



# GRASSROOTS ECONOMIC ORGANIZING

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## WORKER COOPERATIVE DEVELOPMENT MODELS

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**SPECIAL PRINTING FOR GEO'S MINI-CONFERENCE:**

**"ADVANCING THE DEVELOPMENT OF WORKER COOPERATIVES"**

**EASTERN CONFERENCE ON WORKPLACE DEMOCRACY, JULY 8, 2011**

# INTRODUCTION

JESSICA GORDON NEMBHARD

WITH AJOWA NZINGA IFATEYO, JIM JOHNSON AND LEN KRIMERMAN



Jessica Gordon Nembhard is a political economist and Associate Professor of Community Justice and Social Economic Development in the Africana Studies Department at John Jay College, City University of NY. She is also a member of the GEO Collective, the US Federation of Worker Cooperatives, the Eastern Conference for Workplace Democracy, and the US Solidarity Economy Network; and a member of the Leadership Team of Organizing Neighborhood Equity (ONE) DC (a community organizing CDC)

Grassroots Economic Organizing Newsletter (GEO) is involved in an exciting new project. GEO has organized an online forum—the **Worker Co-op Development Forum** – that has been exchanging ideas over the past three months about worker co-op development models. These exchanges have begun to identify best practices in the U.S., and the strengths and challenges of diverse models, especially as to who is served by and who controls the development process. We also invited short articles highlighting models and addressing questions about worker co-op development that have been published in this special issue of GEO. The economic times are ripe for spreading democratic business models, especially worker co-operatives. We are seizing the moment.

We asked forum participants to describe their development model, and to answer such questions as:

- Who initiates the development?
- What are the primary goals?
- Who funds the work?
- What are the keys to actually developing a worker-ownership culture?
- What is unique or novel about your strategy?
- How do you know if you are succeeding?

The articles in this issue provide answers to many of these questions from the perspective of specific, and contrasting, worker cooperative development strategies. The first article, by GEO editors, “**Development Models and Approaches,**” summarizes GEO’s understanding of the variety of models and strategies that exist for developing worker cooperatives in the U.S. We have constructed a preliminary table to illustrate the variety of models and their major components. We also include quotes from the online forum responses. We end the piece with a selected list of articles about worker co-op development from GEO’s archives. The remaining articles cover efforts, mostly on the East Coast, to support employee rights, provide more effective job training (through business ownership) and higher quality employment, and to address poverty.

The second article, “**Legal Entity Options for Worker Cooperatives,**” by Edward W. De Barbieri & Brian Glick, is excerpted from a forthcoming legal guide on forming worker cooperatives developed by Urban Justice Center, National Employment Law Project, and Fordham University School of Law Community Economic Development Clinic. Ted and Brian describe two major legal structures, the LLC and the worker cooperative corporation, for constituting worker cooperatives, and compare and contrast the two.

Third, we highlight the “**Arizmendi Association Cooperative Development Model,**” in an article contributed by Joe Marraffino. Joe provides specific details about how the worker-co-op led Arizmendi Association development model in the Bay Area works. (Joe previously contributed an article on the Arizmendi replication model in GEO Newsletter Vol 2, Issue #3.)

The next article, by Vanessa Bransburg, describes how the Center for Family Life in Brooklyn, got into the business of helping low-income immigrants in their

neighborhood develop worker cooperatives. **“The Center for Family Life: Tackling Poverty and Social Isolation in Brooklyn with Worker Cooperatives”** describes the process the Center went through to find alternatives to the traditional job readiness model it had used for 20 years.

The fifth article on **“The Connecticut Cooperative Business Academy Pilot Project,”** submitted by the CCBA Steering Committee, describes a unique new initiative to develop co-ops which address rural poverty in Connecticut through both a structured eight month program and the creation of a peer support network. **“Labor Unions And Worker Co-Op Development”** by Mary Hoyer, Liz Ryder, Frank Adams, John Curl, and Deb Groban Olson of the USFWC UnionCo-ops Committee, is a short piece reminding us of the role unions have played throughout history in creating and supporting worker cooperatives.

Adam Trott’s article, **“The Valley Alliance of Worker Co-operatives Development Model: Questions and Working Solutions,”** describes VAWC’s principles for developing worker cooperatives through a series of questions about worker control over worker co-op development. Adam challenges the readers to focus on ways to develop a strong ownership culture in worker cooperatives, through development projects designed and funded by other worker owners.

Roy Messing, of Ohio Employee Ownership Center (OEOC), describes using worker co-op development in succession planning in **“Transitioning a Private Business to Worker Cooperatives – A Viable Community Development Tool.”** Roy emphasizes the laws that support such transitions and the ways worker co-ops contribute to community development.

There was much discussion over the online forum of new developments at WAGES. We asked outgoing Executive Director Hilary Abell and her staff to reply to a set of questions about their model and their recent exploration with corporate sponsorships. We reproduce Hilary’s responses in **“WAGES Model and the Value of Partnerships.”**

Last but equally provocative, Margaret Bau challenges us to rethink the viability of worker ownership alone as a strategy to increase the quality of home care jobs and services, in **“Worker Co-ops in Long Term Care.”** In a surprising and thoughtful exploration of what is often pegged “women’s work,” Margaret suggests that long term home care and nursing worker co-ops can be strengthened by creating multi-stakeholder cooperatives instead - given all the challenges of establishing living wages and permanent jobs in this industry.

Readers, you see what a rich, thought provoking, and exciting special (and double) issue this is! We have a total of ten articles, and this is just the tip of the iceberg on this subject. GEO will hold a one-day mini-conference – **“Advancing the Development of Worker Cooperatives”** - during the Eastern Conference for Workplace Democracy in Baltimore, on July 8, 2011, to continue these discussions with a limited number of worker co-op developers involved in our online forum. We plan to publish proceedings from the discussions during the conference, so that we can continue to share this exciting dialogue with our readers. The conference addresses many of the questions raised during the online forum and in this issue; and will focus on ways to understand and evaluate the successes of worker cooperative development strategies.

Thanks to all of you who have participated already, and to those who will participate.

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Front Cover Image: Arizmendi Bakery on Valencia Street during construction

# WORKER COOPERATIVE DEVELOPMENT MODELS AND APPROACHES: A BRIEF OVERVIEW

JESSICA GORDON NEMBARD, MICHAEL JOHNSON,  
JIM JOHNSON, LEN KRIMERMAN, AND AJOWA NZINGA IFATEYO

In the sidebar we provide some quotes from people who have contributed to our online forum in early 2011. We hope that this discussion of worker cooperative development will not only continue at our conference in Baltimore, but also on our website. Let us honestly and thoroughly discuss these issues in constructive and supportive ways.

*“If there are cooperatives that require resources in places that have very little, (and I am only referring to financial capital) is there a way of attracting large amounts of funding without subverting democracy in the coop? Especially if the cooperative is initiated by well intentioned outsiders and the money is coming from external sources. So, can future co-op members not participate in the planning stages but be integrated in the decision making process later on? For example, can a developer compensate for members’ lack of participation in the initial planning /start up of the business by doing things like member driven leadership training (the developer provide the skeleton of the material, but the members provide the meat and direction of the training), or ensuring there is a strong communication channel between the members and the funders/developers or whoever the initiators are? Or is there no compromise in this case?”*

Ashley Hernandez,  
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The GEO Collective recognizes a great deal of untapped potential for collaboration and solidarity between organizations using different models to develop worker co-ops. Not only has interest in the development of worker cooperatives increased over the past couple of years in particular, but so has discussion about what are the best models to use and for whom. We hope to contribute to this dialogue by describing (and categorizing) some of the major models in use, and briefly discussing their strengths and weaknesses. We hope that our readers, and members of the forum and July 8 conference on “Advancing Worker Cooperative Development” (ADWC), will come out with a clearer understanding of the variety of models used to develop worker co-ops, their major components and assumptions behind them. We hope that the conversations and dialogues that are inspired from our summary and the other articles in this issue, and that occur through the ADWC forum and conference, will help us all to gain more clarity about the benefits, advantages, basic accomplishments, limitations and challenges of their particular approaches to worker cooperative development. It is also important to know what is gained and what is given up when certain models or types of approaches are chosen.

Behind all of this is a desire to contribute to developing worker cooperatives that:

- Are accessible to all populations regardless of race, gender, class, etc.;
- Are fiscally-sustainable;
- Are democratically-governed;
- Exhibit organizational self-reliance;
- Engage with other worker co-ops and start-up efforts; and
- Develop an authentic, organic ownership culture among the worker owners.

The ways to measure effectiveness can be connected to existing co-op principles such as the International Cooperative Alliance’s seven co-operative principles and co-op values, the ten Mondragon principles and corporate values, the Madison Principles, and the Cooperative Index’s eight principles.

What do we mean by “models of worker co-op development”? We mean identifying and categorizing development strategies according to elements about how and why, by whom a co-op was initiated, original ownership culture and funding sources. Established approaches for starting worker co-ops include self-organized groups, worker co-op-led efforts, federation support, retiring founders selling to employees, non-profit/community economic development incubators, union initiated, worker buyouts of closing factories/recovered businesses, and government-initiated. Key allies for those starting worker co-ops may be other co-ops, cooperative development centers, employee ownership centers, federations, trade associations, advocacy organizations, loan funds, community development credit unions, foundations. We can categorize worker co-op development models along those dimensions.



## EASTERN CONFERENCE FOR WORKPLACE DEMOCRACY CONNECTING OUR WORKPLACES: BUILDING COOPERATIVE ECONOMIES

University of Maryland Baltimore County  
July 8-10, 2011

The 2011 Eastern Conference for Workplace Democracy will bring together representatives of worker cooperatives, ESOP's, and other cooperatively-run organizations to strengthen the network of democratic workplaces in the Eastern United States.

## Worker Co-op Development Categories by Origination

### Initiation

#### A. Bottom Up – self initiated by:

- i. Community of interest (people with existing connection, church members, union, workplace, solidarity group)
- ii. Charismatic Leader (founder or organizer catalyzes a group of people)
- iii. Original Owner Succession or Conversion (Government supported – tax incentives)
- iv. Existing Worker Co-op or Co-op initiates and supports new or branch/franchise
- v. Union initiates or supports (to help members or satisfy a grievance)

#### B. Top Down – initiated by:

- i. Cooperative Development Agency
  - a. government supported
  - b. university supported
  - c. loan fund supported
  - d. co-op supported
- ii. Not-for-profit community organization or community development corporation or incubator; social service center
  - a. Government supported
  - b. Foundation grant support

### Precipitation/Motivation

- A. Tipping point (union activity successful and not enough or unsuccessful; high unemployment and/or poverty; market failure, lack of goods or services)
- B. Community development and social mission
- C. Management dispute, more shop floor control wanted, worker dissatisfaction

### Capitalization

#### A. Bottom Up

- i. Self-financed – equity drive, loans from members
- ii. Worker Co-op Funds – from surplus set aside for development
- iii. Co-op Community revolving loan funds

#### B. Top down

- i. Credit Union loans and development funds
- ii. Social Investment loans, under market-rate loans, grants
- iii. Grants – Foundation or government or both
- iv. Bank Loans

*“The Evergreen Cooperative Corporation (ECC), is a nonprofit holding company with a multi-stakeholder board, including representatives from existing worker-owned co-ops, foundations (funders), city government, and buyers (anchor institutions). Actual development involves a development team that includes the Democracy Collaborative (nonprofit developer), the Ohio Employee Ownership Center, Cleveland Foundation program officers, business experts, and anchor institution (university and hospital) representatives. (There is a more detailed vetting process, but this gives you an outline).*

*The primary goals are to*

- 1) Stabilize the low-income (area median income is \$18,500) neighborhoods in East Cleveland neighborhoods (“Greater University Circle).
- 2) Build wealth for individuals and the community..
- 3) Create jobs and ownership for community members in an “employment desert.”
- 4) Have a favorable environmental impact.
- 5) Redirect the purchasing stream of area institutions so that they bring needed resources into low-income communities.”

Steve Dubb  
The Democracy Collaborative  
sgdubb@yahoo.com

## MODELS, CONTINUED FROM PREVIOUS PAGE

*“It might be cool to have a survey of worker co-ops to see exactly how their original funding got put together. Most businesses in America are considered small business (like most worker co-ops), and almost all of these were initially funded by the equity of the new owners. To me, taking things to scale will include taking the worker-owned business model to SBA and SBDCs and Chambers of Commerce and Community Colleges around the country.”*

Erin Rice  
Baton Rouge Community College  
erinjrce@gmail.com

Answers to the following types of questions help to identify or understand how a co-op fits into any of these models:

- Who initiates the development effort?
- What are the values that they (developers or founders) bring to the development effort (consciously and unconsciously)?
- What is the ownership model at start-up? In the long run? Is ownership an important initial component?
- What is the management/workplace culture model at start-up? In the long run? Is creating a worker-owner culture considered secondary or only important after establishing tight, break even operations; or is it viewed as a start-up advantage and essential from the beginning?
- How long does it take for full ownership culture/long-term self-determination to take hold? Does this ever fail to happen? If so, why?
- What are the keys to actually developing a worker-ownership culture?
- What are the development missions: economic development and job creation through worker co-ops, or creating high quality jobs, democratic workplaces, and ownership culture.

