
STEPS
TO STARTING A
WORKER CO-OP

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Mary's copy

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CREDITS

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INTRODUCTION

Steps to Starting a Worker Co-op is written for people interested in starting a worker cooperative—a business owned and controlled by the people who work in it. It explains the unique features of worker cooperatives and outlines the essential steps for starting one. Specific topics are elaborated on in “features,” including descriptions of successful worker co-ops, sample documents, and more detailed information on specific subjects. References containing more detailed information are presented after each step.

Groups interested in starting a worker co-op typically find themselves in one of the four situations indicated below. This manual applies to any of these situations, but groups should adjust the emphasis of certain steps or elements according to their circumstances. The group:

- knows what business they plan to enter and have decided to pursue the venture cooperatively; or
- wants to buy an existing business and operate it as a worker cooperative; or
- wants to buy the business where they work, or
- knows they want to form a worker cooperative, but are unsure about what business to pursue.

Because forming a co-op involves complex legal and accounting issues, groups organizing a worker co-op should seek the assistance of attorneys and other qualified technical consultants who specialize in the worker cooperative form of business. A list of some of these

specialized organizations and resources is provided at the end of the booklet.

What is a Co-op?

A cooperative is an enterprise owned and controlled by the people who use it—its members. It is operated to meet the *mutual needs* of its members. In a *consumer cooperative* the owner-users are consumers who gain goods or services such as healthy food, child care, housing, or banking services. The owners of a *producer cooperative* use the cooperative to market or process their agricultural goods, arts and crafts, or other products. In both consumer and producer cooperatives, employees may be hired, but they are not usually members of the cooperative. In a *worker cooperative* the workers use the cooperative for employment.

As a business, a co-op is subject to the same needs and demands as any business: sufficient financing, careful market analysis, strategic and comprehensive planning, and well-trained and competent personnel. Co-ops are vulnerable to the same market and economic forces that face all businesses. In important ways, co-ops are also unique.

The most distinct feature of a co-op is its ownership structure. The co-op's members are the business owners—this key feature influences many aspects of how a co-op is organized and operated. Members are the foundation upon which a co-op is built. Without a strong base of members who will work to ensure its success, any co-op will fail.

Co-op Principles

As the cooperative form of business developed over the past 150 years, a set of principles has evolved. These principles, which define features unique to cooperatives and characteristics important to co-op success, were revised in 1996 by the International Cooperative Alliance. The principles described below appear in abbreviated form.

1. Voluntary and open membership

Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political, or religious discrimination.

2. Democratic member control

Cooperatives are democratic organizations controlled by their members, who actively participate in setting policies and decision making. In a worker co-op, worker-members have a right and obligation to participate in the decision making that affects them.

3. Member economic participation

Members contribute equitably to, and democratically control, the capital of their cooperative. In a worker co-op, all worker co-op members gain or lose together. No single member benefits at the expense of other members.

4. Autonomy and independence

Cooperatives are autonomous self-help organizations that are controlled by their members.

5. Education, training, and information

Cooperatives keep their members informed

and provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperative.

6. Cooperation among cooperatives

Cooperatives serve their members most effectively and strengthen the cooperative movement by cooperating with one another.

7. Concern for community

While focusing on members' needs, cooperatives work for the sustainable development of their communities through policies accepted by their members.

Phases of Co-op Development

Most new businesses, including worker cooperatives, typically develop through four phases.

1. **organizing.** This booklet focuses on this phase of development. Organization can take from 3 to 12 months.
2. **start-up.** A phase that usually lasts for about 6 months in which the basic business strategy is tested.
3. **growth.** A phase that may last for several years in which the markets are expanded, management techniques and governance systems are refined, production techniques are altered as dictated by experience, and the workforce is expanded.
4. **consolidation.** The phase in which the worker-owners assess their progress in reaching the targeted growth and develop the firm's goals and strategies for the next 3 to 5 years.

What is a Worker Co-op?

A worker cooperative is a business owned by the workers. Workers are accepted as cooperative members according to criteria set by the cooperative, by working in the business, and through the purchase of a membership share. Each member of the worker cooperative becomes an owner with rights and obligations, including participating in workplace decisions, contributing labor and skills, and receiving an equitable share of profits. Some worker cooperatives hire employees who are not members.

Worker cooperatives apply the general cooperative principles distinctively through a set of *worker cooperative principles* which specify that worker-members:

1. take the full risks and benefits of working in, owning, and operating their cooperative business;
2. equitably contribute to and benefit from the capital of their cooperative;
3. decide how the net income, or net losses, are allocated;
4. govern and control the enterprise on the basis of one member—one vote, by consensus decision making, or other democratic structure;
5. work together (as opposed to being independent contractors) in a commonly owned business.

Worker cooperatives are unique both as cooperatives and businesses. They provide the worker-members with employment and income along with the ownership and control of the enterprise. Through their ownership and control, the worker-members receive a fair share of the profits and enjoy workplace democracy. Worker-owned cooperatives are found in many countries and all business areas, including manufacturing, services, ship-building, food products, restaurants, computer software, engineering, reforestation, construction, and many other industries.

