

Chapter 6

Organize cooperative businesses to create jobs

Cooperatives, employment, and economic renewal

For many years cooperatives—democratic “mutual self-help” organizations or “people-centered businesses” with social and economic aims—have been in the forefront of the struggle to improve the economic and social well-being of people throughout the world. It is, therefore, appropriate that cooperatives be given a greater role in this era of pervasive employment problems and poverty in developing countries, rising unemployment and underemployment, economic restructuring and social disruption in central and eastern Europe, and persistent high levels of unemployment in western Europe and North America.

A report for the 1993 ILO Experts on Cooperatives meeting concluded that “it is fully agreed that the co-operative sector can effectively augment public and private profit-oriented sector efforts to solve pervasive employment and income problems.” The report further noted that small-scale enterprises and co-operatives can adapt more readily to economic crises.¹

Research studies, empirical evidence and published and unpublished examples from around the world support the conclusion that cooperatives have considerable employment- and income- generating potential. Cooperatives can play an important role in creating self-employment and income for vulnerable, disadvantaged groups such as women, youth and the poor... Cooperatives can improve the economic social and cultural situation of persons of limited resources and opportunities as well as encourage their initiative. As people-centered businesses, they are an ideal way of combining economic and human development. Cooperatives can also help increase national income, export revenues and promote employment through better resource utilization.²

Other experts have noted that successful business enterprise in the twenty-first century will depend on increasing levels of cooperation by everyone involved in the world of work. The democratic principles governing cooperatives promote this objective and thus contribute to business success and job generation. According to one writer, “workers’ productive and industrial cooperatives are the best means to create a new relationship between workers and the workplace, and to bring about another Industrial Revolution.”³

¹ILO, *The role of co-operatives in the promotion of employment and income in the rural and informal sectors. Report 3: Meeting of Experts on Co-operatives, Geneva, 29 March–2 April 1993*. Geneva: ILO, 1992.
2Ibid., pp. 27–28.

³A.F. Laidlow, *Cooperatives in the year 2000*, Studies and reports, London: International Cooperative Alliance, p. 66.

Some basic information about cooperatives

Definition of “cooperatives”

Giving a universal or conceptual definition of cooperatives, a specific kind of association, is difficult because cooperatives have many different forms. Some forms are specific to countries and to regions, some have historical origins and some have arisen over a period of time. To avoid an extended or technical discussion, this chapter uses the ILO definition of cooperatives:

A cooperative...is an association of persons who have voluntarily joined together to achieve a common end through the formation of a democratically controlled organization, making equitable contributions to the capital required and accepting a fair share of the risks and benefits of the undertaking in which members actively participate.⁴

A cooperative is a business owned and controlled by the people using its services (client-owned cooperatives) or working in it (worker-owned cooperatives) to mutually increase their income or enhance their standard of living.

People cooperate—work together—to achieve things they cannot achieve alone. Many people view co-operatives as a way to gain greater control over their working lives through democratic decision-making and ownership.

Many cooperators view cooperation as a more efficient and profitable way to:
obtain production supplies;

- process and market their products or services;
- provide production and marketing related functions;
- obtain otherwise unavailable or more beneficial services;
- pool their savings and obtain credit at reasonable rates;
- mobilize their resources to create new or more efficient business enterprises; and
- provide jobs and economic opportunities in their neighborhoods and communities.

Cooperation promotes not only the interests of the members, but the progress and welfare of the larger community.

Cooperation is not new. It has been around since people first found that it was more beneficial to hunt together than separately.

In the mid-1820s a cooperative movement with definite social as well as economic aims emerged in New Lanark, Scotland, under the reforming industrialist Robert Owen. In 1844 the famous Rochdale Pioneers in England established the Equitable Society which envisaged a broad program of integrated economic development. Subsequently, farmers, in western Europe and North America organized co-operatives to help them purchase seeds and fertilizer, process and market their crops, and build prosperous farms and an efficient agricultural sector. Craftspeople and consumers also benefited from the organization of co-operatives.

⁴See: The Co-operatives (Developing Countries) Recommendation, 1966 (No. 127). Geneva: International Labor Organization.

Today, countless millions of individuals and groups throughout the world have adopted cooperative principles of organization.

Cooperative principles of organization

Seven internationally recognized cooperative principles are:⁵

1. **Voluntary and open membership.** Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political, or religious discrimination.
2. **Democratic member control.** Cooperatives are democratic organizations controlled by their members, who actively participate in setting policies and decision making. In a worker coop, worker-members have a right and obligation to participate in the decision making that affects them.
3. **Member economic participation.** Members contribute equitably to, and democratically control, the capital of their cooperative. In a worker coop, all worker coop members gain or lose together. No single member benefits at the expense of other members.
4. **Autonomy and independence.** Cooperatives are autonomous self-help organizations that are controlled by their members.
5. **Education, training, and information.** Cooperatives keep their members informed and provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperatives.
6. **Cooperation among cooperatives.** Cooperatives serve their members most effectively and strengthen the cooperative movement by cooperating with one another.
7. **Member equity.** A cooperative assumes member equality in all decision making, equity in the valuation of each member's work contribution, and mutual self-help. Cooperatives are concerned about people, responsibility and business success.

One way to assess the employment potential of cooperatives is to determine the members' relationship to the cooperatives they set up and own. Is their relationship that of clients of the enterprise or workers in it? When viewed this way, there are two basic categories of cooperatives: 1) "client-owned," and 2) "worker-owned".

Cooperatives can also be classified according to their functions: single-purpose cooperatives, or multi-purpose cooperatives. Single-purpose cooperatives—created to carry out one specific function—are the most common. Multi-purpose cooperatives carry out several client functions in the same organization.

Different cooperative forms

Cooperatives flourish in several different fields and are organized in federations that maintain friendly inter-cooperative relations. Many people, directly or indirectly, belong to, work in, or buy from co-operatives on a regular basis, including:

⁵Co-operative Management and Administration. 2nd edition. Geneva: International Labor Organization, 1988. The six principles were revised in 1996 by the International Cooperative Alliance. The seven ICA principles in this document appear in abbreviated form.

Child-care cooperatives

Some working parents pool their resources and efforts to form child-care cooperatives to provide, control and maintain good child-care at reasonable cost.

Community cooperative businesses

Some people in a geographical community directly own and operate cooperative multi-functional businesses to provide local services that are otherwise unavailable and to create jobs. Membership is usually open to all who live in the area. Profits are used for further local investment, community benefit projects and bonus payments to the workers. In Scotland, over 100 of these cooperatives provide 4,000 jobs.

Consumer cooperatives

Some retail establishments (including food buying clubs, grocery stores, bookstores and department stores) operate as cooperatives. Some large consumer cooperative sectors in Sweden, Great Britain, Japan and Switzerland open membership to all shoppers.

Craft cooperatives

Some people who produce crafts at home form craft cooperatives (producer cooperatives) to purchase supplies and services at less cost and to market their products more profitably. Craft cooperatives have gained in popularity in the U.S. and abroad.

Credit cooperatives

Some groups who share a common bond form self-help savings and loan cooperatives to pool their savings to provide loans at fair interest rates to their members while earning a reasonable rate of interest on their savings. Credit unions and credit co-operatives are an important element of the economies of many countries world-wide.

Housing cooperatives

In many countries, people form housing cooperatives to build, maintain and manage their residential property.

Marketing, service and secondary cooperatives

Co-operatives, small businesses and individual producers organize these forms of co-operatives to provide themselves with services and marketing expertise they cannot afford individually. Marketing cooperatives are widespread in Europe and have rapidly expanded in Great Britain as a result of major changes in European Union trading regulations which occurred in 1992.

Producer cooperatives

Agricultural, horticultural and fishing producer cooperatives help farmers and fishermen purchase supplies, process and market their crops or products in more profitable ways. They are an important part of the western European, North American and world agricultural sectors.

Worker-owned cooperatives

Worker cooperatives are unique because workers form them to provide themselves with employment and income along with ultimate ownership and control of the enterprise. Through their ownership and control they receive a fair share of the profits and enjoy greater workplace

democracy. Worker-owned cooperatives are found in manufacturing, services, shipbuilding, food products, restaurants, computer software, engineering, reforestation, construction, and many other industries.

Labor-contracting cooperatives are another form of worker cooperative. Their primary purpose is to provide employment and income for their members. These cooperatives allow individuals to join freely together to sell (contract) their labor as a group to other businesses or governments on terms that are advantageous to them. They differ from worker-owned industrial cooperatives in so far as they do not own a business enterprise in which they work to produce goods or services for sale to the public.