These are by no means simple, uni-dimensional relationships, and answering the above questions can reveal important complexities. We have already noted tensions between “bottom up” and “outside agency/top down” approaches to worker cooperative development. It will be important to discuss these more fully. Some of the sponsor-initiated cases might well have different missions than the “pure” worker co-op-initiated efforts, but nonetheless support the worker co-op mission, or include it as part of their mission. “Different” does not have to mean conflicting, however. This is important to recognize. Also, some “bottom-up-initiated” cases might have no other goal than the well-being of a single enterprise, owned by its members, rather than also seeking to provide opportunities and resources for developing a cooperative economy accessible to all, or even all in a given region or sector, who need high quality employment. So who initiates does not always answer the question of whether or not the development is part of a larger workplace democracy and cooperative commonwealth movement. We are therefore not satisfied with the taxonomy we have developed, but offer it as a starting point for understanding worker co-op development models.

How worker co-op efforts get initiated		Who and how assistance is delivered	
Bottom-up	Examples:	Worker co-op funded and directed	Examples:
Self-organized	Isthmus Engineering Lusty Ladies	Worker co-op initiated/ worker co-op mission	Arizmendi Valley Alliance of Worker Co-ops DAWN
Conversion	Little Grille restaurant Rainbow Grocery	Service by request	Valley Green Feast
Worker buy-out	Select Machines	Individual co-op fulfilling its own mission – Branches/Franchise/Replication	Collective Copies ChildSpace Cooperative Home Care Associates
<b>Sponsored from Outside</b>		<b>Sponsored/Outside Funding</b>	
Because of social mission	WAGES Evergreen Coop Home Care Assoc	Non-profit incubator to fulfill its mission; or social services agency	WAGES Center for Family Life Evergreen Green Worker
Government	WI/USDA Cooperative Care Other US Department of Agriculture Quebec government Puerto Rico government	Non-profit service to fulfill its mission	Cooperation Works! Keystone Development Cooperative Development Institute CA Co-op Development Center
Union	APR Masonry Arts Solidarity Co-op Association	University Centers	U of Wisconsin Center for Co-ops UC Davis Center for Co-ops

# LEGAL ENTITY OPTIONS FOR WORKER COOPERATIVES

EDWARD W. DE BARBIERI AND BRIAN GLICK

## Introduction to the Project

We are preparing a legal guide to worker co-ops in response to requests from worker centers and community-based organizations in predominantly low-wage, immigrant communities. The Guide is being developed by Urban Justice Center, National Employment Law Project, and Fordham University School of Law Community Economic Development Clinic. Our offices represent low-wage workers and have developed expertise concerning worker co-ops in low-wage immigrant neighborhoods mostly in New York City.

The Guide will profile successful and struggling worker co-ops striving to bring increased income, dignity, and control over working conditions to low-wage, vulnerable, and immigrant workers. In addition, the Guide will analyze important considerations to evaluate when forming a worker co-op. It will include extensive annotated resource bibliographies. We excerpt here the section of the Guide addressing legal entity options for worker co-op formation.

We welcome comments, questions or suggestions about this section and our larger project. This section is a work in progress based on our New York experience plus initial research and discussion regarding other parts of the country. Please tell us more about law and practice in your area. Email feedback to [edebarbieri@urbanjustice.org](mailto:edebarbieri@urbanjustice.org).

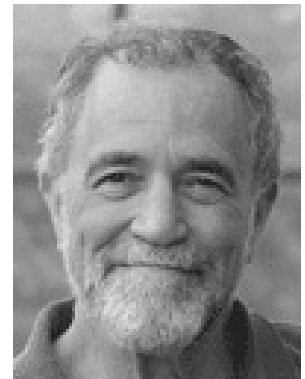
## Introduction to Legal Entity Options for Worker Co-ops

Each state's laws provide for certain general forms of legal entity, and some states offer additional options. Each entity form imposes requirements on the organization structure, responsibilities of the members to each other, to the cooperative and to the outside world. Factors to consider in determining whether to form a legal entity, at what stage to form it, and which entity structure is most appropriate include: (1) the type of industry (2) sources of capital and finance and how much control individuals or entities providing capital require; (3) structural flexibility, especially if a nonprofit organization wants to retain a role in governing a worker co-op that it formed and incubated; (4) tax consequences; (5) immigration law consequences; (6) how important it is to use the words "cooperative" or "co-op" in the entity's legal name; and (7) the group's capacity to comply with tax and other filing requirements imposed on various types of legal entities; and (8) any other state specific considerations that might arise. Until a worker co-op forms a legal entity, every worker owner will be personally liable for any co-op debt or obligation, and individual worker owners' personal signatures will be required for contracts, bank accounts, etc. So it is generally safer and more efficient for a worker co-op to form itself as a legal entity as it begins to engage in substantial business.

Depending on the laws of the state, or states, where the cooperative is operating, more or fewer options may be available. This section discusses two major types of legal entity options that are available to worker co-ops: the Limited Liability Company (LLC) and the Worker Cooperative Corporation. For each type of entity we



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Brian Glick is a lawyer, teacher, writer and activist who founded Fordham Law School's Community Economic Development Clinic after 16 years as a legal services community development attorney in Brooklyn, NY. The CED Clinic provides transactional representation (non-litigation business lawyering) to nonprofit and co-op groups fighting for social justice in low-income communities and low-wage workforces.

*This article is provided strictly for informational purposes. Should you have specific questions about the particular laws in your state, please consult an attorney admitted to practice in your jurisdiction. Although the section briefly identifies some tax implications of various legal structures, it in no way intends to provide tax advice; for specific tax concerns please contact a professional tax adviser familiar with cooperatives. Each legal structure has implications for various workplace laws; those legal issues are outside the scope of this article and we recommend consulting with an expert.*

### Limited Liability

The concept of limited liability means that the personal liability of an individual involved in a legal entity (for debts, obligations, damages, etc.) is limited to the amount of money that individual invested in the entity. For instance, if each member of an organization with limited liability contributes \$500, and the organization is unsuccessful, each member only loses her \$500. She cannot be held responsible for any additional debts the LLC incurs.

*This Guide would not be possible without Sarah Leberstein, Staff Attorney at National Employment Law Project, Gowri J. Krishna, Clinical Teaching Fellow at Fordham University School of Law, who both contributed to early drafts of this article, and numerous Fordham law students.*

discuss its governance structure, form of payment to workers and tax treatment. In the full Guide we will also discuss a third option, the general Business Corporation. We would appreciate learning about the experience of worker co-ops and their attorneys that have used this option (or any other option we may have overlooked).

### Limited Liability Company (LLC)

This is a relatively new form, introduced throughout the U.S. in the early 1990s. State registration and filing requirements for LLCs are usually minimal in comparison with the requirements imposed on corporations. The LLC provides the benefits of limited liability similar to a corporation, while providing favorable tax treatment.

Worker Coops in many states, including Massachusetts, California, and New York, have used the LLC to form successful worker co-op ventures. LLCs use a system of internal capital accounts which can be readily adapted to establish a patronage and accounting system that follows the traditional model established by the Mondragon co-ops in northeastern Spain. Some states that have special co-op corporation laws do not allow an LLC to use “co-op” or “cooperative” in its official legal name even though the LLC is organized and operated according to co-op principles.

### LLC: Governance

The laws allow great flexibility in the governance structure of an LLC. Workers and others can form an LLC by filing simple Articles of Organization with the state government and creating and signing an “Operating Agreement” which determines the co-op’s governance and financial arrangements. The operating agreement is a contract among the members of the LLC, including worker-owners and any investors or incubating and sponsoring groups that will be part of the co-op. There are no legal limits on which individuals or types of organizations can be LLC members.

Decision making can be set up in any way the members want. They can create a board of directors, or all members can make decisions together. It is important to clarify who can act on behalf of the LLC. If there is no board, and all members make decisions as a group, each member has the legal power to bind the entity unless expressly restricted in the LLC Operating Agreement.

In an LLC there is no legal requirement that voting power be linked to capital investment, profit share or any other financial factor. For example, investors can be re-paid through a large initial share of profits while worker-owners hold a majority of seats on the board of directors. Or an incubating group which takes no profit share could have a board seat and veto powers to make sure the co-op remains cooperative and serves the broader community and the goals which led the incubator group to help form the co-op.

### LLC: Distribution of Income to Worker-Owners

In some LLC worker co-ops, the worker-owner members are paid wages and benefits as employees and also receive a share of profits as co-owners. Alternatively, some LLC worker co-ops have found it advantageous to have no employees. Worker-owners are co-owners only. They receive only a share of profits, no wages. The LLC gives each worker-owner a weekly or bi-weekly advance against projected annual net profits, adjusted at the end of the fiscal year. (In an LLC worker owners are not protected by workplace laws that cover “employees,” such as wage and hour laws, unemployment insurance, and workers compensation. Also, the LLC does not



withhold and remit income taxes from the worker's pay, as an employer does, and the worker is responsible for paying the full amount of social security and Medicare taxes, which are shared evenly by an employer and employee in a traditional employment relationship.)

## **LLC: Tax Treatment**

An LLC does not pay income tax as an entity. Each LLC member owes income tax on her share of the co-op's net income (after expenses). The member owes income tax on her full share, even if only part of that share is distributed to her and the rest is kept in the business. In California each LLC must also pay a state franchise tax of \$800 per year.

## **Worker Cooperative Corporation**

Several states, mainly in the Northeast, have adopted legislation designed specifically for worker co-ops. In other states, workers who want to form a worker co-op as a corporation instead of an LLC are left to organize under their state's general co-op corporation law or business corporation law. Here we discuss worker co-op laws. In our full Guide, we will also address how worker co-ops can form under a business corporation law, using carefully drafted bylaws and shareholder agreements. Use of nonprofit general co-op corporation laws for marketing referral worker co-ops is discussed in the sidebar on this page. .

Worker co-op corporation laws require adherence to basic cooperative principles, such as equal voting independent of capital invested. Each worker owner purchases a single share (by lump sum payment, a loan which is paid off over time, or through her labor – sometimes called “sweat equity”). Worker co-op corporation laws permit internal capital accounting and distribution of earnings based on patronage (hours worked or wages earned). They require the use of the word “cooperative” or “co-op” in the corporation's legal name.

## **Worker Cooperative Corporation: Governance**

Each worker owner owns and votes a single share. Shareholders elect a Board of Directors which may hire managers accountable to the Board. No non-worker can hold a voting share. In order to raise capital, some worker co-op corporations issue shares with no voting rights (except over changes in the treatment of those non-voting shares). These “preferred shares” have priority in dividend payments but receive only a fixed rate of return. This finance system is consistent with cooperative principles since governance remains based on one voting share per worker owner.

## **Worker Cooperative Corporation: Distribution of Income to Worker-Owners**

Worker-owners are generally paid wages as employees and, in addition, some corporate income is distributed to each worker as a dividend based on patronage. Un-distributed corporate earnings are added to each worker's internal capital account (in proportion to patronage) and any losses are deducted from those accounts. To raise money to invest in new equipment or other capital expenditures, the co-op can borrow from internal capital accounts instead of taking out a loan and paying a high rate of interest. (Worker co-op corporation laws also allow retention of some earnings in a collective internal account to be used for capital expenditures.)

## **Marketing & Referral Worker Co-op Models**

Workers involved in service industries, such as cleaning, childcare, or other maintenance or domestic work, may form nonprofit marketing and referral cooperatives to support their work. In this kind of arrangement, the cooperative functions as a means for members to pool their resources for marketing the services that each member provides individually. The cooperative could also provide support and training to members. Since such cooperatives are not designed to earn and distribute profits, they may form as non-profit corporations under a state's general cooperative corporation laws. These types of co-ops are formed and governed like other non-profit corporations.

Marketing and referral cooperatives are taxed as corporations. While ineligible for tax exemption under Section 501(c)(3) of the Internal Revenue Code (since their activities are not exclusively charitable and educational), they might qualify under Sections 501(c)(4) or 501(c)(6), which protect co-op income from federal income tax but do not allow donors to take tax deductions for their contributions.