Distinguishing the Worker Co-op

1. A *Worker Collective* is generally a worker cooperative that utilizes consensus decision making. Similarity of members in every sense (pay, authority, etc.) is the hallmark of the collective. Decisions are approved by unanimous support (some collectives do allow votes of a two-thirds or other supermajority under certain conditions).
2. An *ESOP* (Employee Stock Ownership Plan) is distinct and different from a worker cooperative. An ESOP is an employee benefit plan where employees are allocated company stock through a special loan trust called an ESOT (Employee Stock Ownership Trust). Both employers and employees can benefit from an ESOP. Generally, the employee receives stock and accrued financial benefits upon leaving the company, and the employer gains tax benefits, heightened productivity, and takeover protection.

ESOP shares are usually allocated in proportion to wages or length of service or both, and generally favor the highest-paid employees. Voting rights, when they exist, are based on shares owned rather than membership. In a *Democratic ESOP*, the ESOT is used as a trustee that “votes” in accordance with the outcome of an employee vote.

Potential Benefits of a Worker Co-op

When effectively organized and managed, the co-op business structure offers worker-members the following benefits:

- **employment and the ability to generate income.** A worker-co-op gives groups of people an opportunity to become economically independent in a cooperative way.

- **control over the way their work is organized, performed, and managed.** Worker co-ops provide an opportunity to balance workers' needs and concerns with the need for profits and efficiency. Worker co-ops also emphasize the training and development of the worker-members.
- **employment security**, as long as the enterprise is economically viable. Income is not the only purpose for worker co-ops. Worker co-ops are managed to generate income *and* provide stable employment for their members.
- **a financial and ownership stake in the enterprise in which they work.** Worker-members contribute directly to building the enterprise and sharing in its success.
- **an opportunity to practice democracy in the workplace.** Worker-members participate directly in decisions that affect them in their workplace as well as those that determine the growth and success of the business.

Elements Needed for Successful Worker Co-op Start-up

Organizers of worker co-ops must have or obtain all of the following elements to start and operate a successful business. When worker co-ops fail, it is usually because one or more of the following requirements is lacking:

1. **a commitment to cooperative and worker-cooperative principles.** The organizing group must understand what a worker cooperative is and have a commitment to the cooperative model.
2. **a viable business concept.** All members of the group must share a viable business concept or develop a suitable business idea. The business concept is analyzed with a feasibility study and a business plan. Timing is important; changing technology, economic conditions, or impending privatization are just a few of the many forces to consider. (Step 3 describes the business feasibility study in greater detail.)
3. **access to funds or "capital."** Access to adequate capital includes the money contributed by membership (equity) agreed to by the organizing members, loans or grants, the time and labor of the worker-members, and credit from banks and other sources.
4. **entrepreneurial characteristics and business skills.** The following characteristics, experience, and business skills should be present within or available to the organizing group:
 - a. a high energy level—the ability to work hard;
 - b. determination to succeed;
 - c. good oral and written communication skills to sell a product or service;
 - d. flexibility and resiliency to adjust to the rewards and pitfalls of the marketplace;
 - e. decision-making skills;
 - f. ability to mobilize and organize resources;
 - g. ability to work with others to achieve a common goal;
 - h. the courage to try new things;
 - i. previous business experience;
 - j. financial management skills and experience;
 - k. experience and skills in the business area identified.

FEATURE: CHEESE BOARD COLLECTIVE

The Cheese Board is a thriving, respected worker-owned business in Berkeley, California. The Cheese Board started as a sole proprietorship owned by a young, socially conscious couple. Spurred by their beliefs, in 1971 they decided to make their business a cooperative and joined three employees as worker-members. The couple's original start-up investment was reimbursed through self-imposed salary reductions. Today, the co-op's annual gross has swelled from \$200,000 in 1971 to over \$2.2 million.

From the beginning, the workers organized as a collective. There are no managers and every member is paid the same hourly wage. Decisions are made by consensus. The approach works, according to longtime worker-member Steve Sutchter, because members are committed to the approach and because they utilize individual and small group decision making. Sutchter explains, "We have several levels of decisions. If an individual worker needs a new spatula, he or she buys it and is reimbursed by the co-op. If it is a slightly larger item, or a decision that effects the group, it is brought to their shift group. For example, the bread didn't rise evenly—the group gets together and decides whether to sell it as a markdown item. Broader decisions are made at monthly meetings."

There is no shortage of people interested in Cheese Board membership. About one quarter of applicants receive interviews. Selected candidates are invited to work for a trial period of several weeks. If member-workers approve, the candidate begins a 6 month probationary period. At the end of this period worker-members meet and informally discuss the candidate. If any member objects to membership, the candidate is denied membership status. About 80% of the probationary candidates are accepted for membership. Although there are no monetary requirements, new members are asked to make a commitment to stay with the co-op for at least 5 years.

While remaining committed to the collective approach, the Cheese Board has grown and changed over the years. At first, the cooperative's primary product was cheese that was imported from all over the world. Today, bread and pizza are the primary products, while cheese represents one-third of the cooperative's sales. The product changes came about through an interesting convergence of worker and consumer desires. Many Cheese Board members enjoyed the creativity of bread and pizza making. At the same time, consumers were eating less cheese and wanted more healthful and varied bread.

