>1 Day</i> | <i>2 Days</i> | <i>2+ Days</i> |
| 60) What are the differences between a worker-owned business and one owned only by a few people. | <i>None</i> | <i>4 Hours</i> | <i>1 Day</i> | <i>2 Days</i> | <i>2+ Days</i> |
| 61) How co-ops got started: their success and failures. | <i>None</i> | <i>4 Hours</i> | <i>1 Day</i> | <i>2 Days</i> | <i>2+ Days</i> |
| 62) How worker-owners from other countries run their businesses. | <i>None</i> | <i>4 Hours</i> | <i>1 Day</i> | <i>2 Days</i> | <i>2+ Days</i> |
| 63) How worker-owners from other countries do the same job as you. | <i>None</i> | <i>4 Hours</i> | <i>1 Day</i> | <i>2 Days</i> | <i>2+ Days</i> |
| 64) How to make worker-owned businesses strong politically in your town or state. | <i>None</i> | <i>4 Hours</i> | <i>1 Day</i> | <i>2 Days</i> | <i>2+ Days</i> |

65) Why some co-ops failed. *None 4 Hours 1 Day 2 Days 2+ Days*

66) How to start a new worker-owned business. *None 4 Hours 1 Day 2 Days 2+ Days*

67) How to convert an existing business to worker-ownerships. *None 4 Hours 1 Day 2 Days 2+ Days*

G) If you personally would need to pay for these courses, what is the most you would pay to attend a one-day workshop on your favorite issue? *\$5 \$10 \$11-25 \$26-50 \$50-100 over \$10*

Yes No

H) (Assuming they were free) would you travel out of *city, state*, for six weeks to take 3 or 4 of these courses at *college*? ☐ ☐

I) Would you attend meetings with co-op members from other towns who do the same job as you? ☐ ☐

J) Should your co-op's board of directors schedule time every 3 months for you to learn a new skill from one of your fellow members? ☐ ☐

K) Should your cooperative plan to hold on-site classes? ☐ ☐

yearly	<input type="checkbox"/>	<input type="checkbox"/>
quarterly	<input type="checkbox"/>	<input type="checkbox"/>
monthly	<input type="checkbox"/>	<input type="checkbox"/>
every two weeks	<input type="checkbox"/>	<input type="checkbox"/>
weekly	<input type="checkbox"/>	<input type="checkbox"/>
daily	<input type="checkbox"/>	<input type="checkbox"/>

L) What should be the maximum length of educational workshop sessions? *1hr 4hrs 1day 2days 1week 2weeks*

	<i>Yes</i>	<i>No</i>
M) Should these educational workshops be taught by:		
Some member of the cooperative who knows the subject?	<input type="checkbox"/>	<input type="checkbox"/>
A student from a college who is studying the subject?	<input type="checkbox"/>	<input type="checkbox"/>
Some other expert outside of your business?	<input type="checkbox"/>	<input type="checkbox"/>