In recent years, there has been a world-wide resurgence of interest in employee-owned businesses and worker cooperatives, primarily because of their job-creating potential. In the U.S., about 800 worker-owned cooperatives and several thousand democratic Employee Stock Ownership Plans (ESOPs) employ over 100,000 workers. In European Union countries, some 500,000 people work in the worker cooperative sector. In the United Kingdom, about 1,400 worker and community cooperative businesses employ about 20,000 people. In Quebec, Canada, over 15,000 people are members of worker-owned cooperatives. In Spain, there are over 130,000 workers who own cooperatives and labor-limited companies operating in manufacturing and service industries. Worker cooperatives are also present in some Central and Eastern European countries. In 1998, Poland had 1,200 worker-owned industrial cooperatives employing 200,000 worker owners.

Cooperative complexes

A systematic approach to economic development in a community or region can lead to the establishment of a co-operative complex. The co-operatives in an area or region are integrated into a dynamic “system” that may include several different forms of co-operatives.

The Mondragon group of industrial worker cooperatives in Spain, founded in 1956, has evolved into a highly successful cooperative complex. It includes a cooperative bank and an entrepreneurial development unit that work together to organize new job-creating cooperative businesses, a health and retirement system, consumer cooperatives, housing cooperatives, day-care cooperatives, educational cooperatives, and a research and development institute that generates high-tech innovations for member industrial cooperative businesses. The Mondragon cooperative complex has been in operation for nearly fifty years. It provides jobs for over 28,000 worker-owners and generates sales of over US\$3 billion per year.

Legal structures for cooperatives

In most countries new businesses can be organized as unregistered or unincorporated or sole proprietorships. When several people band together to carry on business with a “view to profit,” the law regards them as a partnership whether or not they have a written agreement. However, neither sole proprietorships nor partnerships give the owners the advantages of limited liability. Each owner or member is held responsible for the full amount of debt that the business incurs.

Because financial liability is a serious matter, many would-be entrepreneurs, including cooperators, almost always seek to obtain limited liability at the outset. This can be done by incorporating as a cooperative under state or national cooperative statutes or by incorporating as a for-profit business under national, provincial or state incorporation statutes. Generally speaking, these documents are prepared by lawyers for a fee and are filed with the appropriate

government office. Once a cooperative is incorporated, the members' liability is limited to the extent of their shareholding.

The founders of cooperatives with social as well as economic objectives usually wish to build cooperative principles into their business by-laws. The constitution of a company or cooperative is set forth in its articles of incorporation. They state exactly how and for what purpose the business is to be set up and run. However, very few limitations are laid down.

Considerable experience has been gained in operating cooperative businesses and a variety of legal structure have been developed for all kinds of cooperatives. Model outlines for cooperative articles of incorporation and sample by-laws are usually available from the cooperative movement and government cooperative agencies. For example, in the U.S. the Agricultural Cooperative Service of the U.S. Department of Agriculture has drawn up sample by-laws for agricultural, craft supply and marketing cooperatives. Individual marketing contracts are available for craft people.

Agricultural coops that intend to market produce usually incorporate under the cooperative laws established by most national governments. Marketing or secondary cooperatives can incorporate under national cooperative statutes or provincial or state incorporation laws, whichever are most suited to the organizers' needs.

Worker-owned coops, because of their need for specialized capital and organizational arrangements, can be incorporated under special industrial cooperative statutes passed by national, state or provincial governments. In those countries, provinces, and states lacking specialized legislation, worker cooperatives can be organized under regular cooperative statutes or corporation laws, whichever are more suited to the organizers' needs. In Britain, model by-laws have been made available through the work of the now defunct National Cooperative Development Agency and Local Cooperative Development Agencies.

In the United States, several states have passed special worker cooperative laws (Massachusetts, Vermont, New Hampshire, New York, Washington and Oregon) to facilitate the organization of modern industrial worker cooperatives. Model by-laws for worker cooperatives have been drawn up by the Industrial Cooperative Association and are published in worker cooperative handbooks such as *Putting Democracy to Work*.⁶

Key considerations when setting up cooperatives

It is important for the organizing groups of cooperatives to determine the issues that are to be fixed absolutely and written into the articles of incorporation, the issues that are to be dealt with flexibly and written into the by-laws, and the issues that could be resolved from time to time by means of committees or other rules.

The organizers also need to examine the articles of incorporation and by-laws to ensure that the new cooperative business maintains a cooperative ethos based on the seven basic cooperative principles. In the case of worker cooperatives, the articles of incorporation and by-laws must include the following **four supplementary worker cooperative principles**:

1. worker cooperatives must be owned by the suppliers of labor, the workers;
2. all workers must become worker-owners;

⁶Frank T. Adams and Gary B. Hansen, *Putting Democracy to Work: A practical Guide for Starting and Managing worker-owned Businesses*. Rev. Edition. San Francisco and Eugene: Berrett-Koehler and Hulagos'I, 1992.

3. the workers, as owners of the enterprise, must decide on the disposition of new income from the business; and
4. worker-owners, in their capacity as suppliers of labor and not as suppliers of capital, must control the enterprise and the benefits must be divided among them.⁷

Other issues organizers of cooperatives must consider

Membership

In fostering democratic control, one-person one-vote, some power sharing is necessary.

In a marketing or secondary cooperative, membership should be open to all in the business sector. Question: How will that sector be defined? Will employees be members? How will disputes be resolved? (Members may also be business rivals.) If it is not a cooperative, will it cause double taxation?

In a worker-owned coop, membership should be open to all employees without discrimination. Question: How long should they serve before being entitled to join? How many hours per week should they work to be regarded as employees? Is there to be a minimum or maximum age? Are non-employee members wanted? Is it possible or necessary to gauge commitment to the cooperative and its ideals before employees are entitled to join? What about employees who refuse to join?

In a community cooperative business, membership should be open to all in a community without discrimination. Question: How will that community be defined? by geographical area? by community of interest? Will employees in the enterprise be members?

Policy making, execution and accountability

Cooperative management consists of assigning tasks to people, allowing them to perform the tasks without interference and holding them accountable for the outcomes. Question: Will there be collective management? Will an outside manager be hired? Is a management committee needed? Is a designated manager required as chief executive? How will management's performance be monitored? By whom? How often?

Business organizations usually appoint boards of directors. Question: How will they be appointed? To whom are they accountable? The whole membership? Is the chairperson to be "leader" or "facilitator"? Are roles to be rotated? How and in what form will financial information be provided to the members?

It is the members' responsibility to decide policy at general meetings, and the management's job to execute those decisions. Question: How frequently should general meetings be held? How much or how little do members need to know? What arrangements will ensure that sufficient meaningful information is available to them to base their policy decisions on?

Regarding personnel matters and interpersonal relationships, it is important to establish a suitable framework for group interaction, decision-making, and dispute resolution. Question: How will members be encouraged to participate at meetings? How will disagreements be resolved? How much consensus can be achieved? What if a deadlock occurs? Is an elected employees' committee structure (or trade union) desirable? Are maximum pay differentials to be

⁷Gary B. Hansen and E. Mogensen, *Working Together to Create Jobs: A guide to Worker-owned Cooperative Development*, Bangkok: ILO Regional Office for Asia and the Pacific, December 1994, p. 10.

laid down? How will education and training for the membership be handled? What about members who are uncommitted, idle or malingering? How will unsuitable worker-members be fired? What appeals procedures are desirable?

Capital

In a worker-owned cooperative, labor hires capital. In a client-owned co-operative, members hire capital.

Every enterprise requires money to start up, to operate and to expand. This money should be “locked in” as working and fixed capital. Question: How much should each individual member provide? a nominal sum? a substantial sum? an equal sum? a contribution “up front”? In a worker cooperative, can the capital investment be paid through sweat equity? (Deductions from wages are “sweat equity” rather than a money contribution.) Will certain members provide guarantees for the coop? If so, how will they be protected? What return, if any, will be paid on membership shares?

If the objective of community cooperative businesses is to develop and nurture new enterprises, can they be spun off into autonomous businesses?

Sharing profits among members

In a cooperative, the profits belong to the members and are to be distributed in a fair and mutually agreed to way. Question: How much surplus is to be apportioned to reserves? Should this be held in common or distributed to individual capital accounts? How much cash should be distributed as patronage dividends (or as a bonus in a worker co-operative)? Should it be an equal lump sum or pro rata to patronage, hours worked, wages earned or goods contributed for sale? Are there adequate safeguards to prevent an untimely break-up of the business in order to turn the asset reserves into cash?

Ownership of assets

Members contribute equitably to, and democratically control, the capital of their cooperative. However, there are different approaches to the ownership of cooperative assets. Question; How much of the capital should be the common property of the cooperative? Modern worker cooperatives in Spain and the U.S. are designed to allow the worker-owners to acquire an increasing capital stake by receiving a share of yearly profits. Some of the profits are paid out as a bonus, and some are added to the workers’ individual capital accounts. Workers can withdraw their capital stake at retirement or departure. However, some worker cooperatives in Britain follow the Industrial Common Ownership Model that does not allow this.

If the cooperative is disbanded, any assets remaining must be distributed. Question: Should the members be considered co-owners and receive the residual assets of the enterprise, or should there be common ownership and the residual assets be held in trust for the larger community?