The Cheese Board has grown to 40 members. The larger size has allowed the co-op to expand product production and economic success, but it has also presented challenges to the collective management approach. Members have addressed these issues in two fundamental ways. They divided the cooperative enterprise into two distinct product units: one for pizza and the other for cheese and bread. Each unit meets monthly and makes policy decisions specific to its unit. The units meet jointly four times a year to discuss more encompassing issues. Monthly and quarterly meeting attendance is expected but not mandatory and workers are not paid for the meeting time.

An issue that comes up in any workplace is how to deal with inadequate individual work performance. This issue is addressed, for the most part, during the Cheese Board's screening process and 6 month probationary period. The collective recognizes that there are benefits to different work styles and workers have learned to appreciate that each member

has strengths and weaknesses. In the rare instances that problems with a particular worker cannot be addressed in any other way, the worker has been asked to leave. A severance package of pay and benefits is provided for members who leave the cooperative.

When asked what kind of advice he could give to new worker co-ops, Steve Sutcher replied with confidence: "Whatever you do, do the best you can. You need to care about and have a good rapport with customers. These are good business tactics and they shouldn't be ignored."

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STEPS TO STARTING A WORKER CO-OP

The catalyst for forming a worker co-op is the shared recognition that the cooperative approach is the best way to meet mutual needs.

The co-op should begin with a clear mission, which may include meaningful employment and income, obtaining greater control over the workplace, or achieving job security.

As with any new business, starting a worker

co-op involves thorough and careful business planning. Responsibility for starting a worker co-op and seeing it through rests mostly with the organizing group. That group will serve as the spark to keep the new co-op going and help shape it through the start-up phase. Careful planning, thorough work, and patience will result in a strong foundation and increase the likelihood of success.

Summary of Organizing Steps

The steps below are discussed in more detail in the pages that follow. Each step represents a point of evaluation for whether to proceed with starting the co-op.

- Step 1. Collect information, clarify needs, and assemble organizing group.
- Step 2. Potential members meet to discuss needs and vision. Coordinate organizing and business research.
- Step 3. Conduct a feasibility study; present findings. Obtain a commitment to proceed.

- Step 4. Prepare and review the business plan.
- Step 5. Draft legal papers and secure membership and financial commitments.
- Step 6. Hold the co-op's first, or charter, meeting; define and accept roles.
- Step 7. Implement management. Prepare for business start-up.
- Step 8. Start operations. Implement the business plan.

1. Collect information, clarify needs, and assemble organizing group

PURPOSE

Collect basic information about worker cooperatives and assemble an organizing group. This step lays the groundwork for the group to make an informed decision about whether to start a worker co-op.

GUIDELINES

The organizing group should consist of potential member-owners of the cooperative. The number of people who can participate most effectively is 5 to 15. One or two members would be inadequate because of the amount of work to be accomplished, and more than 15 could make the initial group unwieldy and unproductive. The organizing group should be prepared to devote substantial time to complete necessary research, attend weekly or bi-weekly meetings, and participate in committee work.

Collect materials, facts, and data.

- Gather information about how worker co-ops operate, and review the legal requirements and internal capital account structures needed to organize this type of business.
- Collect information about starting a business.
- Conduct preliminary research about your business idea to help identify strengths and weaknesses, as well as potential obstacles and problems. For instance: Are there similar businesses? How do they operate? What are their strengths and weaknesses and what opportunities or threats does competition present? What are the biggest obstacles they face? What would your group need to do to succeed in this market?
- Identify resources available to your group—including organizations and individuals

able to provide business and worker-cooperative development assistance.

- Begin collecting information about financial resources available to the group.

Identify people who might share an interest in the co-op.

- Share information about developing a co-op and assess interest.
- Identify and discuss mutual needs and how a co-op could address them.

Inventory the skills and experiences of people in the organizing group.

- Review *Entrepreneurial Characteristics and Business Skills* on page 8 and assess which skills and experience exist within the group and which need to be acquired through education, member recruitment, or hiring appropriate consultants.

Clearly identify the mutual needs and expectations that a co-op could address and establish group expectations.

- **Shared objectives.** Develop clear group objectives to avoid misunderstandings or failures. These objectives might include job satisfaction, maximum income, or reasonable income along with secondary objectives; the development and marketing of a product, the growth of an enterprise or industry, spreading cooperative principles, or creating a socially or environmentally responsible workplace.
- **Expected level of income.** Draft an explicit statement of the minimum income level and other related benefits each member expects. This is important in selecting a business idea and in conducting the feasibility study and developing the business plan necessary in determining whether the enterprise is feasible.

- **Ownership and capital structures.** Discuss the legal issues and capital structure to determine if a cooperative is the best way to meet group objectives. Although the details of incorporation and capital are determined at a later stage, members can reach general agreement on this topic before the bylaws and membership agreements are completed.
- **How profits get dispersed.** It is important to agree on any pay differentials among workers with varying skill levels. If pay differentials are agreed to, discuss the criteria that will be used to establish varying wages. Agreement should also be reached on whether managers will be utilized, whether they will be paid more than other workers, and, if so, what the ratio should be between the two groups.
- **Business product(s) or service(s).** Identify a business product or service idea from the start. See *Selecting a Business Idea* (p. 4), for information on seeking a business topic.