# THE ARIZMENDI ASSOCIATION DEVELOPMENT MODEL

## JOE MARRAFFINO



Joe Marraffino has worked in and organized cooperative businesses since 2003. He co-owned Arizmendi Bakery in San Francisco, a frequent winner of the city's "best bakery" awards, and became a technical assistance provider in 2007 with the Arizmendi Association of Cooperatives. In 2010 He co-organized the launch of two new bakery cooperatives in San Rafael and San Francisco. Joe has served on boards of regional and state-wide cooperative networks, and a member of the national Democracy at Work Network of peer advisors.

The Arizmendi Association of Cooperatives' development effort began in the 1990s and has started five new bakery cooperatives creating around 100 new democratic jobs. The businesses have generally been successful financially after a short startup period and two of them are now over ten years old, with very low worker turnover, high quality reputation, and close community connections.

The development method emphasizes attaining a baseline of business success as a foundation from which other social goals may be pursued. Inspirations for the model came from two sources: the Mondragon cooperatives, which gained financial security from their networked business development and continued technical assistance, and the American franchise system, which benefits from a wide market presence and shared administrative support. Because the workers in the stores govern the central administration, the analogy of an "upside-down franchise" has sometimes been used.

The organization's broad mission includes two items that specifically outline aspects of the model:

- Develop as many dignified, decently paid (living "wage" or better) work opportunities as possible through the development of new cooperatives
- Provide continuing technical, educational and organizational support and services to member cooperatives

### Characteristics

The Arizmendi development model can be characterized with four structural aspects:

1. A replication strategy. The Association creates new businesses based on a successful cooperative in a nearby market, and benefits from an existing market reputation. Each replication amplifies this shared market presence, but is independently owned by workers, decentralizing decision-making, and innovation, to smaller groups.
2. Self-financing. New cooperatives are financed by debt and by the other member cooperatives, who contribute a percentage of their net income toward replication and toward organizational support. The Association has not used philanthropic money to support its effort.
3. Ongoing technical assistance. Member cooperatives receive intense technical assistance during their startup but also continue to receive technical support for their extent of their membership in the Association. This support is primarily for financial, educational, and legal support and primarily from the Association's staff cooperative.
4. Decentralized governance. Member cooperatives elect the board of directors that governs the use of their contributed fees. The board makes policy that would affect their shared reputation or interests, but does not interfere in everyday policies of the bakeries, allowing each to develop with the local desires and knowledge of the workers at that store.

### History

The original template business, the Cheese Board Collective, was founded in 1967. In 1995 the Cheese Board funded the Association's part-time staff cooperative. New businesses, all named "Arizmendi" opened in 1997, 2000, 2003, and two in 2010. The businesses have taken between 1 and 3 years to be profitable and have resulted in the creation of roughly 100 new democratic jobs (not including the Cheese Board's workers). During this time contributed fees from the businesses grew quite slowly. The full-time equivalent (FTE) capacity of the staff cooperative has ascended to 1 worker during a non-development year, requiring staff to maintain other part-time work. Surplus contributed fees are saved until there are enough to engage in a new development. During a development phase the FTE rises to around 8. Only after several new member cooperatives have been created and reached maturity are fees beginning to allow for an increased

development pace – contributions in 2010 were as much as in the first seven years put together.

## Choice of business entity

The Association chose to develop bakeries for several reasons, many of them oriented toward ensuring business success to lay the foundation for continued development efforts. High among reasons was the availability of a successful bakery cooperative to use as a template, and the positive customer reputation that would accompany it. The organizers also recognized a customer service advantage in proud owners having high retail exposure to their customers. The choice of entity was in harmony with a steadily growing market for healthy, locally made food. One of the founding organizers was also a member of the Cheese Board, and brought with him technical expertise and familiarity with that business which was an important resource.



James Clarke, a veteran baker from Arizmendi 9th Avenue, trains Sandy Guevara and Max Perez, both founders of Arizmendi Valencia Street. James and several others worked in the new store for the opening six months to train and transition ownership to the new workers.

## Funding history

A new bakery development in 2010 cost approximately \$700,000, including site construction, training, and reserves. This number has increased significantly since 1997, partially because the construction industry has gotten more expensively regulated, but largely because each new cooperative is viewed by customers compared to our existing members. They must therefore start with a similarly robust kitchen on opening day instead of incrementally acquiring equipment as the early stores did in order to meet customer expectation. Initial capitalization for the first Arizmendi came from unsecured five-year loans from community members. The National Cooperative Bank aggregated and refinanced those loans and also financed the second Arizmendi. The third Arizmendi was financed by the City of Emeryville as an incentive to locate there. The fourth and fifth Arizmendis were financed by OnePacificCoast Bank, a community

development financial institution. Loans for the bakeries tend to be structured as interest-only for the first year and then five years of principal repayment. The Association has covered the costs of different aspects of development over time. Most recently, the Association paid for five weeks of new worker training, and added cash equity to the project to reduce the loan amount.

## Target demographics for membership

The Association's approach to recruiting has been to aim for a high percentage of baking (or food) professionals and neighborhood residents as the founding membership of the cooperative, both of which are expected to aid business success. The development team works to establish relationships with local groups in order to contribute to the applicant pool.

Once the development phase is complete, the workers run their own hiring and define their own membership priorities.

## Challenges

The model has had a slow growth curve. For many years only one member cooperative was contributing significant resources and the Association staff cooperative still can only afford to work part-time. It has relied on a great deal of flexibility among bakers within our member cooperatives to become trainers for several months during development phases. Now with six member cooperatives and over 150 workers (including Cheese Board workers), the Association still operates with a level of austerity that does not allow for much expansion of services, geography, or alternative development ideas.

## Strengths

The replicated businesses have been successful so far, and not only survive but have been awarded for high quality goods are considered anchor community institutions. Workers at the mature bakeries make twice the wage they would as bakers elsewhere and have generous benefits. The model has been very resource efficient, relying on self-financing and debt in ways that have reinforced cautious business practices and incentivized success.

## LEGAL OPTIONS, CONTINUED FROM PAGE 9

Internal capital accounts are paid out to worker owners every few years, with modest interest. For the complete Guide, we plan to look into whether a worker co-op corporation can, like an LLC, be set up so that the workers are not employees, but only owners who receive in place of wages a weekly or bi-weekly advance against projected patronage dividends.

### Worker Cooperative Corporation: Tax Treatment

Worker cooperative corporations can manage their tax liability at the corporate level by carefully following Subchapter T of the Internal Revenue Code. Under this subchapter, patronage dividends are exempt from federal corporate income tax. Only the individual worker pays tax on patronage dividends. Note, however, that Subchapter T restricts the deductibility of patronage dividends on the basis of the time that distributions are made, in what form distributions are made, how distributions are allocated among member-patrons, and limits on the source of income. (Autry & Hall, p. 90.)

### Summary

The Table below summarizes the major differences between the Limited Liability Company and the Worker Cooperative Corporation structures for worker cooperatives.

	LLC	Worker Cooperative Corporation
<b>Governance</b>	Flexible operating agreement may separate voting rights from capital investment. Investors or incubating nonprofits may have voting rights. May or may not elect Board of Directors.	Each worker owner purchases one voting share. No voting shares to non-workers. Voting shares elect Board of Directors.
<b>Distribution of Income to Worker-Owners</b>	Worker owners may receive wages and a share of earnings, or only a share of earnings, with weekly advances against projected earnings.	Worker owners generally paid wages and a share of profits in proportion to hours worked or wages earned. Undistributed profit share kept in internal capital accounts.
<b>Taxes</b>	No federal tax on company earnings. Each worker owner liable for tax on her share of annual earnings, whether or not distributed	Pays federal corporate income tax except on qualified patronage dividends to worker-owners. Worker-owners taxed on dividends received.

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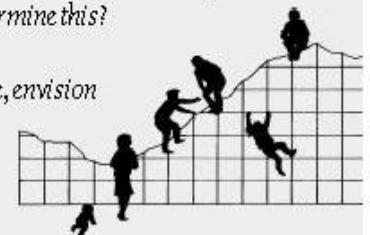
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# THE CENTER FOR FAMILY LIFE: TACKLING POVERTY AND SOCIAL ISOLATION IN BROOKLYN WITH WORKER COOPERATIVES

VANESSA BRANSBURG

Sunset Park is a diverse, densely populated, low-income neighborhood in south Brooklyn. For decades, this community has been a first destination for waves of new immigrants from around the world. Almost half -- 45% -- of community residents were born outside the United States, coming to New York from Puerto Rico and the Dominican Republic, Central and South America, China, the Middle East and Europe. Seventy two percent of them speak a language at home other than English. For many Sunset Park immigrants overcoming a triangle of limitations -- limited literacy in English, limited education and limited work history outside of agriculture or trade -- makes it very challenging to get jobs that pay a decent wage.

The Center for Family Life is a neighborhood-based social service organization in Sunset Park, first established in 1978. Today, our comprehensive programs in counseling, employment, education, the arts and recreation engage more than 13,000 children and adults each year at seven community locations in Sunset Park. Twenty three percent of Sunset Park residents and a third of neighborhood children live in poverty. For over 20 years, the CFL's Adult Employment Program has been providing community residents with job readiness by helping them update their resumes, teaching job search techniques, preparing clients for interviews, enhancing computer skills, providing English as a Second Language classes, and securing interviews with potential employers.

Over the last five to seven years the CFL staff began to confront the hard fact that there were many people seeking employment assistance that we were unable to enroll in our program because they didn't meet program requirements. Many of these residents had limited English language skills; most were low-skilled workers; few had computer skills; and many were working through their immigration situation. A large amount of these low-skilled workers were employed in textile factories, provide domestic services, or worked in restaurants.

## Immigrant-run, Worker-owned Cooperatives Provide a Solution

Confronted with all of these issues, the CFL staff began to research alternatives to the traditional job readiness model that CFL had been utilizing for over 20 years. While researching, one of the social workers came across examples of immigrant-run, worker-owned cooperatives -- in California through Women's Action to Gain Economic Security (WAGES), through UNITY Housecleaners Cooperative in Long Island, and Las Senoras of St. Mary in Staten Island. These businesses were an enormous inspiration and motivation for us. We then approached the unemployed and underemployed women who had been participating in ESOL classes and receiving family counseling at CFL and proposed the cooperative model as a means to creating meaningful and living wage jobs. Most of the women excitedly agreed.

CFL staffers launched a 12-week training for them, creating a curriculum based on previous observations, research, and CFL's previous organizing experience to take the



Vanessa Bransburg, LMSW, has been the Cooperative Coordinator at the Center for Family Life in Brooklyn, NY for the past three years. She provides incubation support and consultation to three Sunset Park Worker-Owner Cooperatives and one Collective as well as other evolving cooperatives around NYC. Vanessa has also been a leader in the development of the NYC Network of Worker Cooperatives ("Nick Nock") since its inception in December 2009.

## CENTER FOR FAMILY LIFE, CONTINUED FROM PREVIOUS PAGE

women from being workers in a business to being owners of a business.

The commitment, drive and enthusiasm that the women expressed as we began to discuss the prospects of creating a cleaning cooperative sparked a long-term commitment for CFL to invest in a cooperative development program. Staff members from various CFL programs were assigned to co-op work since at that time there wasn't a particular person dedicated solely to the co-op program. One of the challenges that CFL's new co-op program staff faced was getting the Adult Education Program staff on board with supporting the cooperative by answering client calls and managing their coop work schedules. Some of the adult education staff had never heard of a cooperative and expressed doubt about its potential successes and usefulness for generating income. However, for the immigrant women developing the cooperative business, cooperatives were not a new concept. In their countries of origin, the women had either participated in one or at least had heard of credit unions, manufacturing co-ops, or some cooperative enterprise.

During the 12-week training some women left the cooperative because they realized being a business owner was not for them, or because they felt that the process of creating the cooperative was taking too long, and they need to generate income more rapidly.

Initial challenges notwithstanding, Si Se Puede! (Yes We Can!) Cleaning Cooperative opened for business in 2006. CFL is "incubating" the cooperative – providing office space, technical and financial assistance and mentoring until it can function on its own. Additionally, having the co-op incubator as an integral part of the inner workings of CFL permits us to refer the co-op members for any service that they may need, from family counseling to after-school programs to English classes. Since the

limitation in English language has been a barrier for many of the women in attaining jobs in the past, CFL has provided workplace specific ESL classes for the cooperatives so that they are able to have successful interviews with their clients and communicate effectively on the job

In the first year of the co-ops operation, one of the main challenges for the women had to do with dedicating many hours without pay ("sweat equity") to develop the core of the business through planning meetings and marketing.



Marisol and Alma are members of the Color Me! Cooperative, a women's interior painting business.

Another great challenge was learning to work together to making decisions while maintaining professionalism. This continues to be a learning piece for many members, although co-op cohesion has improved tremendously in the last five years. These challenges were overcome with an increase in clients after the first year and multiple trainings on developing effective communication.