The next steps

If, after informal discussions of some of the foregoing issues, a group decides to consider setting up a cooperative, a person familiar with the organizing process should be sought to help lay out the formative steps. If additional interest is shown and the group votes to continue its exploration, a meeting of potential members should be held for a factual presentation of the

proposed cooperative. The meeting should discuss the purpose(s) for setting up the cooperative, including evaluating its potential to accomplish its purpose(s) and information about the experiences of similar cooperatives.

If the organizing group votes to proceed, a steering committee should be set up to provide information to the organizing group and to conduct the necessary research, or obtain competent outside help and serve as a go-between. Also the group should talk with others who have set up the same type of business to learn from their experiences, avoid mistakes and not incur unnecessary costs.

Depending on resources available and interest shown by sources of specialized help, the organizing group should request a person from one or more of the following organizations to serve as an advisor:

- a cooperative specialist from the local or national cooperative department if one exists, or
- a specialist from a local economic development agency or small business development center, or
- a business extension specialist or knowledgeable business school professor from a local educational institution, or
- an expert from a cooperative federation, national cooperative organization, or international organization such as the International Co-operative Alliance or International Labor Office.
- one of the non-profit technical assistance organizations (NGOs) that specialize in helping to organize cooperatives.

Setting up a cooperative business also requires competent legal advice to select the form of incorporation most suited to the enterprise. Available legal advice, such as an attorney familiar with national or state cooperative statutes, should be identified and consulted. Financial counsel regarding capital needs and methods of finance should be sought from a banking institution early in the process. Also assistance may be needed to develop a business plan and think through the many issues incident to setting up a cooperative.

It is essential not to underestimate the time needed for the planning and incorporation stages. It takes time to write a full and accurate business plan for a proposed cooperative. Even under the best of circumstances, obtaining money to start a business requires considerable time and effort.

A final note about cooperative economic development

A critical ingredient for success when organizing a cooperative is the whole-hearted commitment of the majority of the members to the long-term survival of the business. Organizing a cooperative requires a high degree of motivation among the members themselves. Sufficient motivation is unlikely to be achieved if imposed from above or outside.

Responsibility for starting a cooperative and seeing the project through rests mostly with the leadership group.

Like attaining the better things in life, cooperation is not an easy route. But the extra effort and commitment required bring ample rewards.

Using “group entrepreneurship” to create jobs

Fifty years of experience demonstrates that the existing approaches to increase employment and business creation have failed to help the majority of people in desperate need of jobs and income in the developing countries, the newly emerging democracies of central and eastern Europe, and among the disadvantaged and poor in the European Union and North America.

One way to increase employment and business creation is to use group or cooperative forms of entrepreneurship. Group or collective approaches to entrepreneurship can successfully create enterprises, particularly in economically depressed areas and communities facing serious unemployment or development deficiencies. Experiences in a number of countries demonstrate that the function of the small business entrepreneur can be institutionalized, expanded and strengthened by using dynamic, specialized organizations which function as proactive creators and incubators of new businesses. One historical and one recent example illustrate this innovative approach.

China: the Indusco System

The innovative Indusco worker-owned cooperative system of group entrepreneurship (the “Gung Ho” cooperatives) was developed in war-torn China in 1938 by Americans Helen Foster Snow and her husband Edgar Snow, New Zealander Rewi Alley, and their Chinese associates. After carefully evaluating the needs for goods and services, the available resources, and the desires and skills of the Chinese people, “Gung Ho” industrial cooperatives were systematically organized to create jobs and stimulate economic development.

From the outset, carefully selected entrepreneurial teams of trained engineers and technicians taught groups of Chinese displaced by war the leadership, technical skills, and organizing ability they lacked. The Indusco founders developed various kinds of technical and managerial training for the members of the cooperatives based on the cooperative entrepreneurship principles. Eventually, residential schools with student-run cooperative enterprises were established to train the next generation of leaders in the technical, managerial and cooperative principles needed to successfully organize and manage industrial worker cooperatives. From 1938 to 1945, the Indusco cooperatives spread rapidly. Several thousand new cooperative manufacturing enterprises created jobs for 30,000 workers.⁸

Because of the political infighting within the Kuomintang and between Chiang Kai-shek and Mao Tse-tung, the Indusco system eventually lost its leadership and momentum. However, during its ten years of existence it successfully demonstrated the importance and value of “cooperative entrepreneurship” as a means to promote large-scale economic and employment development.

⁸For a contemporary picture of the Indusco system see Nym Wales, *China Builds for Democracy: A Story of Chinese Industry*, (New York, 1941); for a brief overview and evaluation of the Indusco experience see: Gary B. Hansen, “Using Cooperative Entrepreneurship for Job and Enterprise Creation in Developing Countries and Eastern Europe.” Paper presented at the Conference on Internationalizing Entrepreneurial Education, Training and Research, Pembroke College, Cambridge University, 1–5 July 1991.

With the recent emphasis on privatization, efforts were begun in 1995 in China to promote a revival of the Indusco model for enterprise and employment development as part of current enterprise and employment creation efforts at the local level.⁹

Spain: Mondragon and the Basque Region

The Mondragon complex in northern Spain is a dynamic worker cooperative approach to economic development that has revitalized the economy of the entire region. Beginning in the mid-1950s, a Catholic Priest, Don Jose Maria Arizmendiarieta, and some young engineers in the Basque area of northern Spain independently discovered the underlying Indusco worker cooperative entrepreneurship principles. Based on a previously established technical educational institution, they forged cooperative principles into the dynamic and highly successful Mondragon Group of industrial cooperatives for enterprise and employment creation.

The Mondragon group entrepreneurs develop venture capital through a cooperative development bank (the Caja Laboral Popular) that mobilizes community savings to develop new industrial cooperative enterprises. Using this capital, the group's full time enterprise development unit systematically identifies new business opportunities, conducts feasibility studies to ensure their viability, recruits prospective worker-owners willing to invest their time and money in a starting new enterprise, helps find competent professional managers, and assists the manager and workers launch a new job-creating industrial cooperative business. By systematically incubating new businesses to create jobs and wealth in their communities, the Mondragon group has served as a powerful engine of economic development in the Basque region of Spain.

From 1967 to 1976, employment in the Mondragon system grew at a rate of about 15 percent annually while the national market grew at a rate of only 6–7 percent. When the Spanish economy stagnated from 1977 to 1986, the Mondragon system created 4,200 jobs while the Basque region lost over 150,000 jobs. As one observer said, “compared to the general conditions in the Basque country, the performance of the co-operatives must be considered extraordinary”¹⁰

During the severe recession of 1981–82, the region experienced an official unemployment rate of 16 percent in 1982, but only 30 of the 18,000 worker-members of the Mondragon cooperative complex became wholly dependent on the unemployment fund of the system.¹¹ Mondragon avoided redundancies through a combination of belt-tightening and transferring members between industrial cooperatives. In all, about 1,500 people were transferred temporarily and 400 were transferred permanently. From 1987 to 1992 the Mondragon cooperatives created 1,800 new jobs.

Today, Mondragon has over 130 industrial cooperatives and employs more than 28,000 worker-owners. In 1992 the Mondragon Group reorganized to create a new ownership framework, the Mondragon Cooperative Corporation, to help them continue to grow, remain

⁹There have been several attempts to resurrect the Gung Ho co-operative movement in China after its demise in the mid-1940s. The most recent attempt is being promoted by the International Committee for the Promotion of Chinese Industrial Co-operatives, headquartered in Beijing. The Chinese Government is also discussing the possibility of having the ILO provide technical assistance to start an Indusco type project as well.

¹⁰William F. Whyte and Kathleen K. Whyte, *Making Mondragon: The Growth and Dynamics of the Worker Cooperative Complex*, Ithaca: ILR Press, 1988, 1991.

¹¹Hans Weiner and Robert Oakeshott, *Worker-Owners: Mondragon Revisited*. London: Anglo-German Foundation, 1987.

competitive, and expand into other industries and countries of the European Union. Projected employment for 1996 was been set at 35,700, an increase of 9,300 over the 1993 employment.¹²

California: Arizmendi Development and Support Cooperative

A recent small-scale attempt to use the Mondragon approach to facilitate group entrepreneurship and systematically create jobs is being carried out in the United States by the Association of Arizmendi Cooperatives established in 1996 in Berkeley, California.¹³

The Association of Arizmendi Cooperatives is composed of delegates from member cooperatives and the Arizmendi Development and Support Cooperative (DSC). A Board of Directors, called a Policy Council, is its governing body. The DSC staffs the Association and provides business, educational, organizational, financial, and other services to members and develops new cooperatives as directed by the Policy Council.

Member cooperatives pay a fee to the Association sufficient to support staff services, coordination among the stores, and development. Plans called for at least two new cooperatives per year beginning in 1997. Financing to start the new enterprises comes from loans from institutional backers and members' individual investments.