KEY DECISIONS: DOES YOUR GROUP SHARE A MUTUAL NEED AND A VIABLE BUSINESS IDEA? IS A CO-OP THE BEST WAY TO ADDRESS IT?

For more detailed information: (for the complete citation, see the Bibliography)
 Adams and Hansen, *Putting Democracy to Work*, chapters 1 and 2
 Baker and Nakazawa, *Organizing for Business as a Cooperative*
 Ellerman, *What is a Worker Cooperative?*
 Honingsberg, Bernard, and Kameroff, *We Own it*, sections 2 and 3
 Industrial Cooperative Association, *Basic Orientation*
 National Cooperative Bank, *How to Organize a Cooperative*

FEATURE: SELECTING A BUSINESS IDEA

Sometimes groups interested in starting a worker co-op know they want to form a worker cooperative, but are unsure about what business to pursue. Once the reasons for starting the worker co-op are identified and agreed upon, the group has a basis for looking for sound business ideas. This feature outlines the process for selecting a business.

Apply the screening process to all potential business ideas. The screening process to identify the most promising enterprises for worker co-op development consists of: (1) listing possible business ideas; (2) collecting information and narrowing the list of possibilities by evaluating, discussing, and conducting feasibility studies of the most promising ideas; and (3) selecting the business idea that best utilizes the prospective members' interests and skills with the factors necessary for successful co-op development.

1. List the possibilities.

- Inventory the group's skills and interests; brainstorm compatible business ideas.
- Seek ideas from fellow workers and respected sources.
- Look at the existing types of businesses in your community. Evaluate existing natural and other resources. Are there any gaps or opportunities open to a new business?
- Observe existing businesses for ideas to help design the new business.

2. Narrow the possibilities.

- Identify and discuss the pros and cons to the business ideas.
- Conduct feasibility studies of the most promising ideas (see pp. 21 and 24).

3. Selecting the best business idea. Clarify your group's objectives. Fully explore the compatibility between each business idea and your group's reasons for starting the co-op by answering the following questions. Would the proposed worker co-op:

- meet the group's employment and income needs and other objectives?
- secure the necessary resources to generate desired levels of employment and income?
- provide needed goods and services?
- utilize or expand the group's skill base?
- provide links with existing businesses for new opportunities?
- cause environmental or other problems for the employees or the community?

Assess the business and political environments:

- Would the business have a steady, reliable market for its goods or services? If so, would that market grow or stagnate over time?
- Would the organizing group be able and willing to provide the equity capital and workforce required to start and operate the business?
- Would the necessary capital investment require large debt financing? If so, would existing lenders or sources be willing to provide it?
- If the business failed, would the enterprise be saddled with a large debt, unused or unusable buildings and equipment, or unemployed worker-members?
- Would the business have or be able to obtain the special skills and licensing needed?
- How long will it take before the business breaks even, and can the business and members be financially sustained during this time?
- Would the business generate sufficient profits to recover the start-up costs and provide money for expansion and growth?
- Would the business provide good jobs and steady income for the worker-members?

Adapted from G. B. Hansen and E. Mogensen, "Working Together to Create Jobs"

2.

Potential members meet to discuss needs and vision. Coordinate organizing and business research.

PURPOSE

Assess if enough interest in starting a worker co-op exists to justify further research and planning. Elect a steering committee to collect information and prepare detailed plans for organizing the new co-op.

GUIDELINES

Hold an informational meeting for people interested in organizing a worker co-op.

- Plan for an effective meeting (see p. 17).
- Present initial research findings.
- Allow enough discussion time for people to ask questions and express their views. Be clear and specific about what a worker co-op can and cannot do, what is involved in the organizing process, and that the process will take substantial time and work.
- Vote on whether to proceed.
- Funds are necessary for initial research and other organizing costs. Investing personal money or helping with fundraising are excellent ways to test commitment to the co-op. The group may decide to collect a specified dollar amount from potential members.

Handling Funds

Money should be deposited in a special bank account, placed in escrow, or managed in a manner that assures members of security and fiscal responsibility. Money may be collected from potential members, earned through

fundraising activities, or procured through development loans or grants.

Make a plan for how unused development funds will be used if the co-op isn't formed. State laws may dictate restrictions, but options may include donation to a specified charity or nonprofit organization, or redistribution to specific contributors.

Establish a core decision-making group or select a steering committee.

If the group is small or consensus decision making is utilized, all members function as the steering committee. The steering committee coordinates and oversees co-op development until a board of directors is elected. The committee may conduct the research itself, coordinate and oversee the work of others involved in the organizing process, or it may serve as a liaison between the members and outside consultants. The steering committee is responsible for:

- surveying potential members about their level of interest in starting a worker co-op;
- overseeing selection of a business idea;
- collecting market and financial information;
- conducting a feasibility study;
- keeping potential members informed of the group's progress;
- coordinating organizational meetings;
- overseeing the preparation of a thorough business plan for the new worker co-op.

KEY DECISION: IS THERE SUFFICIENT INTEREST IN AND COMMITMENT TO STARTING A WORKER CO-OP?