The struggles were well worth it for women like Cristina from Mexico who had been unable to find a decent paying house-cleaning job since she arrived to the United States four years ago. She was a single mother with a 2-year-old daughter and her bills were stacking up. Once she started to work with Si Se Puede! she began to earn \$20/hour and could rely on steady work on a weekly basis.

### Five Years – 1,000 Clients

In June 2011, the Si Se Puede! Women's Cleaning Cooperative will have been in operation for five years. Since June 2006, Si Se Puede! has grown from 15 to 27 members. In June 2011 the co-op expects to train 15 additional people for membership. Some of Si Se Puede!'s successes have included developing their own bylaws with the assistance of the Urban Justice Center, incorporating through New York State, building their client base to over 1,000 households and offices, increasing their hourly rate from an average of \$7-\$8/hour at their previous jobs, to making an average of \$20/hour at the co-op, receiving media attention, and establishing a cohesive and growing

member base with little turnover.

## Center for Family Life Nurtures Three Other Co-ops

Two years after Si Se Puede! was formed, We Can Fix it! Cooperative was initiated with about 10 day laborer men from Sunset Park. Many of the tactics we used with Si Se Puede! could not be applied to this emerging co-op. This co-op would focus on handiwork—repairs, carpentry, painting, etc.—and they expressed less interest than the Si Se Puede! members in spending time on business development training.

The Center went on to help form and incubate two other cooperatives: Beyond Care Childcare Co-op in June 2008, and Color Me!, a worker-owned interior painting business, in May 2010. These cooperatives are all anchored in Sunset Park.

Based on our experience consulting for the three Sunset Park cooperatives, CFL has developed a co-op development model that addresses particular needs and characteristics of the immigrant community that we work with. Some of these aspects of our model have included recognizing and maximizing the members' strengths and abilities by developing types of businesses that members already have experience with such as cleaning and childcare, considering their difficult economic situations by, for example, providing childcare in the meetings, and promoting group work which requires group-led decision-making and problem-solving.

As a co-op incubator, the Center's Co-op Program staff work closely with each co-op for up to three years attending meetings, assisting with office management, providing trainings, and general consultation as issues arise. The main business expenses that the co-op may have, such as office space, office manager salary, and printing are covered through the Center until the co-op has become financially self-sufficient. One of the most important aspects of the Center's consultation is teaching how to conduct meetings, communicate effectively, and build a professional business environment that constantly considers client satisfaction and quality service.

The culture and structure of each co-op are developed to take into account the needs of the members. For example, the jobs are assigned to members who are available and interested in the particular work. This has allowed members to have more time for their children and families by freeing them from a fixed 9 am to 5 pm schedule to a more flexible one. This method of job assignment was

decided upon by the members from the onset.

Once Si Se Puede women were ready to incorporate their business, the attorneys were able to present to them a legal structure that accommodated their approach and needs. The Si Se Puede! Co-op is incorporated as a Not-for-Profit Cooperative Corporation which allows job referrals to come from the CFL office while all of the decisions, small to big, are made by the entire membership using both consensus and majority vote, depending on the time available and size/impact of the decision. This model allows for there to be flexibility for each member in the quantity of work they assume while still maintaining complete control over the operations and decisions of the business. Furthermore, all the cooperatives provide childcare during their meetings to facilitate the participation of members who have young children. Some of the biggest challenges for the members previous to joining the co-op were their isolation, exploitative workplaces, and lack of contracts. Our model focuses deeply on these issues and makes them a priority when developing the mission statements and goals with each co-op business.

For example, the Beyond Care Childcare Cooperative declares that they are "founded on the basis of democracy, equality and justice, Beyond Care promotes living wage jobs in a safe and healthy working environment." This co-op has developed a thorough contract which was adapted from the contracts that Domestic Workers United developed. DWU is "an organization of Caribbean, Latina and African nannies, housekeepers, and elderly caregivers in New York, organizing for power, respect, fair labor standards and to help build a movement to end exploitation and oppression for all." The document includes elements such as which duties the members are responsible for, vacation days, sick days, overtime, cancellation fees, and so forth. The contract, along with building a respectful and trusting relationship between the member and the client, is what has led to Beyond Care to meet their mission statement of creating "safe and healthy working environments." For example, there is a component of the contract that states, "Client understands that labor laws, regardless of race, gender, immigration status, age, sexual orientation or religion, protect members."

A unique aspect of our co-op development model is the significant emphasis we place on group work. As a social worker who specializes in social group work, community organizing, and leadership development, I have worked with my team on developing a model that places value

## CENTER FOR FAMILY LIFE, CONTINUED FROM PREVIOUS PAGE

and prioritizes the coaching of effective communication, compassion, active listening, consensus decision-making, and skillful facilitation. We believe that these skills are fundamental for the sustainability of relationships and trust within a cooperative business. During the initial 12-week training with each cooperative the sessions include the topics mentioned previously while co-facilitation at meetings is modeled by the CFL staff. Modeling is a characteristic of social group work that we utilize with each cooperative. We have observed that for the immigrant women in the cooperatives, modeling how to work in a professional manner within a group setting while using the skills that are taught in the initial training is a practical and effective way of using ourselves as their consultants.



Another aspect of the social group work method is the utilization of the group members to resolve conflicts that arise. For instance, in one co-op meeting the members addressed a person's constant tardiness to the general meeting. The member had the opportunity to explain her reasons for being late. The members responded by brainstorming ideas on how their fellow member could adjust her schedule to be able to arrive to meetings on time. There is an emphasis on holding one another accountable and talking through issues to reach a resolution within the group and with the leadership committee. Valuing open discussion promotes transparency and reliance on the group process.

Throughout the last five years of our co-op development work, we have observed a great deal of enthusiasm for the cooperative models from organizations and groups working with immigrant populations in economically-deprived neighborhoods. Many of these groups are looking for ways to work with immigrant communities to generate good, stable jobs through entrepreneurship. This enthusiastic response is due primarily to the significant impact that this model can have on the economic development of communities that are often lacking high-quality employment opportunities.

The NYC Network of Worker Cooperatives or "Nick Nock" was organized in December 2009 when co-op developers, worker-owners, academics, attorneys and other co-op advocates met to attend CFL's Annual Fair Work Symposium. Since its inception, the Network has met in-person monthly to develop their mission statement, provide resources to one another, create a supportive space for people interested in learning about cooperatives, as well as to those already immersed in it by offering its "Co-op Chat." We are a proud member of the Network and continue to encourage thoughtful discussion on the remarkable impact that developing cooperatives in immigrant neighborhoods can have on individuals, families and whole communities.

Some if te Si Se Puede! women's cleaning cooperative members pose to take a picture after their general meeting on a Tuesday night.

Based on our experiences, CFL believes that any model for creating co-ops for immigrants should have the

following characteristics: social group work, emphasis on effective communication styles and techniques, flexibility with scheduling, childcare and translation, modeling, and possibly incubation assistance for hands-on co-op development assistance.

The model's success can be exemplified by the difference Si Se Puede! made for Cristina. Before joining the co-op Cristina "was making around \$400 a week for 60 hours of work and was paying \$120 a week for babysitting," as she was quoted saying in *The Brooklyn Rail*. This left her \$280. "Now, thanks to the co-op, I have jobs that take me three to five hours to complete," Cristina says, "and I make the same amount I used to make for 12 hours of work. I can also control my hours, which has been the biggest benefit, especially now that I have two children. Plus, I've gotten so much help from other co-op members. I don't have any family in the United States, so the other co-op members have become my family."



# THE CONNECTICUT COOPERATIVE BUSINESS ACADEMY PILOT PROJECT

**NOEMI GISZPENC, MARY HOYER, LEN KRIMERMAN,  
MATT TURPIN, AND BRIAN VAN SLYKE**

## Basic Background, Mission, and Educational Content

Work on CCBA began in 2009 as a project of the Cooperative Development Institute ([www.cdi.coop](http://www.cdi.coop)). Early in 2010, during the planning phase, several groups in and around Willimantic, CT received small grants from Access Agency, a local community action organization, to start developing cooperatives. Therefore, this town was identified as a potential hub of cooperative enterprise and chosen for CCBA's pilot project site. Also in 2010, the CCBA Steering Committee submitted a funding proposal to the U.S. Department of Agriculture which was approved for RBEG (Rural Business Enterprise Grant) funding later that year. The Academy's trainings began this January and will run through September, 2011.

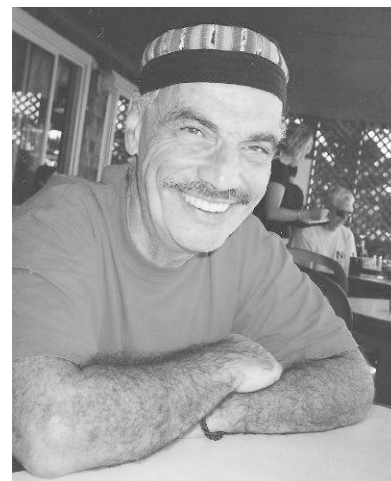
The main mission of our pilot project is to help develop and support the growth of cooperatives in eastern Connecticut where rural poverty is entrenched. It has a secondary objective as well: to work with one of the local participant groups – Willimantic's Inter-Cooperative Zone (WICZ) – to create a peer support network capable of carrying on the Academy's development work after it concludes. The Academy's program includes eleven training sessions spread out over nine months (January-September, 2011); these are held every three weeks on Thursdays from 4-7 PM in one or the other of two Willimantic locations, both operated by Academy participants. Our curriculum is a mix of business-focused and co-op specific sessions. On the one hand, participants learn about "feasibility studies" and the "assessment of financial systems"; on the other, they delve into cooperative approaches to governance, making membership meaningful, and moving from conflict to common ground. All of the topics are grounded in an understanding of cooperative principles, on which our first session focused in detail.

## Our Participants

Initially, eight participating groups enrolled – tuition-free – in CCBA. One of these, Swift Waters Artisan Cooperative – is an established co-op; the others are "emerging", with some being closer to start-up than others. These eight included:

- Cooperative Licensed Commercial Kitchen (CLiCK), a cooperatively-managed shared kitchen for use by local food producers and the un- and under-employed;
- Creative Living Community of CT (CLCC), a group of parents of autistic adults seeking to establish a farmstead live/work community for mentally disabled and non-disabled people in northeast CT;
- Grasshopper Arts Studio, initiated by dance instructor Oswaldo Tirano, this studio has gathered together a diverse variety of artists and teachers to create a space-sharing cooperative;
- Color Us Family!, which will become a nonprofit agency built along cooperative principles to provide mentoring to youth in foster care;
- Steampunk Café, a worker-owned, fair trade, steampunk-themed café in Danielson, CT, about 20 miles east of Willimantic;
- Swift Waters Artisans' Cooperative, a seven-year old co-op with a large number

Submitted by the CCBA  
Steering Committee



Len Krimerman is a member of Willimantic's inter-Cooperative Zone and the GEO Collective.

Noemi Giszpenc is Executive Director of the Cooperative Development Institute and member of the CCBA Steering Committee.

Mary Hoyer is Co-Chair of the U.S. Federation of Worker Co-ops UnionCo-ops Committee.

Mat Turpin is Founding owner of the Steampunk Café LLC, a fair trade, organic and green worker cooperative.

Brian Van Slyke is Member of the Toolbox for Education and Social Action (<http://toolboxford.org>), a worker-owned enterprise that provides services to support individuals and organizations developing engaging educational materials, programs, and digital resources.

of consigning artists seeking to reinvigorate their membership and their business;

- Willimantic Advocates Make it Happen/Rays of Hope, which is providing work and housing opportunities to people coming out of incarceration or addiction;
- Willimantic's Inter-Cooperative Zone (WICZ), a co-sponsor of CCBA, which supported several of the participating groups in their early stages and continues to do so during the Academy's program; e.g., by conducting evaluation surveys for each session, filled out by participants.

Since early January, several new groups have come on board, including a contracting and energy auditing co-op; an organic composting business; and a co-op that facilitates youth entrepreneurship and social enterprise.

### Instructional Staff and Process

Each of the participating groups receives instruction from two sources. First, each group works with its own "mentor," who meets with them weekly throughout the nine months, as well as during the Academy's eleven sessions. Secondly, at these sessions, "trainers" (or "presenters") offer their experience and wisdom on specific topics identified in advance on our curriculum. Both trainers and mentors (the two groups largely overlap) have spent many years consulting with small businesses and non-profits in and around New England, and are familiar with and supportive of the cooperative approach to sustainable business.