The Association was initially comprised of the Cheese Board Cooperative and the Arizmendi DSC. The Association of Arizmendi Cooperatives and its enterprise-creating strategy evolved from linkages among local worker-owned businesses spurred by discussions between a Cheese Board veteran and a co-op developer to expand cooperatives by duplicating successful ones. After being joined by another Cheese Board member and a lawyer, the organizing group formed as a Development and Support Cooperative.

The objective of the Association and its member cooperatives is to systematically generate new worker-owned enterprises and jobs in the surrounding region. As part of this local economic development strategy, the first "Arizmendi worker-owned Cooperative" opened in Berkeley with 11 to 12 worker-members in the fall of 1996 after receiving a long-term seed loan from the Cheese Board.

Cheese Board members of the DSC provided the basic baking-skills training. Members of the new Arizmendi worker cooperative then operated the Cheese Board bakery one day a week (for pay) to gain experience, with only occasional guidance from DSC staff. A feasibility study showed the new business breaking even the first year. Expectations are that the number of worker-members will increase to 25 by the end of the 5th year when revenues are expected to double the \$600,000 generated during the first year.

This new worker-owned cooperative offers an additional source for the widely acclaimed breads and other baked goods and pizza of its parent cooperative, the Cheese Board. The 25-year old Cheese Board is known for its personalized service, quality, reasonable prices, and wide selection. Ten years ago they added baked goods and pizzas to their product line. Because of higher profit margins for baked goods and the large inventory and extensive training required for cheese, the first Arizmendi worker cooperative focused on baked goods and pizza. Creative

¹²Bcleren Bakaikoa, "The Effects of the Economic Crisis on the Mondragon Cooperative Corporation," Paper presented at the Annual Conference of the International Institute for Self-Management, Long Island University, Brookville, New York, June 8, 1993.

¹³Based on supplied by Jacques Kaswan.

product development has led to increased revenues, and Cheese Board worker-members receive about double the average industry wage. All members are paid the same rate.

The DSC developed business plans for the new co-op and the Association. An invitation was extended to anyone interested in becoming a member of a new Arizmendi worker-owned bakery cooperative to attend some orientation workshops. Of the 130 or so who attended the DSC's two orientation workshops, 35 paid a nominal fee to attend three additional information workshops. Of those 35, 28 people applied for membership, and 15 were selected after interviews.

Their initial training focused on principles of group process and on democratic organizational development, governance, and management. The Cheese Board provided product demonstrations and practice opportunities. Ongoing training focused on organizational issues, including how to run meetings and select a site. Guidelines and policies are decided at weekly meetings. Task groups work out details and proposals such as site selection, finance, personnel, and organization and development. Facilitation training through the latter assures that all meetings are guided by members.

Requirements for successful large-scale group entrepreneurship

The urgent world-wide need for successful approaches to generate new enterprises and employment has brought about a renewed interest in group entrepreneurship. The requirements for establishing systematic group entrepreneurship and worker cooperative development programs have been identified, and the basic steps to successfully launch such programs have been worked out.¹⁴ These approaches are based on a careful review of the successful experiences of the Indusco and Mongragon cooperative complexes, and then designing group entrepreneurship approaches that can be utilized in developing and industrialized countries where facilitating job creation and economic renewal are critical issues.

In the absence of a formal entrepreneurship development unit such as that used by the Mondragon complex in Spain or the nascent Arizmendi Development and Support Cooperative set up in Berkeley to facilitate the worker cooperative incubation and startup process, how does a group of people who want to become group entrepreneurs go about doing so? The following "Getting Started" section describes the basic steps to start new employment creating worker co-ops.

Getting Started

Steps to start new job-creating worker cooperatives

[The following steps have been adapted from Steps to starting a Worker Co-op, by Gary B. Hansen, E. Kim Coontz and Audrey Malan, Center for Cooperatives, University of California and Northwest Cooperative Federation, 1997.]

¹⁴Gary B. Hansen and E. Mogensen, *Working Together to Create Jobs*, ILO Regional Office for Asia and Pacific, 1995; Gary B. Hansen, *Using Cooperative Entrepreneurship to generate employment and income in developing countries and Eastern Europe*, Logan: Utah Centre for Productivity and Quality, Utah State University, May 1993.

The catalyst for forming a worker co-op is the shared belief of a group of people that the cooperative approach to entrepreneurship is the best way to meet mutual needs.

As with any new business, starting a worker co-op should begin with a clear mission--providing meaningful employment and income, obtaining greater control over the workplace, or achieving job security. It involves thorough and careful business planning to ensure a strong foundation to increase the likelihood of success.

Responsibility for starting a worker co-op and seeing it through rests primarily with the organizing group. The organizing group shapes the new co-op through the start-up phase and keeps it going.

Step 1: Collect information, clarify needs, and assemble the organizing group

This step lays the foundation for a group to make an informed decision about whether to start a worker-owned cooperative.

Guidelines

An organizing group should consist of potential worker cooperative member-owners. The most effective number of participants is 5 to 15. The organizing group must be prepared to devote substantial time to complete the necessary research, attend weekly or bi-weekly meetings, and participate in committee work throughout the organizing process.

Members of an organizing group or a subcommittee should begin by collecting materials, facts and data about worker coops: what worker-owned coops are, how they operate, how they differ from other for-profit businesses and other types of cooperatives, and what elements are needed for successful worker coop entrepreneurship. The group should also collect materials, facts and data about starting a business.

Business ideas for worker-coops

Preliminary research should be conducted about a group's business idea (if it has one). If a group has more than one business idea, develop some screening criteria to determine the most promising ideas.¹⁵ The Venture Selection Criteria form developed by the Westcoast Development Group and reproduced in Appendix I illustrates one way to carry out this task.¹⁶

Two types of questions need to be asked when evaluating business ideas: (1) questions that identify the prospective members' entrepreneurial objectives; and (2) questions that clarify the business and political environments.

Clearly identify the group's mutual needs and expectations that the coop could address. Consider such things as shared objectives, interests and abilities, the business idea product(s) or service(s), ownership and capital structures, level of income, and how profits are to be dispersed.

Questions that can help determine whether a business idea is viable are:

¹⁵One Canadian group developed the following criteria to guide venture selection for planning purposes: (1) employs group members, builds on group members' interests and skills; (3) provides a needed community service or product; (4) provides for significant training opportunities; (5) produces a unique service or product; (6) requires modest start-up costs; and (7) makes good use of existing natural resources. For additional information on this topic see: *Venture Development Basics: A Workbook*, Westcoast Development Group, 1991.

¹⁶Ibid.

- Is there a market for the product(s) or service(s)?
- Do other businesses offer similar product(s) or service(s)?
- Is the market large enough for all to make a reasonable living and grow?
- If the market is not a large enough, is the proposed product or service different enough or efficient enough to attract and hold sufficient customers to succeed?

If the answers to any or all of the above questions are negative, take another look at the business idea before investing any more time or money in developing it further.

Other activities to be carried out during Step 1 include:

- Identifying available advisory and consulting resources to help the organizing group.
- Collecting information about available financial resources.
- Identifying people who might share an interest in the co-op.
- Inventorying the organizing group's skills and experiences.

When human values and cooperative principles are as important as productivity and profits, worker co-ops can be used to operate enterprises in simple low-tech manufacturing or service sector activities to enterprises that produce very sophisticated products and services.

Industrial worker coops, the foundation of the Basque system of cooperatives in northern Spain, produce household appliances (refrigerators and stoves), machine tools, robots, and other personal services to name a few.

Throughout the world, worker coops are involved in manufacturing, food products, computer software, printing, furniture manufacturing, construction, solar heating, publishing, book distribution, grocery stores and restaurants, clothing, transportation, consulting, wholesale distribution, health care, subcontracting assembly work for automobile manufacturers, and personal services, to name a few.

Worker coops can be organized for businesses whose owners intend to retire or the shareholders want to put their capital to other uses. In such cases, the assets of the firms are sold or given to the employees, and the enterprises are reorganized as worker coops. Worker coops can be organized when a government plans to privatize an existing public enterprise. A worker-owned bus co-operative was organized in northern England several years ago. Worker coops can be organized as part of government-sponsored efforts to create new enterprises to generate employment; as happened in Spain and Britain in the 1970s and 1980s.

In developing countries, worker co-ops are involved in clothing, shoemaking, catering, candle making, furniture making, restaurants, ceramic brick making, wire weaving, consumer goods manufacturing, building construction, building maintenance, lighting fixtures and switch manufacturing, machine shops and foundries.

Business opportunities for worker co-ops seem to be limited only when ventures require such large work forces and capital investments (e.g., automobile assembly and oil refining) that cooperative values and operation are unfeasible or impractical.