For more detailed information: (for the complete citation, see the Bibliography)
Adams and Hansen, *Putting Democracy to Work*, chapter 3
Brandow and McDonnell, *No Bosses Here!*, chapters 2 and 3
Gastil, *Democracy in Small Groups*
U.S. Department of Labor, *Committee Effectiveness Training*

FEATURE: GUIDELINES FOR SUCCESSFUL MEETINGS**Some Components of Good Meetings**

- Good facilitation
- Commonly understood goals
- High level of participation

Be Prepared

1. Select a time and location convenient for most people.
2. If additional co-op members need to be recruited, publicize the meeting. Send press releases to your local media announcing your meeting and specify a contact person. Encourage word-of-mouth promotion. Post notices at strategic locations.
3. Clearly define the goals of the meeting and structure it accordingly. Begin the meeting with the most important items.
4. Arrange for a facilitator and note taker in advance, and specify what should be included in the minutes (see *Keep Minutes*, below). Groups meeting regularly may consider rotating facilitation to give more people a chance to develop these skills.
5. Prepare a written agenda and post or distribute it (ahead of time if possible). Distribute a handout that includes the names and phone numbers of people to call for answers to questions.
6. It is best to limit meetings to 2 hours, but make sure that the meeting goals and agenda items can be met in the allotted time.

Sample agenda: (for an informational meeting)

- 7:00 p.m. Introductions
- 7:15 p.m. Background and basic report: Describe what a co-op is, how it operates and how it can address mutual needs and interests.
- 7:30 p.m. Discussion and decision making:
 - What are our mutual employment and income needs and other interests?
 - Do we have a suitable business idea?
 - Does the concept of a worker co-op idea make sense?
 - Present preliminary objectives—discuss and modify.
 - Vote: Should we continue to research the idea of starting a worker co-op?
 - If so, divide organizing responsibilities among those interested or elect a steering committee to guide the organizing process.
 - Set the next meeting's date and time.
- 9:00 p.m. Adjourn (on time).

Keep Minutes

Minutes record what happened at the meeting, including:

- meeting date, location, and who attended;
- the statement and source of a proposed resolution presented for vote;
- who seconded the resolution;
- note if there was a lot of discussion and briefly summarize it;
- the vote total—if consensus if used, note who dissented.

Utilize Optimal Facilitation Techniques**1. Keep the facilitator role neutral**

- The facilitator's role is to ensure that the group accomplishes the meeting goals in a democratic manner.

- A facilitator should leave the facilitator role to offer an opinion by saying something like, "Stepping outside my role of facilitator, I think . . ."
 - If the facilitator wants to support a particular position, s/he should turn the role over to a volunteer until discussion ends on that agenda item.
- 2. Keep the meeting moving, on track, and on time**
- Call the meeting to order on time. Review the agenda and meeting goals. Ask participants to introduce themselves.
 - Introduce each agenda item and call on those making presentations.
 - Make sure that discussion does not get stuck on an item. If a discussion wanders off the subject, remind the group of the agenda item being discussed and the objective of the discussion. If the group lacks sufficient information, cut off the discussion and clarify the information needed for the group to make a decision at a subsequent meeting.
 - Conduct needed voting. Before a vote, clearly state the motion or proposal. If the outcome is close, ask someone to verify the vote by re-counting hands or ballots. If consensus is used and there are few dissenters, find points of agreement and work to redefine the motion.
 - Conclude the meeting on time and on a note of achievement. Remind participants of the actions taken and decisions made. Ask participants to evaluate the meeting by stating what went well and what could be improved to promote more productive meetings. Close by identifying follow-up actions and announcing the next meeting date, time, and location.
- 3. Encourage meaningful discussion**
- Ask people to speak for themselves and to be specific. Do not allow statements like, "Some people seem to feel . . ." or "What s/he is trying to say is . . ."
 - Keep the discussion on the topic, but encourage people to express their opinions.
 - Deal with differences of opinion. When handled forthrightly, differences of opinion can yield creative solutions.
- 4. Help everyone to participate**
- Make sure everyone has an opportunity to speak. Do not let one or two people monopolize the discussion. Draw out those who tend to be quiet.
 - Encourage open discussion that allows for disagreement on issues, but do not allow participants to behave rudely.
 - If the agenda is taking longer than anticipated, decide as a group whether to extend the meeting or to move some agenda items to the next meeting.
- 5. Dealing with disruptive behavior**
- A. Prevention techniques
- Get general agreement on the agenda before the meeting.
 - Use group input to set ground rules at the beginning of the meeting. For example: be brief; allow everyone to participate; do not interrupt. Restate the ground rules at the beginning of each meeting.
 - If certain people continually cause problems, encourage the other participants to point out their offensive behavior.
- B. What to do when problems occur
- When a person's comments are off track, repeat the goals of the meeting ("That is an interesting point, but we are focusing on _____").
 - If someone is dominating the discussion, explain the importance of group participation and call on others to express their thoughts.
 - Take short breaks to relieve tension.
 - Form small committees to deal with specific problems or issues instead of using valuable group time.

—Adapted from "Facilitating Meetings" by Gayle Haberman

3.