### CCBA's Distinctive Features

- A preparatory full-day "Train the Trainers" session, in which mentors and trainers were introduced to some core issues facing cooperatives and to our experiential and participatory pedagogy;
- A "feedback loop" which enables participant concerns and needs to be identified and addressed swiftly first by both the WICZ and the Steering Committee;
- A collaborative arrangement among different stakeholders, both in the initial design stage and within the current Steering Committee. This has involved consensus decision-making between (a) non-local as well as local groups, (b) non-profit organizations and cooperatives, and (c) program participants (two are on the Steering Committee) and coordinators. To take one case, our original group of presenters and mentors included only one person with hands-on cooperative experience. Steering Committee members were not

initially in agreement as to whether this was a gap that should, or even (given limited funds) could, be filled. But eventually, after much discussion, unanimous agreement was achieved that it was indeed a gap, and one we should attempt to fill (see the next section for details).

We see this sort of collaborative arrangement, which CCBA has only begun to develop, as occupying a middle ground between sometimes polarized approaches to cooperative development; i.e., those initiated by non-profit organizations vs. those initiated by participant-owners; or those developed by local groups vs. those which outside organizations develop. Rather than relying on only one side of these allegedly opposing approaches, we have tried to combine them.

### Future Collaborative Plans

To help fill the gap mentioned in the above section on distinctive features, CCBA has reached out to Equal Exchange, a mature and very successful worker cooperative, to provide a presenter for one of our upcoming sessions. The content will focus on both EE's extensive member education programs and their innovative marketing approaches. We also hope to include presentations from additional worker cooperatives. The Academy's Steering Committee is also considering a proposal from the Public and Engagement program of UCONN's Continuing Studies Center to discuss the co-development of non-credit certificate programs, on varying levels, in cooperative education. In addition, CCBA has had fruitful exchanges with Green Worker Cooperatives in Bronx, NY, as GWC has re-launched its own Academy.

### In Conclusion

CCBA is glad to openly – and without cost – share its curriculum; its extensive notes (compiled by a participant) on each session; and our eventual self-evaluation with other cooperative developers as well as the entire cooperative community. We ourselves have greatly benefitted and drawn inspiration from many pioneer co-op developers, including the Cooperation Works! (CW!) professional development program, the Center for Family Life, Third Coast Workers, and the Southern New Hampshire University Community Economic Development program.

# THE ROLE OF UNIONS IN WORKER CO-OP DEVELOPMENT

MARY HOYER, LIZ RYDER, FRANK ADAMS, JOHN CURL, AND DEB GROBAN OLSON  
OF THE USFWC UNIONCO-OPS COMMITTEE

Labor unions and cooperatives enjoy a long and rich history of interaction, despite historical tensions between these two sectors (see John Curl's 2009 book *For All the People*).

In the early days of the labor movement, strikers formed worker cooperatives so they could continue working and providing for their families while on strike. During the Populist Movement, before the turn of the 20th century, cooperatives and labor unions worked together to form a political movement.

In 1860 William Sylvis helped establish the National Molders Union which peaked around 1865. Subsequent defeats at the hands of employers left the union diminished, and Sylvis turned to cooperatives as a way to eliminate the wage system and end class conflict. The success of the first foundry cooperative in Troy, New York, spurred the organization of others.

In 1885, the Solidarity Watch-Case Co-operative, was organized in Brooklyn, New York, by the Knights of Labor (KOL) after a strike against the Brooklyn Watch Company for a shorter work week. It became a thriving business, growing from eight to a hundred and ten workers, and was the first in the industry to give themselves a paid half-holiday on Saturday. The members were part of a group called the Solidarity Co-operative Association, run by a committee appointed by KOL District Assembly 49 (Manhattan and Brooklyn). This umbrella association raised funds to start new cooperatives and participated in their management.

In the middle of the 20th century, the Steelworkers formed the Worker Ownership Institute in response to the exportation of jobs overseas. They attempted to convert failing steel mills to Employee Stock Ownership Plans (ESOPs) with minimal success against the tide of economic globalization.

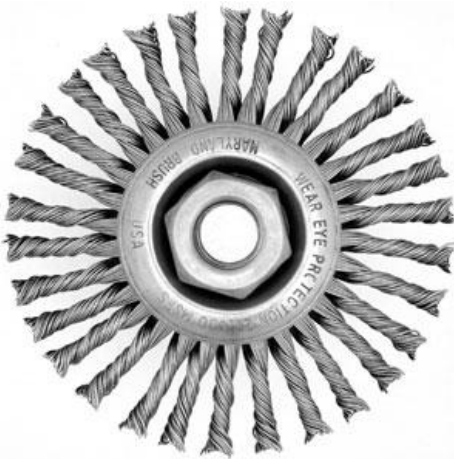
In 1983, Collective Copies in western Massachusetts (a print/copy shop) was formed as the result of a strike against Gnomon Copies by workers who had just joined United Electrical. When Gnomon went under, UE reps helped workers organize as a co-op. It continues as a successfully print/copy shop today.

In 1990, Maryland Brush Company in Baltimore, Maryland—which has operated since 1851 providing stock and custom brush products and related merchandise to the metalwork, rubber, pipeline/welding, and other industries--became employee owned with support from United Steel Workers of America. It is a 100% worker-owned, one-vote-per-person Employee Stock Ownership Plan (ESOP) in which worker owners have voting rights on all shareholder matters.

Unions have historically focused on bargaining with owners and managers for crucial benefits and working conditions rather than on ownership of enterprise and participation in decision-making and management. Members of worker co-ops often reject union membership, thinking that their integral role in the co-op will protect



Mary Hoyer is a community and cooperative development consultant working out of Amherst, Massachusetts. She works with the Cooperative Fund of New England, a lending organization for cooperatives and community-based nonprofits; the Cooperative Development Institute, a regional co-op training organization; and the Eastern Conference for Workplace Democracy, a regional consortium of democratically owned and managed businesses and their supporters. She has worked in organizational development and governance, anti-racism and anti-apartheid initiatives, public and community education, and union organizing. She co-chairs the UnionCo-ops Committee, a national group that functions under the auspices of the U.S. Federation of Worker Co-ops.



Brushes from the Maryland Brush Company, which converted to a democratic ESOP in 1990 with the support of the United Steel Workers of America.



cooperatives - are needed for workers to realize their full potential in the workplace.

The idea of labor unions as potential initiators of worker co-ops has recently emerged from various sources.

In 2007, Lynn Williams, longtime leader of the United Steelworkers of America, was the keynote presenter at the Eastern Conference for Workplace Democracy in Asheville, North Carolina. During the business meeting at this conference, participants mandated establishment of a Union Co-ops Committee to bring worker cooperatives and labor unions into discussion with one another. Since the late fall of 2007, the committee has met monthly by conference call to which people throughout the United States (and Canada, where worker co-ops and unions are engaged in a similar dialogue) are regularly invited.

The Union Co-ops Committee is now housed with the U.S. Federation of Worker Cooperatives and, although not all members are active on all calls, they monitor the work and progress of the committee. Four major tasks the group has undertaken are: 1) establishing an on-line compendium of resources that labor activists can use to introduce the concept of worker cooperation to their members and leaders for development of new worker co-ops; 2) presenting workshops at worker co-op conferences about the work being done by union activists on worker cooperation; 3) collecting data and information on unionized worker co-ops and the benefits they offer; and 4) presenting workshops about worker co-ops at labor conferences.

In 2009, the United Steelworkers initiated a discussion with Mondragon Cooperatives in the Basque region of Spain about a pilot project converting manufacturing companies to worker cooperatives in the U.S. The union, during a time of grievous assault by capital and governments on labor in the U.S., continues to explore possible pilot projects on which this work can focus.

In 2010, the idea of labor unions - with their funding and research staff - as a model for initiating worker co-ops was raised at the U.S. Federation of Worker Co-ops conference in Berkeley. Lisabeth Ryder of AFSCME Western Region discussed a strategy for countering privatization of government agencies with worker cooperatives, and Deb Groban Olson of Center for Community Based Enterprise in Detroit raised the potential for union cultivation and incubation of worker cooperatives.

them through any type of conflict.

Worker participation schemes take many forms, but without ownership they can put workers in the awkward position of "thinking themselves out of jobs," while seeing their hard work and ideas financially benefit owners and managers rather than themselves. Ownership via stock plans (ESOPs) gives workers a share in profit, but often leaves them without a majority voice in management decisions. Both ownership and democratic participation in decision-making - which are the cornerstones of worker

An upcoming issue of GEO Newsletter will focus on work that unions and co-ops are undertaking. For additional information on this topic, go to the Union Co-ops Committee website ([unioncoops.wikispaces.com](http://unioncoops.wikispaces.com)) and click on "Articles."

# THE VALLEY ALLIANCE OF WORKER CO-OPERATIVES DEVELOPMENT MODEL: QUESTIONS AND WORKING SOLUTIONS

ADAM TROTT

## Cooperatives and Cooperative Development

Asking the question “Why aren’t there more worker cooperatives in the United States,” raises questions about worker co-op development models and the participation of cooperatives in their development. In a movement predicated on co-op members running their own lives, homes, finances, food stores, etc., having co-ops and their members control their own development has been strangely off of the agenda. Most worker co-op development - and often the development of co-ops in general - is grant funded, and implemented by non-profits. Does this conflict with some of the basic principles of the co-op movement, and the international examples of thriving co-op complexes? Although only covered here in the briefest manner, this article will attempt to answer that question, explore some of the challenges of using worker co-op members and money to develop and fund more worker cooperatives, and address the discrepancy between the number of worker co-ops in the US compared to other countries. Here I present the VAWC model of worker co-operative development.

As a new generation of cooperators recognize the value of inter-cooperation and the benefits of an interdependent movement, there are many directions to consider in developing our model. In times of growth and shifts in our movement, remaining true to cooperative principles and values becomes a necessary practice and it is our challenge to fund, structure and govern our development in this fashion. VAWC hopes to bring awareness to the limitations of the current predominant model as much as we would like to demonstrate why worker co-ops need to take responsibility to direct and fund development themselves.

In this spirit the following piece offers what a group of worker co-ops in western Massachusetts and southern Vermont have built in response to the gap in worker co-operative development. In asking about the number of worker co-ops, others questions come to mind. Who’s movement is this, and who shall direct it? Are there lessons that can be learned from successful worker cooperative complexes outside the US? How can we best mobilize our members’ resources for shared growth and success? And, perhaps most importantly, how can cooperative development be funded and guided by co-ops themselves so that it serves our needs and priorities?

## Why aren’t there more worker co-ops in the US?

There are fundamental issues of accountability and funding with predominant worker co-operative development models in the United States. Development funded by private grants and/or the federal government, and directed by non-profits remains un-accountable to co-ops and the development of genuine democratic participation of members. Also, non-profits are often charged with development of all types of co-operatives - consumer and producer co-ops as well as worker co-ops - which require different skill sets. So here we have organizations that aren’t structured as cooperatives themselves implementing development as dictated by private or federal funds. This raises important questions both about the priorities of



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### What is the Valley Alliance of Worker Co-ops?

Following conversations at an Eastern Conference for Workplace Democracy conference in 2005, co-operators came together to share resources, pool knowledge and develop working solutions to the questions above that are too large for individual co-ops to take on individually. Building relationships of trust and friendship in a framework of the needs and goals of worker co-ops surfaced. VAWC provides a formal venue for worker co-operatives to communicate and draw on resources and serves as a “meso-level” organization between individual co-ops and national organizations.

The Valley Alliance of Worker Co-operatives (VAWC) is a “co-op of co-ops” that has come together as a means of strengthening the efforts of our individual co-ops to develop their businesses, serve their members, and contribute to the wider cooperative economy. VAWC is itself an expression of cooperative principles and is rooted in the ideals of cooperation, mutuality and solidarity. Our core goal is to provide ourselves with the resources and support we need to advance our cooperatives, empower our members, and benefit more people in our communities. For descriptions about what we do, see our Membership Information brochure, our website – [www.valleyworker.org](http://www.valleyworker.org) – or contact us at [info@valleyworker.org](mailto:info@valleyworker.org).

our movement, as well as about the position of cooperatives in participating in the growth of their own model.

Coupled with this discrepancy has been a lack of cooperatives stepping up to direct and fund development themselves. As framed above, a goal of this piece is to place the responsibility of why we have so few cooperatives squarely on the models of development, not the personnel in development. We would like to propose a new dialog to address this and shift thought away from how to best utilize grants to How can worker co-ops direct and fund their own development? And How can we build a development model that is guided by our principles?

It is VAWC’s experience and understanding that worker co-op development provided by a grant funded organization in our region (western Massachusetts and southern Vermont) for nearly twenty years has had only a handful of worker co-ops developed. Worker co-operative development is hindered by being project based, dependent on grants which do not always arrive, and have no defined connection to co-operative movements or continuity for the co-operative itself. Once provided, technical assistance for worker co-ops is inconsistent, often un-fit for worker co-operative needs and costly to the developing co-operative.