The Basques in Spain have demonstrated that worker coops can be started and operated successfully in a wide range of industries and sectors, including major manufacturing enterprises. However, when their cooperatives reach 400 to 500 worker-members, they are encouraged to spin off new worker-owned enterprises to maintain a sense of community, solidarity, and participation among the worker-owners and between the workers and the management of their enterprises.

Key Decisions

Does the group share a mutual need and a viable business idea? Is a worker co-op the best way to address them?

Step 2: Meet with potential members to discuss needs and vision. Coordinate organizing and business research

Purpose

Assess if the potential members are interested enough in starting a worker co-op to justify further research and planning. Elect a steering committee to collect the necessary information and prepare detailed plans to organize the new co-op.

Guidelines

Hold an informational meeting for the people interested in organizing a worker co-op. At the meeting present and discuss the initial research findings. Vote on whether to proceed and determine how to obtain the funds to carry out additional research and pay the organizing costs. Set up an account to receive the funds raised for that purpose.

Establish a core decision-making group or select a steering committee. This group/committee is responsible for determining the potential members' interest, overseeing the selection of the business idea, collecting market and financial information, conducting a feasibility study, keeping the group informed of progress, developing a business plan and coordinating organizational meetings

Key decision

Does the group have sufficient interest in and commitment to start a worker-co-op?

Step 3: Conduct a feasibility study and present findings. Obtain a commitment to proceed.

Assess the feasibility of the business idea--potential customers, markets, expected volume of business, necessary equipment and facilities, estimated operating costs, capitalization, and financing options--to determine if the proposed worker co-op is likely to succeed and benefit the owner-members.

Guidelines

Conducting a feasibility study requires the completion of numerous tasks. Individuals or subcommittees should be assigned to:

- Conduct preliminary market research and analysis to identify potential markets, discern the potential market niche, and define the operational technicalities, including how to manufacture and distribute the product(s) or service(s).
- Consider the skills and experience required to operate the business successfully.
- Identify special equipment, facilities, or licensing required.
- Calculate the costs of doing business and prepare financial projections. The initial financial projections and other findings must justify and support starting the business.

- Make comparisons and evaluate competition. Using the above answers, compare the proposed business with other businesses in the same industry.
- Explore sources of funding. Determine the amount of funds required to start and operate the proposed enterprise. Determine if members can contribute sweat equity and how much of a capital investment they would need to make. Investigate sources of funding, including alternative economic development and job creation funding sources, to see if they can be accessed.
- Prepare a written report

Utilize professional assistance when needed and available. Often it is necessary and beneficial to hire consultants or experts to help complete the feasibility study, write the business plan, or start a business.

After the written report is completed, the organizing group and potential members should meet to discuss the report and findings.

Key decisions

Is there a satisfactory market for the proposed business? Do the initial financial projections and other findings justify starting a worker co-op? Does the group have the requisite skills, knowledge, experience, and resources to start the proposed business?

Step 4: Prepare and review the business plan

Define how the co-op will be structured and financed. Approve the business plan and obtain a firm commitment, including a financial commitment, to legally form the worker co-op.

Guidelines

A successful worker co-op relies on a detailed and thorough business plan. The business plan serves two main purposes:

1. It is the blueprint and basic guide for the members and managers when the co-op begins operations; and
2. It is the central document for securing a loan or other funding.

The business plan, a revised and expanded version of the feasibility study, outlines and defines every facet of the proposed co-op's potential business and operations. Appendix II at the end of the chapter provides more information about what should be included in a business plan.

Prepare the report for presentation to potential members. Discuss the business plan with potential members. Obtain their consent to proceed.

If approval is given to proceed, initiate funding. Get definite financial commitments from potential members. Prepare loan or grant documents to obtain any additional funding needed to start the enterprise.

Key decisions

Does the business plan substantiate the short- and long-term viability of the co-op as a business enterprise? Are the members prepared to commit their money and time to the start-up of the business?

Step 5: Draft legal papers and secure membership and financial commitments

Clarify organizational issues and prepare the legal papers required for incorporation. Secure the members' written and financial commitments.

Guidelines

Consult an attorney experienced with worker co-ops to assist with this step.

Select a name. To conduct business and incorporate, the co-op must have a name.

Prepare the bylaws. The bylaws, or fundamental rules of the co-op, provide the legal framework to operate the business as a co-op. General areas covered by the bylaws include: who is eligible for membership; the parameters of member employment (e.g., the probationary period for membership, whether work is full- or part-time); specify members' capital contributions; how payroll or other distributions are to be made; define how net income or losses of the cooperative are to be distributed; identify how decisions are to be made; the roles and responsibilities of the board of directors and officers; how the board is to be selected; how membership and board meetings are to be conducted; how the co-operative is to be managed; ongoing education and training expectations; and how the bylaws can be changed.

Design a membership agreement. The membership agreement specifies the rights and obligations of the membership.

Decide how to incorporate the business. A worker co-op is strongly encouraged to incorporate because incorporation limits individual members' liability, provides the legal entity for business transactions, provides for the enforcement of the bylaws and membership agreements, and may provide tax advantages.

Prepare articles of incorporation. The articles of incorporation are the founding legal documents that give the corporation its legal existence.

Secure membership commitments. Prospective members become members when they sign the approved membership agreement and follow through on its preliminary conditions, including making an initial capital contribution.

Key decisions

Are the members committed to the co-op? Can the business be legally organized to accomplish the desired purposes?

Step 6: Hold the cooperative's first, or charter, meeting. Define and accept roles

Formally begin the worker co-op enterprise and accept the articles of incorporation and the bylaws.

Guidelines

The primary purpose of the first membership meeting is to approve the legal documents and institutionalize the process of governing the new enterprise. If the cooperative membership is relatively small, members may decide to manage their business jointly as a collective without a formal board of directors and a hired manager. If the worker co-op is large or the organizers prefer to choose the more conventional governance structure, they need to elect a board of directors.

The first meeting has three items of business of critical importance:

1. Review and approve the articles of incorporation.
2. Adopt bylaws.
3. Convene the business or board meeting

It is important that the board carry out a number of activities at its first business meeting. These include: selecting a financial institution; arranging for bookkeeping and handling of finances; clarifying how roles are to be assigned and responsibilities fulfilled; determining training needs and arranging for them to be met; devising a plan to work with members to address start-up matters as set out in the business plan; and determining procedures to hire a professional manager if one is needed.

Key Decision

Are the incorporation articles and bylaws acceptable to the members and those who serve on the board of directors?

Step 7: Implement management. Prepare for business start-up

Implement the management structure--as a collective, teams, or general manager.

Guidelines

Follow the steps set forth in the business plan; it is the blueprint for organizing the new business.

The selection of competent management is critical to the success of any new business start-up. If the management has not already been identified or hired, do so before starting operations.

If the co-op is small enough and the members choose to operate as a collective, the traditional manager's role may be divided among the owners, according to ability, interest, or pledge to learn those divided duties.

Manufacturing or service businesses that intend to grow beyond 15 to 20 worker-members probably need to seek an experienced manager from within or outside to help establish and manage business operations.

Select a manager who has the qualifications and skills to effectively manage business operations and whose management style is compatible with the cooperative's decision-making structure. Begin by clearly defining the manager's role, functions, and relationship to the board and other worker-members. Be certain that there is no ambiguity or misunderstanding about who has what authority and how the business is to be managed.

Secure financing and finalize agreements from all sources--members, grants, loans, purchases, and rentals. If some members fail to pay their capital contributions, follow up on their commitments. Use the business plan to seek additional debt capital to start the business.

Acquire the necessary facilities, licenses and permits.

Key decision

Is the worker co-op really ready to begin operations?

Step 8: Start operations. Implement the business plan

Begin operations.

Guidelines

Once the co-op is incorporated, approves its bylaws and basic rules, hires or appoints a manager, acquires the necessary finances, and obtains suitable premises, it is ready to begin operations. The first task of the management and worker-owners is to implement the co-op's business plan. Aside from operational matters, the management:

- Develops community recognition by publicizing the opening of the worker co-op in the appropriate media to create name recognition and a positive image in target markets.
- Establishes and maintains ongoing communication about the co-op's performance. Procedures or systems are needed to keep worker-owners informed of progress and problems and ensure ongoing communication among workers-owners, managers and the board.
- Establishes and maintains good relationships with customers and suppliers.
- Implements the education and training plan to ensure that the business, technical, communication and cooperative skills of the worker-owners are maintained and improved.

After business operations have been underway for 9 to 12 months, hold an intense planning session or retreat to discuss how things are going and where to go next.

Key decision

What can be done to ensure that the co-op continues as a worker-owned business enterprise and meets the needs of its members?

Organize “community cooperatives” and “community businesses” to create jobs

In addition to using the concepts of group entrepreneurship to develop worker cooperatives, some communities have used a hybrid concept of community cooperatives or community businesses to generate jobs or provide needed services in their communities.

