

BULLETIN

WORKER COOPERATIVES

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Burley Design Cooperative (bicycle and bicycle trailer manufacturer), UnionCab (taxi service), Isthmus Engineering and Manufacturing (custom automated machinery), 78 Square (web design), and Nature’s Bakery are all thriving businesses that have one important thing in common. They are all owned and governed by the people who work in the company. They are worker cooperatives.

Background

A worker cooperative is a corporation owned and controlled by the people who work in the company. Worker cooperatives are important business institutions in many parts of the world. Of most significant note is the Mondragon system of cooperatives in northern Spain, but there are also many worker cooperatives in India, Italy, England and several other countries, including an estimated 500 in the United States.

The worker cooperative model dates back to the 1760’s in England and the 1790’s in the United States.

The now extensive Mondragon Cooperative Corporation (MCC) was started in the late 1950’s, building on the philosophies of José María Arizmendiarieta in the Basque Region of Spain. Now the eighth largest business corporation in Spain, the MCC has grown from a loose organization of only a few industrial worker groups to an association of over 100 grass roots cooperatives with more than 3,000 worker owners. It is by far the largest worker cooperative system in the world and is often held up as an example of the great potential and flexibility the worker cooperative model holds.

Legal Structure

Worker cooperatives have several unique characteristics:

(1) The workers jointly own the business. As a group they share company profits as well as risks. (2) The workers/owners govern the business, typically utilizing the principle of one member, one vote to set company policies and elect board members. (3) Also key is that membership is based on a joint decision to both invest in and work in the company.

The worker cooperative model has been used in many types of industries and businesses. The businesses can be small or large, managed by a collective of all members or by a selected manager or management team, and in low or high-income occupations. Examples include retail and wholesale cooperatives (Equal Exchange Coffee, Canton, MA; Roots and Fruits Distribution Cooperative, Minneapolis, MN), production cooperatives (Burley Design Cooperative, Eugene, OR; Isthmus Engineering, Madison, WI; Builders Commonwealth, Duluth, MN; 78Square Web Design, Madison, WI and numerous bakeries around the country) and service cooperatives (Union Cab Cooperative, Madison, WI; New Seattle Massage, Seattle, WA; Cooperative Home Care, Neenah, WI; Poptel Internet Cooperative, Manchester, England; NW Artists Cooperative, Seattle, WA; Pro Arte Chamber Orchestra, Boston, MA).

Worker cooperatives come into being either through the creation of a new worker owned business or through the buyout or conversion of an existing business.

As start-up businesses, worker cooperatives begin when a group of people file incorporation papers with the appropriate state and federal institutions. In Wisconsin, worker cooperatives are governed by Chapter 185 of the State Statutes, which guides all cooperatives in the state. Worker Cooperatives may incorporate under Sub-

chapter T (Cooperative), Subchapter S (S-Corp) or as a Limited Liability Company (LLC) with the Internal Revenue Service. Incorporation provides the protection of limited liability and thus protection from personal liability for business activities.

Worker cooperatives file Articles of Incorporation and create bylaws that outline their organizational structure and governance. Smaller worker cooperatives will often have a governing board that consists of the entire membership. Larger groups often choose to elect from within their ranks a particular subset of 5 to 10 members to act as the governing board and make decisions for the whole membership.

“Employee Stock Option Plans” (ESOPs) are cousins of worker cooperatives, but have some very significant differences. In an ESOP workers are offered, or required, to buy ownership stock in the company they work in. However, this ownership rarely comes with decision-making powers that control the business, which is an important element of the worker cooperative model. Decision-making power in an ESOP remains with the majority stock owners, which may not be the worker-owners. Several private business owners have chosen to sell 49% of their stock to employees in ESOPs. To quote the ICA Group, a non profit that supports ESOPs, “Employee Stock Ownership Plans (ESOPs) are an employee benefit program that offer significant tax benefits to business owners while retaining local jobs and giving employees a stake in their company’s future.” Some ESOPs, however, choose to take on the characteristics of a worker cooperative.

It is a common misperception that worker cooperatives are the equivalent of worker collectives. A *worker cooperative* is a form of ownership. A *worker collective* is a type of management structure.

In a worker collective, management is divided between members of an entire group, rather than in a hierarchical structure where one person or a small group is responsible for general decision making that affects the whole.