Conduct a feasibility study; present findings. Obtain a commitment to proceed.**PURPOSE**

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

GUIDELINES

Conduct preliminary market research and analysis. Assign tasks to individuals or subcommittees. Obtain outside professional assistance if available and needed. Market research and analysis identifies potential markets, discerns the potential market niche, and defines the operational technicalities such as how to manufacture and distribute products or services. Research may vary depending on the business area. The basic questions are: "Can it be produced?" and "Will it sell?"

- Visit similar worker co-ops in the area and talk with key individuals from worker co-ops in other regions.
- Find out about other businesses in your industry, whether co-op or not, and how they operate.
- Conduct a market survey of potential customers and suppliers.

Consider experience and skill needs. Members of the organizing group must have the necessary interpersonal skills and commitment to be effective participants in a business featuring democratic decision making and governance. They must be willing to work cooperatively and actively participate in self-governance. Finally, they must have the necessary business skills to operate and manage the proposed business and the necessary technical skills to manufacture the product or provide the service.

- Inventory the skills of the organizing group and compare them with the skills needed for the proposed business.
- If the group lacks some skills and expertise, determine how they can be developed or obtained.

Identify special equipment, facilities, or licensing required. Note any requirements the government may impose on the business, and list the types of equipment and facilities required to operate the business. These must be readily available or accessible.

- Compile a list of permits needed (including business licenses), equipment and facilities to be acquired, and tasks to be accomplished. Approximate the costs or lead time required to obtain them.

Calculate the costs of doing business and prepare financial projections. The initial financial projections and other findings must make sense and justify starting a worker co-op. When calculating start-up costs, include rent, payroll, insurance, equipment, utilities, raw materials, advertising, and other business expenses. Establish a price for the product or service and answer the following questions: Is the price at or below the competition? Would the product or service sell at that price? Can the business make a profit if it sells the product or service at the proposed price?

Make comparisons and evaluate competition. Using the above answers, compare your proposed business with other businesses in the same industry. Costs of production, product prices, anticipated revenues, size of workforce and management, and organization of business operations all need to be compared to similar characteristics of other businesses in the industry.

- Talk to bank or trade association represen-

tatives, or, if possible, workers at other firms to learn about typical businesses in the industry, or what the prospects are. Use public sources of information to get data on the firm or industry.

Explore sources of funding. Starting a worker co-op requires secure financing; explore all sources of funding to finance the start-up. Determine the funds needed to start and operate the enterprise. Consider if members could contribute “sweat equity” in addition to cash as part of their initial investment.

- There are two primary ways to compete successfully: offer a lower price than the competition, and offer a better (or differentiated) product or service. The second approach is often more realistic for small businesses.
- Investigate and identify possible sources of capital funding—membership capital as well as loans from banks and other lenders, or possibly grants.
- Investigate alternative funding sources such as special start-up financing, economic-development money for job creation and community revitalization, and self-employment or small-business loans available to firms in certain locations.

Utilize professional assistance. It is often necessary and beneficial to hire consultants or experts to help complete the feasibility study,

write the business plan, or start a business.

- Obtain help from outside experts and consultants experienced in starting new businesses and new worker co-ops. Check with your regional cooperative development center, university business school, Small Business Development Center, county extension office, state and local economic-development agencies, chamber of commerce, and related groups for technical resources and experts. Additional sources of assistance range from fellow workers, suppliers, customers, and other businesses and co-ops, to libraries, trade associations, and colleges and universities.

Prepare a written report. Compile and analyze the information collected. Outside experts and consultants can be invaluable in verifying the accuracy of your research.

Meet to discuss the report and findings.

- Encourage full discussion by all participants.
- After presenting the feasibility study and steering committee’s recommendations, allow point-by-point discussions. Several meetings may be necessary to cover the entire report.
- Participants may request further research or changes in the report.
- Following in-depth discussion, vote on whether to proceed.

KEY DECISIONS: IS THERE A MARKET FOR THE NEW BUSINESS? DO THE INITIAL FINANCIAL PROJECTIONS AND OTHER FINDINGS MAKE SENSE AND JUSTIFY STARTING A WORKER CO-OP? DOES YOUR GROUP HAVE THE REQUISITE SKILLS, KNOWLEDGE, EXPERIENCE, AND RESOURCES TO START THE PROPOSED BUSINESS?

For more detailed information: (for the complete citation, see the Bibliography)

Adams and Hansen, *Putting Democracy to Work*, chapters 3 and 6

Brandow and McDonnell, *No Bosses Here!*, chapters 3, 5, and 6

Haberman, *Facilitating Meetings*

Kamoroff, *Small-Time Operator*, section 1

Rasmussen, *Financial Management in Cooperative Enterprises*

FEATURE: FEASIBILITY STUDY DECISION CHECKLIST

Steps in Conducting a Feasibility Analysis	Completed	Not completed	Action to be taken
1. Reasons and expectations for starting a worker co-op have been fully explored.			
2. A proposed business idea has been identified.			
3. Compatibility of business as a worker co-op has been determined.			
4. Compatibility of human resources with business needs has been determined.			
5. Market research has been carried out.			
6. Availability of resources, facilities, and equipment has been determined.			
7. Estimated costs of starting the business have been determined.			
8. Comparisons have been made between a proposed business and other firms in the industry.			
9. Sources and availability of funding needed to start the business have been fully explored.			
10. Study results have been interpreted to determine feasibility.			
11. A meeting has been organized to report on and discuss feasibility findings.			
12. A vote has been taken and a "go/no-go" decision has been made.			
13. Co-op objectives have been prepared and approved by the members.			
14. A pre-start-up educational program has been organized.			