In two years of VAWC operating a member-run development model, two traditional businesses have converted to worker co-ops. In 2009 three workers at Valley Green Feast, a sole proprietor farmer produce delivery service, approached us with the idea of converting to a workers’ collective. VAWC laid out a process with prospective members, and went through the process of developing by-laws, articles of incorporation, a mission, vision, decision making structure, governance and internal capital accounts. Valley Green Feast celebrated their first year anniversary as a worker co-operative in April of this year and is paying the former owner over time.

In 2011 VAWC was introduced to a group of health care providers who were planning on buying an existing practitioner’s business. VAWC supported them on formulating the loan packages, and again developed by-laws, decision making structure, governance, and internal capital accounts. In their sixth month of operation as a cooperative, sales have remained growing, renovations are underway for new practitioner’s space and other workers are being approached and groomed for membership as independent contractors are being phased out.

To be clear, this critique of the non-profit developer model puts the responsibility on the model which is ill-equipped to deal with the needs of worker cooperative development, not those who are attempting to implement it. We would like to insert into the dialog of worker co-op development the issue of the continual lack of a formal venue directed by co-ops themselves to fund development. The space to communicate the needs of a worker co-op, where the agenda is developed and its facilitation conducted by worker co-operators, is a very powerful and productive example of an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise (The International Co-operative Alliance’s definition of a co-operative). The absence of such a space in the US contradicts the co-op values of independence, self help and self-responsibility; the co-op principles (mentioned above); as well as the examples set by models of successful development in other industrialized countries.

## Who's movement is this, and who shall direct it?

Two of the seven co-op principles – Democratic Member Control and Member Economic Participation – provide clear boundaries and responsibility regarding who participates and directs cooperative entities. Successful international models in Italy and Spain provide real life examples of what happens when cooperators are put in the proverbial driver's seat. Decisions regarding what services are provided, what educational programs are implemented, the priorities of where time is spent, etc., are in the hands of cooperators and the results are astounding. Cooperatives as a whole, though worker cooperatives in particular, are responsible for the growth and strength of our movement more than any other group.



Members of PV Squared, a solar panel installation cooperative in the Pioneer Valley.

Another co-op principle – Cooperation among cooperatives – provides a strategic format for the survival and growth of co-ops and the cooperative movement as a whole. Sharing and promoting common principles and resources provides cooperatives with a distinct advantage over traditional businesses or organizations for focused collaboration in outreach, education, community participation and adhering to mission statements. Utilizing traditional products or professional services when there is an opportunity to utilize goods and services of those who share these common principles is a missed opportunity in developing our individual co-ops and the cooperative economy that will sustain us.

Are there lessons that can be learned from successful worker cooperative complexes outside the US?

Mondragon and the Emilia Romagna region of Italy are perhaps the most commonly referenced cooperative systems in our movement. In 2009 Mondragon had \$25 Billion in assets, \$22 Billion in sales, 85,000 workers and 256 co-ops. In Emilia Romagna, a region about the size of New England, there were 4 million people, 2/3 of which were co-op members and 10% of which worked in any of the 7,500 co-ops. Of those 7,500, 5,000 are worker co-

ops federated through a variety of political and religious alignments. Though unique in many respects, they share a set of common characteristics:

- Co-ops have a clear co-op identity, alignment with specific democratic principles and values.
- Co-ops have a clear and distinct direction from worker cooperatives and worker cooperators.
- Strong co-op support organizations on local, regional and national scales are accountable to co-ops.
- These are co-op led movements.
  - Co-ops prioritize investment in co-op development (3% of surplus of all co-ops in Italy is paid into development funds and a much higher percentage for the worker co-ops in Mondragon).
  - Innovation & co-oprepreneurship are sustained efforts.
  - The co-ops and the movement have a shared vision of the co-op enterprise as a multi-generational asset.
  - Co-ops share a focus on a larger, cross sector Co-operative Economy.

While implementing these tools requires a shift in our movement, a dialog of how to go about implementing this has value for building participation from co-ops.

## How can we best mobilize our members' resources for shared growth and success?

Member resources are stronger when creating support organizations based on our 7 principles in practice and in mission. Having support organizations directed by co-ops ensures that: needs are being met; development is focused on co-ops; co-ops are developed within a system of support; and that on-going support is provided with consistent advisement funded by dependable sources.

We would argue that a model of putting member resources into grant funded organizations that are not co-ops themselves produces adverse effects on the movement and its cooperatives. A few of these effects:

## VALLEY ALLIANCE, CONTINUED FROM PREVIOUS PAGE

co-ops are seen as charity; undependable and varied funding; grant language limiting activity of developers; non-cooperative entities providing advisement for co-op entities; activity of non-profits taxes current co-ops by drawing on expertise and resources of co-ops; large amounts of resources spent on fundraising as opposed to development work.

An important issue with worker co-op development's current model is the creation and development of co-ops outside of any cooperatively run support organization or cooperative support system. Instead of forming cooperative enterprises in a network of support whose success depends on the success of the co-op in the long term, co-ops are developed with a dependency on external, and often expensive, expertise. Further, dependence upon non-cooperative support increases the chance that unpredictable and, at times problematic, advisement that runs in conflict with co-operative principles and the co-op itself will predominate.

And, perhaps most importantly...

### **How can cooperative development be funded and guided by co-ops themselves so that it serves our needs and priorities?**

Co-op movements that utilize their own surplus, rather than relying on grants, are predominant in size, and exemplify co-op principles and service to their members. Instead of following funds and direction from the federal government or private foundations, VAWC, for example,

uses its own resources and direction. As mentioned earlier, accountability, funding and direction are vital to the sustained health of any movement, and VAWC has structured its development work based on co-op principles as method and mission.

VAWC uses a model where funds are decided upon and directed by co-ops themselves:

- VAWC's Operating Budget depends on VAWC Member Co-op dues from gross revenues.
- 5% of surplus from Member Co-ops go into a development fund earmarked for worker co-op expansion or new co-ops.
- Staff is supervised and directed by Advisory Committee and VAWC Members at monthly meetings.
- A Membership Agreement is reviewed and signed annually, informing and clarifying VAWC's goals.
- Shared knowledge and resources save time, energy and funds: Model bylaws and articles of incorporation, legal, lending, accounting, training and process support, etc, are boiler plate and articulated for new co-ops.
- Co-ops determine the process and goals of development with long term, dependable funding.
- Co-ops are created inside a cooperative system that supports and utilizes other co-ops, and is interdependent on them for success

...which in turn creates:

- Business and development based in co-op principles;
- Work and goals accountable to those who are affected;
- Work and goals directed by those who are affected.

## **WORKER COOPERATIVE DEVELOPMENT MODELS READ MORE AT GRASSROOTS ECONOMIC ORGANIZING - WWW.GEO.COOP**

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# TRANSITIONING A PRIVATE BUSINESS TO A WORKER COOPERATIVE: A VIABLE COMMUNITY DEVELOPMENT TOOL

ROY MESSING

Worker cooperatives are taking on a leadership role in the community development arena. From the “Evergreen Cooperatives in Cleveland” to Arizmendi Bakeries in the San Francisco area, worker cooperatives are displaying how cooperatives can provide a successful model for new business ventures that have an embedded social mission. The basis of that mission is that employee ownership empowers the workers to have more control over their work activities, jobs and careers; anchoring them in the community. Employee-owned companies are far less likely to export their business and livelihoods overseas for a “one time” payoff.

There is great potential for the worker cooperatives model to expand its community development activity in a much different setting. The successful adaptation of the cooperative model as a business retention tool in transitioning the ownership of private businesses to the employees has the potential to provide far more reaching benefits to the communities where those businesses reside. This creates a sustainable model that is far more efficient and effective than the “smoke-stack chasing” economic development approach of the past.

Existing businesses with a proven track record can attract funding sources more readily than employee owned start-up business ventures, which seem to have “two-strikes” against them when pursuing outside funding. By adding a proven business model, that comes with a successful business, the burden of “making the case” to such funding sources is greatly reduced.

Businesses haven’t transitioned to worker cooperatives, because it is “complicated.” Owners have found little incentive to sell the company to the employees and external financing is limited. The workers tend not to have the financial resources to purchase the company on their own. Potential capital gains taxes can further complicate matters. The owner may be interested in continuing the business but there is no logical family/ individual successor to the business, or limited outside interest in the operation. Employees can carry on the owner’s legacy and may be the logical acquirer of the business. Assuming that the owner finally arrives at the solution (selling to the employees), how can he or she get around the tax and financing issues?

## Transitioning Private Business Ownership to a Worker Co-op, the Select Machine Example

Doug Beavers and Bill Sagaser, founders and owners of Select Machine, Inc. a specialty parts manufacture in Brimfield, Ohio, were looking to sell their company. They had received purchase offers for the business from competitors, but those offers all included the closing of the local operation and a loss of jobs. In 2005 they entered into a sales agreement with eight of the existing 13 employees of the company. They formed a worker owned cooperative to operate the company going



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forward. The workers purchased 40% (5% each individual) of the company share via a worker cooperative, with financing from a local bank and a non-profit loan fund that specializes in employee ownership. The cooperative planned on purchasing the balance of the company in 2010, but the dismal economy put a temporary hold on those plans (the workers elected to delay the transaction). The company had to reduce its work force on a voluntary basis in 2009 due to a decrease in revenues. With the recovery in 2010, Select Machine, Inc. is back up to pre-recession revenues. Given the successful weathering of the “economic storm,” the worker cooperative has resumed the process to complete the full acquisition of the manufacturing company.



Employee owners of Select Machine. The company manufactures, sells and distributes machined products and equipment for installation on construction and demolition equipment.

### Changes in Ohio Law that made the transition of Select Machine possible

The cooperative structure was ground-breaking in the sense that the owners qualified for the so called “1042 rollover,” named for the section of the IRS tax code, which allows owners to defer capital gains when they sell at least 30% of their company to their employees. Retiring business owners have frequently transferred their ownership interests to Employee Stock Ownership Plans (ESOP’s - a common form of employee ownership), to take advantage of the tax deferral. Cooperatives laws did not allow for such a “transition” period, so they could not take advantage of the rollover. The company is either a cooperative or it is not.

The changes to the Ohio State Cooperative Code have created more impact in paving the way for transitioning a private business to worker cooperative status beyond the 1042 rollover. Conventional financing is typically limited to a percentage of physical collateral pledged in support of the loan and or the amount of “cash flow” generated by the business. This makes it impossible for employees to finance 100% purchase of a company. Employees have

purchased portions of businesses in manageable stages via the ESOP model. Such acquisitions typically happen in three or more successive transactions. This allows the employees to acquire the business in portions that are “financeable” and allows the exiting owners to maintain control early on when the success of the transfer is most

questionable. The changes in Ohio Cooperative Law now allow for a private business to transition into a worker cooperative much like ESOPs have in the past.

The recently deceased Mark Stewart, a well known Ohio Cooperative attorney was instrumental in including four major changes in the code, to facilitate the “transition to worker cooperatives.” The four major changes were as follows:

1. Less focus on agriculture supply and marketing and expanding the application to a wider array of businesses.
2. Additional language that allowed labor to be a contributed source – this allows for worker cooperatives in effect to become an employee leasing company.
3. Better provisions were incorporated to allow for balancing the interest of different patron classes – for instance cooperative businesses could now have both consumer and worker classes.
4. A provision was added that allowed for the retained patronage to act as “sweat equity” to build as retained capital within the company and not be treated as debt. This is a significant development to outside groups, such as lenders, who view the lack of equity accumulation within the business as a “deal breaker.”

The changes in the Ohio Cooperative Tax Code allowed for two major hurdles in transferring a privately owned business to a worker cooperative to be overcome. The owner is now provided a potential monetary incentive to sell the employees through the “1042 Rollover” qualification, and the ability to transition the business over time under a method that has is financially viable. In the case of Select Machine transitioning to a worker Co-op, the business and jobs were retained on a local basis.

# WAGES MODEL AND THE VALUE OF PARTNERSHIPS

HILARY ABELL

WAGES is a non-profit organization whose mission is to build worker-owned green businesses that create healthy, dignified jobs for low-income women. WAGES' model combines a multi-pronged "incubation" approach to cooperative development with a "sector initiative" – developing multiple businesses in a single industry (green residential cleaning) to more efficiently create high quality jobs. We build new green cleaning co-ops from the ground up, each with its own service area, to gain economies of scale without competing with each other. The WAGES network has five co-ops operating in the San Francisco Bay Area with combined sales of more than \$3 million in 2010 and almost 100 worker-owners.