A worker cooperative can be managed by a worker collective of the entire membership, but it can also be run with a hierarchical structure of a manager and sub managers. Small worker cooperatives are often managed by a collective of the whole. As worker cooperatives grow in size, it is common for some kind of hierarchical or divided management to be adopted, simply because it is more practical.



Isthmus Engineering & Manufacturing, founded in 1982

A worker collective management structure can be used within other ownership structures as well, such as consumer owned cooperatives or non-profit organizations.

Financial Structure

In a worker cooperative, it is common for an internal capital account to be created for each member owner. This account reflects the value of the member's equity, or portion of net worth, in the entire cooperative. Additions or subtractions are made to the capital account based on the profit or loss of the overall business. Allocations are often called "patronage dividends" and are generated from net profits (or losses) after each busi-

ness year. Worker cooperatives make capital allocations based on the amount of work contributed, rather than on financial investment, which is the standard in non-cooperative corporations. No matter what the value of each individual capital account, each member owns only one share of membership stock, which gains the privileges of membership, including a right to vote. Cost of membership stock will vary widely from cooperative to cooperative, from \$5 or \$10 to \$10,000 or more and is generally based on the up-front equity needs of the business. Membership stock can generally be resold to the cooperative if a member leaves.

Involvement in most worker cooperatives means financial investment. One technology-oriented worker cooperative, for example, requires an initial ownership investment of \$10,000 to join the cooperative. However, few cooperatives require up-front cash, most have a work-related investment plan for the ownership investment. Many worker cooperatives require a trial period before full membership status is granted, allowing both the cooperative and the potential member time to assess the "fit".

Worker cooperatives have some bookkeeping and reporting complexities related to their dual ownership and worker position. Owners are also workers, and so work is compensated on a salary or hourly basis. Many worker cooperatives create a "draw" system, in which work done is paid for as an advance on payment of overall annual dividends. Effectively, the business estimates income and subtracts costs of production and other expenses, paying an estimate of profits back as an hourly draw. At the end of the year, any adjustments to the total annual dividend, up or down, are made. This system will look the same as an hourly wage in any well budgeted business, but has different tax implications.

(The profits, and thus the draw, belong to the owners, not the business and so are singly taxed at the member level only.)

Positive Forces

The unique structure of worker cooperatives within both the business and the cooperative world offer several distinct opportunities.

Because workers share financial and decision making responsibilities, the opportunity for learning from peers and self-empowerment is very strong. Workers are strengthened through self-determination, creating access to quality jobs. Ownership creates incentives for high productivity and quality control. With financial benefits based on work contribution rather than investment, all have equal opportunity to gain.

Worker cooperatives create businesses with local ownership and control, and thus generate positive trickle-down impacts on communities. There are several examples of the use of worker cooperatives to create employment and empower individuals in low-income communities or occupations (for example WAGES in Oakland, California which works with low income women.)

Members of worker cooperatives note that the business form has appeal to clients and customers and helps to build an identity for their operations.

Challenges of Worker Cooperatives

There are some business situations or individuals that are not well suited for the worker cooperative model. A successful worker cooperative is built on each participant's strong sense of responsibility and interest in participating in company decision-making.

A worker cooperative is a collection of individuals that make a mutual pact to be in business together. Each must commit to both invest and work in the business and to trust their co-owner/workers to also be equal to the task. This commitment will not be comfortable for everyone. A high level of trust and excellent communication systems need to be developed in order to ensure success in a worker cooperative. A member of one worker cooperative stated that members need to have a "rare combination of entrepreneurial and cooperative spirit."

Conclusion

Examples of strong companies in both the US and internationally prove that the worker cooperative is a successful and empowering ownership model. The relative obscurity of the model has unfortunately kept development of new worker cooperatives at a moderate level. Continued education about the success of the model should be undertaken to reach all business sectors, especially technology and information industries, where it could be very relevant.

Additional Information

Burley Design Cooperative www.burley.com

Isthmus Engineering & Manufacturing
www.isthmuseng.com

78 Square www.78square.com

Union Cab www.unioncab.com

The ICA Group www.ica-group.org

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Jody Padgham specializes in consumer cooperatives and smaller agricultural cooperatives, including the sustainable woods co-ops developing in the state. She also has experience in small business development.