—Adapted from Adams and Hansen, "Putting Democracy to Work"

FEATURE: BURLEY DESIGN COOPERATIVE

Burley Design, a company that made touring bags for bicyclists, began as a partnership in the early 1970s. By 1978 the Eugene, Oregon company was steadily employing additional workers. The owners became uncomfortable with being bosses. Inspired by many worker-owned businesses in Eugene, they sold the company to the workers' co-op in 1979, and the name was changed to Burley Design Cooperative. The new cooperative began with seven worker-members, including the original partners. Each member initially contributed \$2,500.

By 1980 the co-op had grown to 15 worker-members and annual sales totaled \$500,000. Throughout the 1980s the company experienced strong growth as it continued to broaden its line of products. Today the company manufactures rainwear, bicycle trailers, and tandem bicycles. Sales are nearing \$10 million, and membership has grown to 89.

One of the co-op's highest priorities is to provide year-round employment to all its worker-members. All Burley members earn the same hourly wage and are eligible for patronage dividends (distributions of the company's profit) calculated and paid based on hours worked. Patronage dividends have varied from nothing to a high of 100% of members' annual income. The co-op distributes all eligible profits, paying members 20% to 50% in the annual patronage dividend. The remainder is held in an interest-bearing internal capital account. The co-op tries to pay this remaining money, the allocated patronage dividends, within 3 to 5 years.

During its busy season, the co-op sometimes hires temporary employees who receive the same hourly pay as members. Prospective co-op members, including interested temporary workers, submit an application and qualified candidates are interviewed by a team of members. The team recommends to management whether the candidate should be hired for a 6 month trial period. Following this trial period, any member who has worked with the candidate can vote for or against membership acceptance, but management ultimately makes the final decision. Once approved, members are required to invest \$2,500, paid in full or through payroll deductions over time.

Worker-members are organized into work-group teams based on tasks—office, sewing, research and development, trailer assembly, and tandem. Each team has a manager and handles their own scheduling, budgeting, equipment, and purchases. Team plans and budgets are submitted to a management team made up of the team managers and the co-op's general manager. The management team prepares the company's complete budget and presents it to the board of directors for approval.

All co-op managers are worker-owners and receive the same hourly wage as every other worker-owner. Each division or team submits their recommendation for team manager to the board of directors for approval. The final determination for team managers, as well as the general manager position, rests with the board of directors. All managers are evaluated annually by the board.

Co-op members elect eight members to serve 2 year terms on the board of directors. Appointments are staggered so that four candidates are elected each year. Most elections have 10 to 15 candidates running for the four available seats. Candidates are nominated at a membership meeting. Two weeks later, members submit their votes by written ballots. Virtually all co-op members vote in these elections.

When asked her opinion of the key to worker co-op success, founding member Susan Eicher recommends that members "need a common mission that is understood and shared by everyone. It requires the ability to maintain that vision while still allowing for new ideas, as well as positive change and growth."

4. Prepare and review the business plan.

PURPOSE

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

GUIDELINES

The successful co-op relies on a detailed and thorough business plan. The business plan serves two main purposes: (1) it is the blueprint and basic guide for the members and managers when the co-op starts operations; and (2) it is the central document to any loan or other funding application.

Importance of the business plan

- The business plan, a revised and expanded version of the feasibility study, outlines and defines every facet of the proposed co-op's potential business and operations—who will be involved, who the customers will be, how they will learn about the co-op's products and how the products will get to them, where the money will come from, and the operational costs (see page 24).
- Documenting your ideas and assumptions, projecting financial and operational figures, and pulling these elements together into one complete plan helps to minimize the risk of business failure. The plan will change over time to adapt to changes in the business environment.
- Verify the accuracy of the business plan by

getting accurate and objective feedback from consultants and resource people experienced in business start-ups and preparing business plans.

Prepare the report for presentation to potential members

- The organizing committee should prepare a report (or supervise its preparation) that summarizes the findings of the business-plan research. Attach the summary to the top of the business plan and distribute to potential members for review.
- End the report with recommendations of whether to proceed with the co-op.

Discuss the business plan with potential members; obtain their consent to proceed.

- Review and discuss the business plan; make adjustments.
- Obtain the group's formal commitment to organize the co-op.
- Vote on whether to proceed.

Initiate funding

- Get definite financial commitments from potential members to distinguish those committed to the co-op, and to generate money to pay for preparing the organizing documents outlined in Step 6. Observe state and federal securities laws.
- Prepare loan documents, as applicable, to seek additional funding from banks, lending agencies, economic-development agencies, and other sources.

KEY DECISIONS: DOES THE BUSINESS PLAN SUBSTANTIATE THE CO-OP'S SHORT- AND LONG-TERM VIABILITY AS A BUSINESS ENTERPRISE?