WAGES' co-op incubation process, which we have honed and improved over time, requires three to four years of intensive investment and produces a mature co-op that can sustain itself for the long haul. The six to twelve month pre-launch phase includes business planning, recruitment and training for founding members, partnership development, capital procurement for the co-op, and fundraising for WAGES' development efforts. Once the co-op opens, WAGES works closely with the members to actively grow and develop the business for approximately three years. During this time, a "development team" of WAGES staff members, including a co-op manager, a trainer, and a technical advisor, provides four services that we have found to be critical for long-term success:

- Recruitment and training for founders and new member groups, plus continuing member education programs and facilitation of member meetings.
- Technical assistance on legal, financial and business issues.
- Management services: funding the General Manager's position and helping him or her be a successful co-op manager throughout the incubation period and beyond.
- Policy and governance: providing a policy framework for the co-op and sitting on its board of directors, together with elected worker-owners, to help ensure business success, sustainability, and mission fulfillment.
- With more co-ops in our network, WAGES is developing a suite of shared business services, such as payroll and benefits administration, quality assurance, and marketing.

The model, by design, provides initial control to WAGES and the co-op board, on which WAGES occupies the majority of seats during the incubation period (WAGES' role significantly decreases after incubation). While counterintuitive to many in the co-op world, this arrangement exists for one reason only: to further WAGES' and the co-ops' common mission of creating healthy, dignified jobs for low-income women. WAGES has found through 15 years of continuous improvement of the model that the advantages of not reinventing the wheel and moving more quickly towards sustainable job creation outweigh the disadvantages of less member control. In fact, members seem to experience greater "empowerment" by having a full schedule, time to care for their families, a voice in the workplace, and control over a small number of key decisions, than by having to shoulder the full burden of bringing a start-up business to stability. At its best, WAGES' model combines ongoing member participation and learning with rapid business growth and a transition to greater member control as the business matures.



Hilary Abell was Executive Director of WAGES (Women's Action to Gain Economic Security) from 2003 to 2011. Her previous work covered a range of issues including fair trade, environmental health, women's health, and immigrant rights. As a worker-owner at Equal Exchange in the 1990s, Hilary visited fair trade farmers in Latin America who inspired her commitment to cooperative models, environmental sustainability, and collective endeavors that give us space to dream. Hilary has served on the boards of directors of numerous co-ops and is currently a board member for Opportunity Fund, a non-profit organization based in San Jose.

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For more information about WAGES, contact Alex Armenta at (510) 451-3100 or write to [wages@wagescooperatives.org](mailto:wages@wagescooperatives.org).

## How can this model be used beneficially by other groups?

Many of the strategic principles underlying WAGES' model could be applied to other co-op development efforts, especially where job creation is a primary goal. For example:

- Focusing on a single industry enables a co-op developer to benefit from economies of scale, minimize the need for industry-specific learning with each new co-op, and avoid re-inventing the wheel.
- Being clear about the underlying standards and the hierarchy of objectives in a co-op development effort can guide strategic decisions. For WAGES, underlying commitments, such as our dignified pay floor and high-bar environmental standards, are a given. Other aspects, like training curriculum, allocation of staff time, and decisions about policies and business strategy, are adjusted along the way with the job creation and business growth objectives as the primary guide.
- The developer should know in advance how many years of support it can provide to the new co-op and how it will secure the skilled staff and resources to fulfill this commitment. A developer can do a dis-service to co-op members if it is too idealistic or unrealistic about how and when the balance of responsibilities transitions from the developer to the members.
- Depending on the project's objectives, a developer may want to put in place certain requirements, or maintain control over some strategic components of the project, during an agreed-upon period of time.



Worker-owners of Emma's Eco-Clean, founded in 1999.

This can set the co-op up for success and enable worker-owners to increase their responsibilities gradually. Rather than negotiating these issues when a project is underway, it is best to set these rules in advance; the developer can always decide to relinquish control sooner, but it's difficult to go in the other direction.

- Integrating the business side and the human side of cooperative development helps ensure success. A viable business plan, a training program, and a good governance system that fits with the logic of your business are all essential and should be in place before the business opens. Build time for member meetings and continuous education into the operations calendar from day one, since these critical aspects could otherwise take a back seat to day-to-day business matters.

## Where would it not be beneficial?

Although many of the principles could still be applied, WAGES' model may not be beneficial if the co-op developer cannot make a long-term commitment to the project due to scarcity of resources or other factors. The model is simply too complex and labor-intensive in the early years, but the pay-off is long-term, and the developer's role can decrease or be eliminated after the incubation period. WAGES' approach works very well for the people for whom it was designed: low-income workers, many of them single mothers, who are seeking good jobs and an opportunity to help their families get ahead. Substantial increases in income and benefits and greater control over work hours mean a better quality of life and more time with family. Workplace democracy is of interest but not the driving force for most members' participation. If this balance of priorities were reversed, some elements of WAGES' model would not apply.

## Can you describe WAGES partnership with Seventh Generation?

WAGES has had a mutually-beneficial, mission-driven partnership with Seventh Generation (SVG) for five years. The partnership has been characterized by shared goals and by open dialogue and transparency from the beginning. On WAGES' side, the partnership has had numerous benefits:

- Funding, for WAGES' co-op development work and special events and for branding and on-line advertising for the WAGES' co-op in San Francisco.
- PR and media work: SVG's PR team generated publicity for the San Francisco launch and helped build the co-op's initial client base. They also produced a series of "learn how to clean" youtube videos starring WAGES' trainers.
- Professional development opportunities for co-op members and WAGES staff, including product testing and media tours.
- Favorable purchasing arrangements for Seventh Generation products, as well as product improvements based on our feedback.
- Volunteer hours and pro bono advice from company employees.

From Seventh Generation's side, they have articulated the following benefits to the partnership:

- Mission: First and foremost, Seventh Generation leaders have seen supporting WAGES as a way to express their company's commitment to social equity and to extend its impact beyond its primarily white, middle-class consumer base. For WAGES, although we already knew and trusted Seventh Generation products, it was important to understand the authenticity of the company's mission and the respect they had for WAGES and our co-op members before deepening the partnership.
- Employee satisfaction: Many Seventh Generation employees have cited the partnership with WAGES as one of the things they love about the company.
- Industry learning: As a consumer products company, SVG was interested in learning more about a related industry (residential cleaning) and in getting professional feedback on their products.

## With Levi Strauss?

WAGES' relationship with Levi Strauss and Co. is primarily through the Levi Strauss Foundation, one of our biggest funders and a valuable thought partner in our asset building programs. Our work with the corporation itself has included sponsorship for WAGES' 15th Anniversary Celebration and their giving a Pioneer Award to the founders of WAGES.

## Are these sponsorships or partnerships? What is the difference?

While a partnership can be defined in any number of ways, a sponsorship generally entails the sponsor getting brand recognition and visibility (at an event, for example) in exchange for a cash or pro bono contribution. WAGES' policy has been to seek event sponsorships only from socially-responsible companies. Both Seventh Generation and Levi Strauss have sponsored WAGES events, but our partnerships have been much broader. WAGES and Seventh Generation agreed to call our work together a "strategic partnership" because we defined it based on the strategic interests and capacities of both organizations, not based on any formula or external definition.

## What is WAGES seeking to gain from these corporate relationships?

WAGES' goal in developing these partnerships has been to garner more resources and expertise to expand our work and achieve our mission. In 2003, WAGES had two co-ops with a combined total of 20 worker-owners, and now in 2011, our network includes 5 co-ops with almost 100 worker-owners. This growth has been achieved through the co-op incubation process described above and fueled primarily by grant funding. Although the co-ops pay development fees to WAGES during the incubation period, these fees cover only a small portion of the cost of the services WAGES provides.

As WAGES and our co-ops have grown, the impact of the work has proven to be transformative for members: our data shows that worker-owners at mature co-ops are earning much more per hour than in previous jobs, and their family incomes have increased by more than 70%. WAGES is eager to increase the pace of our co-op development efforts and to make this kind of change possible for many more women, and in more communities – in other words, to "get to scale," according to our own definition of that term. Two things are essential to making

that happen:

1. Building WAGES' own capacity and expertise – of the staff who do the co-op development work and through partnerships that bring additional expertise; and
2. Additional funding for the co-op development work.

Partnerships with different kinds of organizations – including foundations, corporations, co-op groups and non-profits – are a way to add expertise, raise funds, and increase visibility which can help generate more resources. The guiding principles in all of these partnerships are mission compatibility and a positive cost-benefit analysis.

### **What has WAGES given in return?**

WAGES evaluates corporate partnership opportunities in the same way we evaluate any collaboration. With Seventh Generation, the mission compatibility and authenticity in the relationship are very high and the benefits have far outweighed the costs. We have had to give time to cultivating the partnership and to participating in some initiatives that Seventh Generation considered a priority but which strained our staff time. This proved to be manageable, and to have secondary benefits that we had not anticipated. In addition, we agreed to prioritize Seventh Generation products in the suite of cleaning products that WAGES licenses our co-ops to use. This flexible policy allowed us to integrate new SVG products that our testers had approved, to continue using traditional “home remedy” products such as baking soda and vinegar, and to use a few products from other companies that did not directly compete with the SVG line. In no instance did the partnership require us to do something that was not in WAGES' or the co-ops' best interests.

### **What does the corporate partner gain?**

Both Seventh Generation and Levi Strauss are corporate social responsibility leaders in their industries (for example, GoodGuide just rated Levi's “#1 denim brand” for its green and social practices), and they have seen their support of WAGES as a way to further their company's interest in social justice. This mission benefit is real and important to the company. Other benefits include the so-called “halo effect” of being associated with a non-profit

that improves women's lives, promotes green business and cooperatives, and has inspiring stories to share. Both WAGES and our partners are careful to describe our collaboration accurately so as to avoid any perception of potential “greenwashing.”

### **What does it mean for a co-op development organization to pursue strategic partnerships with larger entities? What are the potential costs, risks, and benefits?**

As with non-profits, co-op development organizations should evaluate every partnership opportunity in light of their mission and of the partnership's potential benefits, costs and risks. Many groups are concerned about “mission drift,” giving up control over their cooperative or project, or the time investment required. While these are valid concerns, they can be treated as issues to avoid (in the case of mission drift) or address (in the case of time concerns) in exploring potential partnerships, rather than as reasons not to explore them. Any partnership should be among equals, and a partner worth engaging with will be willing to do so on terms that make sense for the co-op development organization.

### **What would be sacrificed if your organization worked without a strategic corporate relationship?**

In WAGES' case, we would not be able to continue our work without outside funding nor to expand it as quickly as we have without outside partners. It has been important that we set the terms for the funding and the partnerships (ensuring that the goals we propose to partners match our internal goals), and that we are open to some degree of flexibility and innovation. Our partnerships with Seventh Generation, Levi Strauss and many others have helped us expand our vision of success and increase our impact.

### **What do such arrangements offer that worker co-ops can't do themselves?**

Each situation is unique and whether or not strategic

partnerships can enhance a cooperative endeavor will depend on the co-op's or developer's own capacity and what the partner can offer. Worker co-ops and co-op developers may be able to gain more business expertise (or a different kind of business expertise), experience with scaling, greater visibility, funding, access to market information, favorable purchasing or vendor relationships, or other benefits by partnering with outside entities.

## When and how would you encourage cooperatives to pursue strategic relationships with larger entities?

I would encourage worker cooperatives and co-op development organizations to consider strategic relationships with other organizations that can add capacity to help you achieve your goals. The first step is being clear what you want and where you are headed; second, knowing your strengths that will help you get there and identifying the gaps ("know what you don't know"); and third, seeking partners who can fill those gaps and add value. It all depends on your business model, strategy, and goals.



The co-op sector and progressive movements in this country have a wonderfully strong D-I-Y tendency that is key to our success but can sometimes get in the way. If your co-op or organization has a big dream that requires outside resources, work out where you're willing to compromise and where you aren't, and enter into the conversation!

Worker-owners of Home Green Home Natural Cleaning, founded in 2009 with partnership from Seventh Generation

This is a great time to engage a broader set of stakeholders and allies in building the cooperative economy. Our movement has so much potential to bring people together, create jobs, build wealth for ordinary people, teach democratic skills, and enhance community well-being – but we can't fulfill our potential by preaching to the choir. With The International Year of Cooperatives and the public's increased appetite for fairer, more sustainable economic models, we have an opportunity to think bigger and to expand our movement. Partnering with progressive corporations, foundations, economic development practitioners, non-profits, and, of course, our own cooperative federations and development organizations, is one way to do this. Let's think big!