Scotland: Community Cooperatives

“Community cooperatives” and “community businesses” developed in Great Britain in the mid-1970s as part of a strategy to help areas and regions suffering high unemployment that are “economically marginal.”¹⁷ In 1977, the Scottish Highlands and Islands Development Board (HIDB) set up a program to build on local initiatives started in 1975–76 under a national job creation program.

The HIDB-sponsored program includes four basic components: (1) hiring field workers to explain and promote it to the people and communities in the Western Islands; (2) providing matching grants to local communities to raise money; (3) providing management grants to help subsidize the co-operatives in their early years; and (4) accessing regular HIDB loan and grant assistance.

Before a community group can expect HIDB funding, it has to pass three tests: (1) that the enterprise is likely to be viable; (2) that it has the support of the community; and (3) that it does not compete with an existing local business.

Model rules for hybrid versions of cooperative structures were developed by the HIDB, the Community Business Scotland (CBS) and the British National Cooperative Development Agency. The HIDB rules permit individual shareholding (allowing one vote per member) that pays a limited dividend but prohibit members from receiving any capital asset beyond their membership fee and shareholding when they leave.

CBS, the successor to the Scotland Community Business Forum, was organized in 1981 to promote the movement and to foster the creation of co-operative businesses in urban areas. The CBS community business model constitution is based on collective (common) ownership of all the co-operative’s assets.

The Scottish community cooperative movement served as an inspiration to many groups in other parts of Scotland and Great Britain, especially groups in old industrial areas and blighted inner cities. An urban version of the community co-operative, called a “community business” or “community enterprise,” developed in the late 1970s and early 1980s

John Pearce, a cofounder of one of the first community businesses in an urban area of Scotland, defines a community business as:

*a trading organization that is set up, owned and controlled by the local community and that aims to create ultimately self-supporting jobs for local people, and to be a focus for local development. Any profits made from its business activities go either to create more employment, or to provide local services or to assist other schemes of community benefit.*¹⁸

Community cooperatives usually have a geographical locality and allow employees, people in the community and any company or other business that has an interest in the community to become members. Some co-operatives allow a limited number of “outsider” members to attract people with the needed skills.

¹⁷John Pearce, *Running Your Own Cooperative*, London, 1984.

¹⁸*Ibid.*

Most of the community cooperatives and businesses in Scotland are multi-functional. They both initiate business ideas and help local people develop their own ideas. In addition to their own business and development activities, community businesses may intervene in the local economy in various ways and may sponsor community benefit projects to create jobs or provide services for local people.

Their constitutions contain rather broad statements outlining their organizational objectives and also spell out the rules determining membership, management structure, ownership of capital and how profits are to be divided.

Pearce describes the community business as likely to be both a holding company and a local development agency. Its primary function is to “provide a community-owned structure in a particular locality which can initiate economic activity on behalf of the residents. Some community-grown specific enterprises might in time be floated off as self-standing businesses, likely as worker co-operatives.” Thus, the community business is “more than a trading organization, it is a means of stimulating new business growth in areas and among people where there is little or no tradition of entrepreneurial activity and usually a history of long-term unemployment and social deprivation.”¹⁹

The community business model created over 4,000 jobs in Scotland during the first ten years. The experience of the Scottish groups in setting up rural community cooperatives and urban community businesses is instructive of how the community enterprise development process works. Other Scottish development agencies provide support services similar to those of the HIDB to prospective urban community businesses. A modified approach has been used in both rural and urban areas to meet the special circumstances of city dwellers.

Community cooperatives and community business are typically established in areas of high unemployment by people in the community who are seeking solutions to that problem. They are born of the self-help desires of the people coupled with an awareness of the fact that neither the government nor private industry “will be quick to provide the jobs that are needed.” If they want something done, they had better get involved in making it happen.

Lessons from Scottish community enterprise development

The Scottish experience in developing community enterprises provides four key lessons:²⁰

- Community enterprises can create permanent self-financing jobs, harness latent abilities and resources and provide much needed local services, often in the worst possible circumstances when other approaches and forms of investment have failed.
- They succeed because local people take the responsibility for developing their own community.

¹⁹Ibid.

²⁰*Self-Help Communities: Developing Community Enterprise in the United Kingdom*. A Proposal from the Community Enterprise Movement. Presented by Community Business Scotland and The Association of Community Enterprises in the Highlands and Islands, 1988, p. 4.

- They work especially well where local and central governments recognize the hopes and needs of the communities and combine to support these enterprises on an all-party basis.
- They work where the support is targeted through a specialized local development agency (such as the HIDB), an NGO (such as the CBS), or a service because:
 - ⇒ An experienced development team helps the local people through the entire process because people in distressed communities usually have little confidence in their ability to undertake major initiatives.
 - ⇒ The process helps local people learn management and business skills.
 - ⇒ The approach combines individual, community and business development with complementary disciplines.
 - ⇒ Differing local conditions require flexible area-based, tailor-made approaches that, so far, only independent community enterprise development units can deliver. Other agencies are unable to respond adequately to the particular needs of community enterprise groups because of their narrow purposes.

Getting Started

Organize community cooperatives and community businesses

In many cases, a community group or a local activist or leader, such as a church leader or community development officer, begins the discussions that lead to the organization of a community co-operative or business. But in some communities the stimulus comes from outside. Promoting the idea that action is possible is very important in communities where a few employers have dominated the economy for years

When an area has high levels of unemployment and lacks an entrepreneurial tradition, instilling in people that they can and should help create jobs rather than depending on others is a major task. In the western isles of Scotland HIDB-appointed field officers talk with people and groups living in declining communities about forming community co-operatives. The following steps help to get community co-operatives or businesses underway.

Step 1: Form a local steering group to explore possible job-creating prospects

The first step is to form a local steering group to explore possible job-creating prospects. Once the steering group is organized, it carries out several tasks:

- *Learn what other groups in similar situations have done and how they did it.* To educate themselves about business and related matters, the steering group members obtain written materials about community co-operatives and businesses. They also visit co-operatives and businesses to see how they function.
- *Find ways to involve local people in the process.* The steering group informs local people of what they are doing by writing and distributing a leaflet explaining what they are trying to accomplish, holding a public meeting (or series of meetings), and talking with local business people and other groups to build interest and encourage

them to participate and contribute their ideas. It also contacts local politicians at all levels.

- *Learn who can help them.* The steering group investigates sources of assistance in their province or area, such as helping agencies, NGOs, and others. It also contacts people with professional skills (such as accountants, bank managers, lawyers, or business persons) who may be sympathetic to their ideas. This is another means of involving local people in their efforts.
- *Develop an action plan and put it in motion.* The steering group finds ways to turn its work into action. It appoints a secretary to record the minutes of meetings, decisions and assignments made.
- *Keep the community informed of progress and all developments.* The steering group finds a way, such as the media and other means, to keep local people informed of their progress and developments and involve them.

Step 2: Think of potential business ideas for a community cooperative or business

The second step is to start thinking about possible ideas for a community cooperative or business. Pearce lists several things the groups in Scotland do.²¹ They:

- *Determine local people's skills.* It is easier to build business ideas on the skills people already have.
- *Copy or adapt a successful cooperative or business in a similar community.* The group can learn from the experiences of others. Ideas that are successful elsewhere might work locally.
- *Determine the goods or services the community needs.* Areas of high unemployment often lack a number of commercial and other services. What community need or lack could be met by a community co-operative or business?
- *Look for unused local resources which might form the base for a community enterprise.* Perhaps an unused school, empty factory, unused land, abandoned building or even an eyesore could be the starting point for a new business and development.

Patience and perseverance are necessary. Planning and starting a community cooperative or business can be a slow process. Most community groups have much to learn about starting a business, and it takes time to plan and negotiate for the needed resources.

It is important to mix short-term activities that demonstrate progress toward the desired goal with other long term planning and negotiation. This provides tangible work for the group, rewards them for some of their efforts and gives them practical experience during the long process to create jobs or provide services.

²¹Ibid.

Step 3: Compile a list of possible community cooperatives and businesses

The third step is to come up with a list of possible business ideas, either by brainstorming or looking farther afield. The following questions can spark a brainstorming session:

- What desirable services are missing in the locality?
- Could any imported goods be manufactured locally?
- What specific skills do local people have?
- Is subcontract work available?
- Are any local businesses closing that will leave a gap that needs to be filled?
- Are any public services being discontinued or been discontinued?
- Is a franchise a possibility?
- What, if any, fringe activities could be linked to local large businesses?

Brainstorming might produce several possible ideas to explore. The potential community cooperative or business group must determine which ideas are feasible.

Step 4: Conduct a feasibility analysis

Once some good ideas for starting a community co-operative or business are identified, the next step is to determine if they would be successful. The steering committee, with or without the assistance of outside resources, carries out the first stage of a feasibility study. The feasibility study assesses the soundness of the co-operative or business ideas.