## GRASSROOTS ECONOMY CALENDAR AT WWW.GEO.COOP

GEO has a robust of calendar grassroots economy, cooperative, and solidarity events on our website. Check them out at [www.geo.coop/calendar](http://www.geo.coop/calendar). More details on these upcoming events online:

- July 23 - Green Solidarity Economy Conference, Worcester, MA
- July 24-30 - Center for Popular Economics Summer Institute, Northampton, MA
- July 26 - July 30 - 2011 Association of Cooperative Educators (ACE) Institute, Winnipeg, Canada
- August 19-20 - Federation of Southern Cooperatives Rural Training & Research Center Annual Meeting, Epes AL
- September 5-7 - Western Worker Cooperative Conference, Breitenbush Hot Springs, OR
- September 22 - Elinor Ostrom lecture at UMass, Amherst - Gamble Lecture Series, Amherst, MA

# WORKER CO-OPS IN LONG TERM CARE

MARGARET M. BAU



Margaret Bau has been a Cooperative Development Specialist with USDA Rural Development since 1998. She has assisted in the formation of over two dozen cooperatives across her home state of Wisconsin. Since 1999 she has been involved in organizing Cooperative Care, the nation's first rural homecare worker co-op in the country. Margaret also organized a homecare worker co-op in a medium sized city that was a spectacular failure. Nationally she has advised various groups exploring worker ownership in long term care and the social services. She has also helped organize three multi-stakeholder co-ops.

## Demand for long term care

By the year 2030, about one in five Americans will be over the age of 65. Thanks to advances in medicine, public health, and nutrition, we are living longer, healthier lives than any previous generation. In fact, the fastest growing segment of the population is aged 85 and over. People are also surviving injuries and illnesses that in previous decades would have been fatal.

Needing care does not mean a one-way ticket to a nursing home. Nationally, only 18.2% of those aged 85 and older live in nursing homes (and 4.5% of those aged 65 and older). With a little assistance a few hours a day, most seniors can live in their own homes. With consistent and reliable help to get ready for the day, people with disabilities can enjoy independence and participate in the workforce.

## Labor force supply and realities

There are 3 million direct care workers in the US – and another 1 million are needed in the coming 10 years. Direct care workers are the eyes, ears, hands, and backbone of the long term care system. Elders and people with disabilities spend more time with direct care workers than they do with their physicians, social workers, or nurses. Yet this essential workforce earns a median wage of \$9.46/hour, with most unable to piece together a full work week. Over 37% of workers in home care lack health insurance.

Since the 1970s, the long term care industry has counted on an endless supply of baby boomer, low-income women entering the workforce with a willingness to do this work. According to Steven Dawson of PHI, a long term care research center, the business model is built upon low investment in training, high labor force turnover, and low expectations of quality. Turnover rates at home health agencies are up to 75% annually. This is devastating to the quality of life for a frail elder or an individual with a disability who depends upon a stable relationship with the persons providing their most intimate of care.

## Background – worker co-ops in long term care

There are a handful of worker cooperatives in the homecare industry across the United States. The very first such co-op – Cooperative Home Care Associates (CHCA) – started as a welfare-to-work experiment in the mid-1980s to train African-American, Latina, and new immigrant women into the direct care field in the south Bronx, New York. But project organizers were dismayed by the work conditions these newly trained women faced (minimal wages, no benefits, injuries, part-time work, low status). So they created a worker co-op in an effort to address fundamental issues within the homecare industry. In theory, worker cooperatives should maximize wages, increase benefits, provide a voice in decision making, and increase status through business ownership. Several other homecare worker co-ops were organized in northeastern cities in the early 1990s. But sudden Medicare and Medicaid regulatory changes made by Congress in 1996 caused the closure of all but two of these worker co-ops.

Inspired by CHCA and responding to local conditions, Cooperative Care opened in 2001 in Wautoma, Wisconsin – the country's first homecare worker cooperative in a rural area. A handful of similar worker co-ops were explored or organized in



rural Wisconsin, Hawaii, Washington, and Oregon (thanks partially to one-time seed money provided by USDA Rural Development in 2005). CHCA also inspired I Am Unique, a worker co-op of nurses providing highly specialized ventilator and tracheotomy care for clients in Raleigh, North Carolina.

This handful of worker co-ops has provided modest increases in wages and a range of benefits for the member-owners. Several of the worker co-ops provide initial and on-going training. The more established co-ops offer peer mentoring and opportunities for advancement within management. Turnover rates at the homecare co-ops average around 20% annually.

More striking are the opportunities for leadership development. Tracy Dudzinski, Certified Nursing Assistant and Board President of Cooperative Care, exemplifies the very best of what a difference a co-op can make in a person's life. Tracy started with Cooperative Care not knowing what a co-op was; she then served on a committee, was elected to the board, became board president, and then moved into leadership positions at the state level (presidency of the newly formed Wisconsin Direct Care Alliance) and the national level (presidency of the Direct Care Alliance or DCA). Tracy said she found her voice in a one week leadership training sponsored by DCA. Thanks to Cooperative Care and the DCA training, Tracy observes, "I used to be a mouse in a corner. But now I am a mouse that roars."



Evelyn and Daisy

## Prevailing market structure

Cooperative impact on long term care has remained modest due to the structure and funding mechanisms of the industry. Rather than supporting individuals to live life to the fullest (more of a hospice approach), people with chronic conditions and life-long disabilities are expected to "get better" (a medical intervention approach). The prevailing funding mechanism for medical care in the US is fee-for-service – but this is an ill fit for helping people manage on-going conditions.

The majority of people who require long term care are not covered by private insurance and cannot afford to pay for services out-of-pocket for an extended period of time. Most long term care is paid for via Medicaid and Medicare. Government-funded reimbursement rates were based upon an exploitive 1970s-era labor model that assumes a low level of professionalism, thereby requiring micromanagement of service delivery. Whether in a for-profit, nonprofit, or worker co-op agency, wages have been stymied by the dominant Medicare/Medicaid reimbursement rates. In the budget-cutting environment plaguing most state and federal legislatures, public funding for the current structure of the long term care system is unlikely to increase in the coming decade.

## We can do better

If we as a society are serious about addressing the coming exponential demand for long term care, funding should focus on preventative care and increasing quality of life. Resources would be better spent helping a diabetic manage his chronic illness than reimbursing costly emergency room visits. Funding should entrust a team of front-line professionals and client advocates to engage seniors in activities that prevent social isolation and depression rather than quibbling over the number of service minutes allotted for bathing.

The cooperative model could fundamentally alter the status quo. Cooperatives provide a mechanism to engage direct care workers as professionals, to

give voice to care recipients, and to partner with care advocates and health systems. We need to move beyond transactional thinking (fee-for-service) to transformational thinking (how can we improve the long term care experience for everyone involved).

### Multi-stakeholder approach

Caregivers can't go it alone. Dedicated caregivers have big hearts. But most are the first to admit they have limited business experience and contacts. And if caregivers try to make a go of it alone in the current system (via purely worker co-ops), their economic gains will continue to be modest.

What about a multi-stakeholder (or solidarity) approach among workers, users, and supporters of long term care services? The workers would bring their eyes-and-ears experience to delivering quality care. The users of long term care services (be they direct recipients, family members, or client advocates) would bring their perspective on receiving that care. Supporters (such as a regional health system or a rehabilitation center) would bring business acumen and market opportunities.

For example, day surgery is increasingly common. However, many patients need several days or weeks of help bathing, grooming, and housekeeping when returning home for recovery. A forward-thinking hospital would welcome the opportunity to partner with home care workers to assure a high level of quality care – and thereby avoid infection, injury, or a post-surgery re-admittance to the hospital. The same situation exists for rehabilitation centers. Stroke and paralysis victims may spend months in rehabilitation centers. Upon release from the center, direct care workers could assure that the transition to home goes smoothly and strategies for healthy eating, exercise, and hygiene become routine. These forward-thinking institutional partners would share a common trait – a desire to reduce overall health care costs (by avoiding the need for additional medical intervention) and a desire to help patients live life to the fullest.

Health systems would have more of an incentive to partner with direct care workers and care recipients if Medicare, Medicaid, and private insurance reimbursement were based upon healthy outcomes rather than fee-for-service. For example, in October of 2012 the federal health law reportedly will penalize hospitals if they have higher-than-expected rates of readmission for three medical conditions (heart attack, pneumonia, and heart failure). To reduce re-admissions, hospitals are encouraged to join or start accountable care organizations, in which a team of providers (hospitals, primary care doctors, home health agencies) agree to share responsibility for taking care of a group of patients. Perhaps we in the co-op community could pilot such an approach and document estimated cost savings and healthy outcomes.

### Creating a profession

As the saying goes, “an ounce of prevention is worth a pound of cure.” Higher initial costs for team-based delivery of holistic services would be offset by reduced medical intervention incidents. Caregivers would be salaried and given a caseload of clients with chronic conditions. Like other professionals, caregivers would

meet weekly with a team of therapists, dieticians, social workers, and nurses for strategy and support. Team meetings would offer caregivers an opportunity for ongoing, tailored training specific to their client's needs.

Being the eyes and ears of the long term care system, caregivers would provide trusted prompting to their clients on healthy living goals. Such healthy living interaction would take place in the client's home during informal routines of daily living. For example,

during bath time the caregiver could informally monitor a diabetic for skin ulcerations or improve the mood of an Alzheimer's victim through singing beloved old songs. While grocery shopping the caregiver could engage a client in conversation about healthy food choices or suggest ways to overcome anxiety attacks.



Ray and Tracy

A real career ladder that allows for advancement in care

giving (rather than advancement out of hands-on care and into management) could be created. Caregivers would start at a real living wage – say \$35,000 annually – with clients with moderate chronic conditions. Caregivers could specialize in long term care fields such as Alzheimer care, mental illness, Autism, diabetes care, etc. As caregivers advance in expertise, they could be assigned to clients with more difficult conditions. Salaries could be increased for demonstrated expertise based on the presumed cost savings to the insurer of preventing more costly medical intervention.

## Conclusion

After a decade of organizing worker co-ops in the long term care industry, I have concluded that the status quo is not sustainable. As the Madison Principles suggest, organizing cooperatives demands years of energy and resources; co-op development should only be pursued if there will be tangible benefits for members. Despite our valiant efforts, membership benefits have been modest.

In good conscience, I would not recommend that more worker co-ops be organized in this dysfunctional sandbox.

What I do propose is radically altering the perception of long term care away from a medical model and toward a hospice model – and engaging all who are involved (be they care recipients, care providers, and funders) as peers. It will involve pilot projects with lots of experimentation, mistakes, and evaluation.

The hospice model is about living life to the fullest - with whatever abilities you have, for whatever limited time you have. This approach must be must be conducted in a spirit of respect, must treat all involved as valued peers, and its implementation must begin in the very near future. We in the worker co-op movement have some powerful tools and perspectives. Let's discuss.

As the hospice movement observes, "No one is guaranteed a tomorrow. Say the things you want to say. Do the things you want to do. Live now."

## **WORKER COOPERATIVE DEVELOPMENT MODELS READ MORE AT GRASSROOTS ECONOMIC ORGANIZING - WWW.GEO.COOP CONTINUED FROM PAGE 24**

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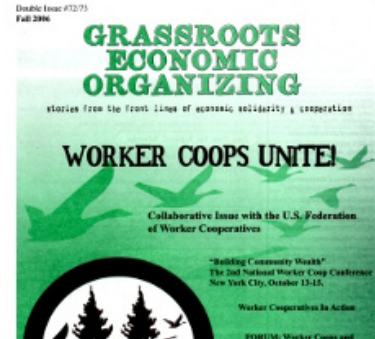
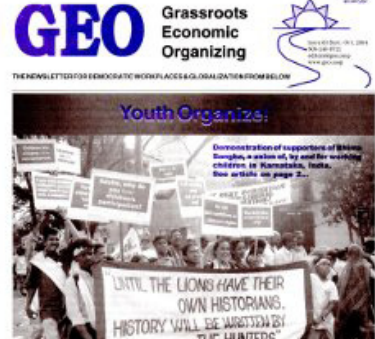
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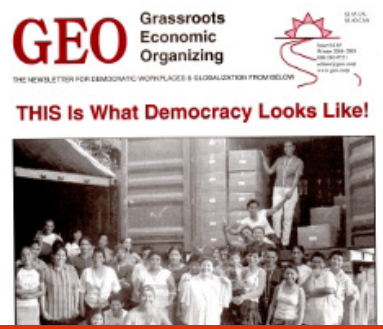
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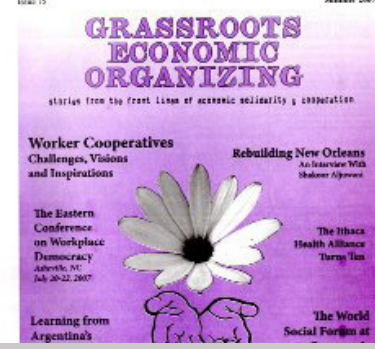


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## NEXT ISSUE: NOBEL AWARD WINNING ECONOMIST ELINOR OSTROM AND THE SCIENCE OF COLLECTIVE ACTION

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