Resources Available

The feasibility study assesses the suitability of the *resources* available to the co-operative or business group:

- *People:* Who are the committed members of the group? What business, production, sales, or organization and management skills do they have? Why do they want to be involved? Who else might be involved?
- *Finance:* Would the group members be able to contribute funds? Are there any special sources for grants or financial assistance in the local area? Could the group obtain a loan? Are any other sources of help (in kind as well as money) available?
- *Premises and equipment:* Are premises readily available or can they be found at reasonable cost? Are the necessary equipment and machinery obtainable? What else may be available?

Business Idea

The feasibility study carefully assesses the business idea. Three questions must be answered:

- *Will it sell?* Is there a market for the proposed product or service?
- *Will it pay?* Would the income cover all the costs?
- *Can it be done?* Is the idea technically possible? Could both the machinery and people to make it work be found?

Resources needed

After assessing the resources available and the business idea, the feasibility study assesses the resources needed to operate the business.

- *People.* Are any particular skills missing in the group? How can people with the required skills be found?
- *Finance.* How much financial support and what kind will the planned venture need? Include pre-start-up development costs, pre-start-up capital costs, and estimated operating costs for the first few years of operation. Also project cash flows (expenses and income) during the first years of operation.
- *Premises and equipment.* How much space will be required? Where located? Can the equipment and machinery necessary to produce the product or service be obtained when needed and at an affordable price?

Step 5: Prepare a business plan and obtain financing

If a feasibility study indicates that an idea could succeed, a business plan is prepared. Preparing the business plan is an important activity for a venture group because it sets down what they intend to do and how they intend to do it. A jointly prepared and agreed to plan is a sound foundation on which to build the venture as well as a way to measure progress. It is important that the group members understand the plan.

The business plan is the basic document used to raise money to finance the project. The members' equity stake (spelled out in the business plan) demonstrates their commitment to the proposed business. It is used to match the loans, grants, and other financial support from banks, foundations, government agencies, and others.

Appendix I at the end of the chapter provides more detail about the contents of a business plan.

Step 6: Legally organize the business

Once financing is obtained to start the business, the community co-operative adopts a proper legal structure for the proposed business by becoming incorporated as a cooperative society or as a limited company.

The legal structure:

- Gives limited liability
- Defines the objectives and purposes of the enterprise
- Determines the membership as well as the directors or committee of management
- Sets out the rules of operation
- States what will happen to the profits
- States what will happen to any assets if the enterprise is closed

In addition to the normal co-operative rules of operation, the group usually establishes some "house rules" through decisions made at a general meeting of the membership or by the board of directors. These regulations cover issues the cooperative decides to implement as part of its organization and operations, such as disciplinary and grievance procedures, recruitment policy, and wage ratios.

Most of the community cooperatives and businesses in Scotland are based on a geographical locality and are multi-functional. They engage in a wide range of both trading and other activities to achieve their desired aims, usually to create jobs or provide services for local people. Their constitutions contain rather broad statements outlining their organizational objectives. The constitutions also spell out the rules determining membership, management structure, ownership of capital and how profits are to be divided.

Step 7: Obtain premises and equipment for the business

The next step is to obtain suitable premises and the machinery and equipment to produce the product or service. Because of the considerable restructuring and privatizing going on in most CEE countries, it is usually possible to obtain space in unused factories or other buildings. In many cases, local government authorities can help find suitable premises and make them available at reasonable cost.

All avenues should be explored to find the type of premises needed. In communities where business incubators have been established (see Chapter 2), space providing range of services can be made available for community enterprises at a modest cost.

Step 8: Train the workers and startup operations

The last step in starting a community business is to provide or obtain the necessary training for the workers and managers in the new business. In many instances, NGOs, government training program, and specialized courses can provide the necessary training.

When starting a community cooperative, it is critical that the workers (the human resource of the enterprise) receive continuing education and training to enhance their skills and prepare them to work in co-operative business enterprises. Otherwise, the lack of a skilled and competent workforce will hurt it vis-à-vis its competitors, and the community cooperative will not increase the employability, skills, and income of the residents.

North America: Community Development Corporations (CDCs)

A number of provincial, state and local governments in North America and local governments in Europe have created departments or quasi-public units to facilitate local economic development efforts by providing leadership, planning, technical assistance, and financing.

In America, the Massachusetts State Office of Community Economic Development provides assistance to fifty community development corporations and other eligible community-based organizations. That assistance includes funding for staff and related administrative costs, technical assistance in program planning, organizational development and fund-raising, and clearinghouse services. Other state-sponsored quasi-governmental corporations provide financing and venture capital to CDC-initiated housing rehabilitation and job-creating commercial and industrial projects.

In Canada, CDCs function as institutions that develop businesses. These organizations build organizational skills, resources, and energy to start businesses and other projects and keep them going. Bill Hatton, Chief Executive of the Kitsaki Development Corporation, one of the

most successful Indian development corporations in Canada, said, “If business development is a wrench, economic development is the machine which makes the wrench.”²²

The Westcoast Development Group in Vancouver, British Columbia, has published a number of manuals and workbooks that CDCs use to provide enterprise and venture development training to Indians. The group also conducts workshops on community economic development. Their training approach is based on a Development Wheel framework for use by any community economic development organization attempting to generate new enterprise creation in a wide variety of minority and depressed communities.

The development wheel consists of six components: (1) organizational prerequisites for community economic development; (2) pre-planning for economic development; (3) organizational development; (4) venture development; (5) community participation, strategic networking and technical assistance; and (6) building organizational capacity. The first two components (preliminary data collection and preparing for community economic development) (CED) are carried out during the first phase. The four remaining components are carried out simultaneously during the remaining three phases: (1) building the CED base; (2) focusing on opportunities; and (3) detailed planning and mobilizing resources.²³

Common and Cooperative Facility Centers

ILO: Common Facility Center Model

The ILO’s Micro-enterprise and Informal Sector Section of the Enterprise and Cooperative Development Department is promoting the Common Facility Center (CFC), an innovative approach to increase the labor productivity and product quality of entrepreneurs and artisans in a particular industrial sector, such as handicraft and small manufacturing businesses, in developing countries by providing support services and production facilities.²⁴

The CFC concept first originated in Bangladesh and was developed further by the ILO. The CFC concept is similar to the flexible manufacturing network concept, such as the ACEnet approach and the service center and interfirm collaborative network concepts discussed in Chapter 10, adapted to developing countries.

The CFC concept was field tested in Sri Lanka. An entrepreneur leases a building and machinery supplied by the National Design Centre (NDC), operates the facilities for his/her own production and subleases them on a part-time basis to other local small-scale entrepreneurs and self-employed artisans in the same industrial subsector. NDC technical staff and international advisors provide advice and training in various aspects of their clients’ businesses, including product design, accounting systems, technological development and marketing. A leather products industry CFC has operated in Kandy, Sri Lanka, for about six years. It employs about ten workers and is considered quite successful. Two additional CFCs are being developed in Sri

²²Quotation from Decter and Kowall, *A Case Study of the Kisaki Development Corporation, La Ronge Indian Band, La Ronge, Saskatchewan*, (Ottawa: Economic Council of Canada, 1989) and quoted in *Venture Capital Basics: A Workbook*, Vancouver, Westcoast Development Group, 1991, p. 2.

²³*Ibid.*, Appendix 1.

²⁴Richard Szal, *ILO work in the area of micro and small-scale enterprise development*, Geneva, February 1992.

Lanka, and a new handloom weaving project is in the design phase. (The ILO subsequently used the CFC concept for some projects in Tanzania and Ghana.)

An ILO document outlines a proposed three-part framework for microenterprise development in developing countries.²⁵ The three parts are: (1) a policy cell at the central government level that undertakes research to develop policy initiatives to promote microenterprise activities; (2) a CFC and a Micro-enterprise Development and Coordination Committee (MEDCC) that act as a management committee for the CFC and link policy development to CFC operations; and (3) micro and informal sector entrepreneurs.

In this model, the CFC determines whether the existing services are sufficient to satisfy the needs of small producers and whether they can be strengthened and improved. If not, the CFC develops and makes the needed services available. The CFC also has specialized equipment for training or for rental to producers on a user-charge basis for the sector in which it operates. Other services that can be provided include training, technology, credit, marketing, raw materials procurement, etc.

The ILO's objective is to make the CFCs "as close to being self-financing as possible" by charging for services (feasibility studies, raw materials and equipment procurement, training, assistance in obtaining credit, marketing, quality control, follow-up and supervisory extension services and supply of information) as well as "selective commercial production." The ILO model also envisions each CFC having a mobile team to provide a link between the CFC and microentrepreneurs. The mobile teams are to identify and make contact with entrepreneurs, assess their problems and needs and refer them to the organizations (including the CFC) that can best help them.

“Cooperative” Version of the Common Facility Center Model

Some rural area employment promotion and enterprise development features of the Ohio ACEnet Flexible Manufacturing Network (discussed in Chapter 10) and the ILO-CFC models have been incorporated into a strategy to strengthen micro and small enterprises in developing countries, industrialized countries and Central and Eastern Europe. The CFC concepts have been recast into *Common Facility Cooperatives*.

The Common Facility Cooperatives are second-degree producer cooperatives organized in sectors and settings to enhance the operation and economic viability of artisan, handicraft and small manufacturing enterprises and provide needed assistance through training and advisory services, including linking producers with sources of inputs and information and with potential buyers and markets.²⁶

²⁵*Ibid.*, pp. 7–11.

²⁶For a fuller description of the common facilities co-operative see Gary B. Hansen, *Co-operative Entrepreneurship: An Innovative Approach to Generate Employment and Income in Rural and Informal Sectors*, Utah Centre for Productivity and Quality of Working Life, Utah State University, January 1993.

Franchising as a strategy for small business promotion

Franchising is an innovative entrepreneurial approach for business growth and expansion. It combines many of the advantages of a large business— economies of scale in purchasing, advertising and product development, experience and expertise—with some of the advantages of small-scale entrepreneurship—high-level of commitment and motivation, local contacts and knowledge.²⁷

The increased utilization of franchised business concepts reflects the advantages the system offers to both the franchiser and the franchisee. In franchising, the owner of a proven business system, the franchiser, grants an “entrepreneur” the right by contract to establish a similar business. In exchange for franchise fees and the obligation to adhere to strict quality standards, the franchisee acquires the right to use the franchiser’s trademark and receives marketing support, detailed manuals on how to operate the business, start-up assistance, staff training, equipment and raw material procurement and, often, technical assistance to resolve problems that may be encountered.²⁸

Franchised businesses account for a substantial proportion of the new retail businesses in the United States and, more recently, in Europe. Governments in some countries and regions have begun to include franchising in their strategies to promote entrepreneurship and small businesses, expand employment, and raise the overall level of business practice. Franchising shows considerable promise as a means to introduce new businesses into central and eastern Europe

Community integrated manufacturing companies (CIMCOM)

A community integrated manufacturing company is a non-profit, non-governmental organization (NGO) which is organized by a small group of business professionals, venture capitalists, and community leaders for the specific purpose of establishing and supporting small manufacturing enterprises in rural areas experiencing economic stagnation or declining agricultural activity and rising levels of unemployment. It is a jointly financed partnership between local governmental units and the private sector. The CIMCOM works with local government leaders to establish, on a turnkey basis, several new, small-scale production-oriented businesses in each target community. The objective of these new enterprises is to create good jobs and income for the residents in the community.

The CIMCOM hires a small professional staff who operate collectively as paid consultants to the local government during the planning stages, conducting studies, securing financing, and creating business plans, which when accepted, lead to subsequent stages of

²⁷*Ibid.*

²⁸“Franchising as a Strategy for SME Promotion,” *New Initiatives in Entrepreneurship Development*, Proceedings of the ICPE/ILO/INTAN Workshop (Kuala Lumpur, 19–22 August 1991), Geneva: ILO Management Development Branch, 1992, pp. 11– 13.

development eventually resulting in a business start-up. The final stage involves the establishment and operation of a new community-based manufacturing enterprise.

The new businesses spawned by a CIMCOM (called “production cells”) are staffed primarily by local residents (with professional managers sometimes drawn from the outside) and are housed either in home-based or community-owned facilities. Each new production unit is supported by an initial set of production contracts obtained by CIMCOM through its regional and national development work and contacts, and a small administrative staff. This staff, also provided by the CIMCOM (which is referred to as the “hub”), is shared by all the businesses involved in the local CIMCOM enterprise development project. It handles the functions of accounting, contract administration, purchasing, marketing, scheduling, quality control, etc. This arrangement permits the new businesses to focus exclusively on high quality, efficient production, while supported by competent administrative staff on a shared-cost basis.

Once the development stage is completed and a new business enterprise becomes fully operational, CIMCOM receives ongoing revenue to pay for its services through licensing and service fees. These fees are collected as a percentage of the revenue produced by each new business enterprise the CIMCOM helps create.

From the outset, CIMCOM is the primary owner of the new business enterprises. However, over time, as the enterprise achieves operational and financial stability, it is spun off as an independent business through the sale of the stock by CIMCOM, either through a management buyout, purchase by outside investors, purchase by the employees through an employee stock ownership plan (ESOP) or by conversion to a worker cooperative. However, CIMCOM may continue to hold a modest equity share in the enterprise and provide management assistance or other services if needed.

Appendix I Worker Cooperative Venture Selection Criteria Form

Venture Opportunities	Selection Criteria									
<p>Key</p> <p>o = venture does not satisfy the criterion</p> <p>s = venture strongly satisfies the criterion</p>										

Appendix II

Essential Elements of Business Planning

When a group of prospective group entrepreneurs approach the business center (or other technical assistance agency in the community) with a business idea, the center staff takes them through the entire venture development screening process. If a potential business idea is drawn from the business center's product bank, the group participates in updating the feasibility study and the preparation of the business plan.

The business plan is prepared by the designated manager/promoter and the prospective group entrepreneurs with the help of the center staff. It describes their business goals, how they plan to achieve them and establishes a specific time period for doing so. The business plan alerts the group to the things that are crucial for a successful worker cooperative business venture, forces them to think through what it is they want to accomplish and to make a number of important decisions before investing significant time and money.

In addition to the purposes identified above, the completed business plan serves: (1) as the funding document which the business loan fund, banks, and other lenders require to grant loans and other financing; and (2) as a blueprint for starting, expanding, and/or operating a worker cooperative business.

Collect data and define the business.

The proposed new worker cooperative business should be compared with the competition to evaluate its potential. This includes studying the industry the firm would be in, knowing exactly what product or service it would produce, what would make it competitive, and who the customers would be.

Analyze the data.

The preliminary analysis and assessment of the proposed worker cooperative business pinpoints any weaknesses in the proposal and indicates whether the proposed enterprise is likely to succeed. The analytical process includes a break-even analysis and a market analysis to determine the level of business needed to make a profit and whether the market would support the proposed product or service.

Decide on a strategy.

Once rough projections are made of what the proposed business could achieve, it is time to decide how to achieve them. The topics in this part of the plan could be grouped into four sections.

1. *a general marketing plan*, including issues such as location (if location is critical to marketing the product), sales and distribution, advertising and promotion, pricing, etc.
2. *a production plan*, including issues such as location and facilities, production methods and equipment, materials and sources of supply.
3. *an organization plan*, including the essential organization for a modern worker cooperative:

- ⇒ governance, participation, ownership and the individual capital accounts system;
 - ⇒ identification of the key personnel involved in the management and governance of the enterprise;
 - ⇒ the educational and training needs of the workforce;
 - ⇒ information about compensation and staffing--including the number of worker-owners and the functions to be performed; and
 - ⇒ information about the necessary supportive services and linkages.
4. *a schedule* explaining the major steps to be taken to start the WC business, when to take them, and how they interconnect.

Forecast the results.

Once the business plan decision-making process is completed, it is time to assess the implications of all the previous decisions in dollars. Normally, businesses measure their success on financial statements from the accounting system. For purposes of the business plan, results are projected in the form of pro forma financial statements because:

- they provide the type of information to estimate how well the business would do;
- the loan fund and financial institutions approached for money expect them; and
- they make it easy to compare plans to actual results once the business is started.

The financial section of the business plan for a new worker cooperative includes a set of projected financial statements for three to five years which estimate start-up costs, develop sales forecasts, provide profit and loss statements, and cash flow statements.

Financial statements prepared by businesses normally include:

1. *a balance sheet* summarizing the overall financial status of the business —what it owns or is owed (assets) and what it owes to others (liabilities), including what it owes to the owners (equity) at one point in time;
2. *an income statement* showing the total earned (profit) or lost (loss) in its operations and sales after subtracting the costs of operation over a period of time (e.g., a month or a year); and
3. *a cash flow statement* showing all sources of cash (including cash sales and collections on credit sales, loan proceeds received, capital invested by owners, and proceeds from the sale of assets) and how the cash is spent (paying for shipments of inventory or supplies, paying wages and bills, buying equipment, making loan payments, and dividends or withdrawals for owners).

Compile the Plan.

The last step in the business planning process is to write and compile the formal WC business plan which is used as a financing tool and a blueprint to start the new business. The business plan should be written, organized, printed, and bound to present the strongest case for the enterprise and its WC organizers, both in terms of what the plan contains and the way it is presented. Because it is written partly for outsiders, such as bankers, to convince them to loan money to the enterprise, it provides background and other information to demonstrate the soundness of the venture.

Normally, a formal business plan contains five parts:

1. title page
2. table of contents,
3. executive summary,
4. main body divided into sections describing the various components of the business idea in considerable detail, and
5. supporting documentation, including the pro forma financial statements covering the first three to five years of projected operations.