For more detailed information: (for the complete citation, see the Bibliography)
 Adams and Hansen, *Putting Democracy to Work*, chapter 4
 Berry, *Business Plan Pro* (computer software)
 Swanson and Myers, *Business Planning for Cooperatives*
 Ward and Kennedy, *The Business Plan Manual*

FEATURE: ESSENTIAL BUSINESS PLANNING ELEMENTS

The business plan expands, updates, and adds precision to the feasibility study by describing in great detail what the proposed co-op is all about, what its goals are, how it will operate to achieve those goals, and establishes a schedule for doing so. The business plan tells the group what is essential for a successful worker co-op business venture; forces them to think through what they want to accomplish, and to make a number of important decisions before investing significant time and money.

The completed business plan also serves two very important functions: (1) it is the funding document economic-development agencies, banks, and other lenders require to grant loans and other start-up financing, and (2) it is the blueprint for starting, expanding, and operating a worker co-op during its first years of operation.

The business plan:

1. identifies and defines the business.

Compare the proposed co-op to the competition to evaluate its potential. This involves identifying the industry and the product or service area of the co-op, the potential customers or clients, and the elements that would make the co-op competitive.

2. analyzes the data.

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

3. describes the strategy.

Once rough projections are made of what the proposed co-op could achieve, it is time to make plans to achieve them. This part of the business plan has four parts:

- A. **a general marketing plan**, including location (if location is critical to marketing the product or service), sales and distribution, advertising and promotion, pricing, and so on.
- B. **a production plan**, including location and facilities, production methods and equipment, materials, and sources of supply.
- C. **an organization plan**, including the essential co-op organization:
 - governance, participation, ownership, and the individual capital accounts system;
 - identification of the key personnel involved in the management and governance of the enterprise;
 - the educational and training needs of the workforce;
 - information about compensation and staffing—including the number of worker-owners and the functions to be performed; and
 - information about the necessary supportive services and linkages.
- D. **a schedule**, outlining the major steps to start the co-op, when to take them, and how they interconnect.

4. forecasts the results.

- C. **a cash-flow statement** showing all sources of cash over time (including cash sales and collections on credit sales, loan proceeds received, capital invested by owners, and proceeds from the sale of assets), and how the cash is spent (paying for shipments of inventory or supplies, paying wages and bills, buying equipment, making loan payments, and dividends or withdrawals for owners).

The final document

Once the elements are completed, the business plan should be written, organized, printed, and bound to make the strongest possible case for the co-op and its organizers, both in terms of its content and how it is presented. Because it is written partly for outsiders, such as bankers, to convince them to loan money to the enterprise, it provides background and other information to demonstrate the soundness of the venture.

Normally, a formal business plan for a new worker co-op contains five parts:

- A. title page,
- B. table of contents,
- C. executive, or brief, summary of the findings,
- D. main body divided into sections describing the various components of the business idea in considerable detail, and
- E. supporting documentation, including the pro forma financial statements covering projected operations during the first 3 to 5 years.

—Adapted from Ward and Kennedy, "The Business Plan Manual"

5.

Draft legal papers and secure membership and financial commitments.**PURPOSE**

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

GUIDELINES

To protect yourself legally, consult an attorney experienced with worker cooperatives to assist with this step.

Select a name. To conduct business and incorporate, the co-op must have a name. Including the word "cooperative" or "co-op" in the name reminds members and the public that it is a worker-owned business. Some states require that "cooperative" or "worker co-op" be included in the name to legally organize it as a co-op.

Prepare bylaws. Although it is important that bylaws reflect the specific issues and needs unique to your cooperative, obtain bylaws from other worker cooperatives in your state for guidance. The references that follow this step contain sample bylaws.

- The bylaws, or fundamental rules of the co-op, provide legal guidance for operating the co-op. Because changing bylaws can be a difficult process, each bylaw should be presented as a general statement that will remain consistent over time. Guided by the bylaws, the co-op will eventually need to establish policies and operating procedures that are more specific. The general areas covered in the bylaws include specifying who is eligible for membership; the parameters of member employment (e.g., defining the probationary period for membership, whether work is full- or part-time), identifying the capital contributions members must make, and how payroll or other

distributions will be made; defining how the net income or losses of the cooperative will be distributed; identifying how decisions are made; the roles and responsibilities of the board of directors and officers and how the board is to be selected (if applicable); how membership and board meetings will be conducted; how the co-operative will be managed; expectations for ongoing education and training; and how bylaws can be changed.

- Establish plans for mediating conflict between managers and worker-members that balance power and authority with accountability.
- Proposed bylaws must be thoroughly discussed among prospective members (and modified where necessary) before adoption.

Design a membership agreement. The membership agreement specifies the rights and obligations of membership. It is an important document that should be created with the input of organizers, prospective members, and legal counsel.

Decide how to incorporate the business.

A co-op is strongly encouraged to incorporate because incorporation limits individual members' liability, provides a legal entity for business transactions, allows enforcement of bylaws and membership agreements, and may provide tax advantages. The business can be incorporated as a worker co-op in states with worker co-op statutes (Connecticut, Massachusetts, New York, Oregon, and Washington) that have adopted the Massachusetts Model Act. Many states have general cooperative statutes designed for consumer cooperatives that may be used by worker cooperatives. Additional options for incorporation can include using your state's general business-corporation

statute or the foreign-incorporation provision of the worker-cooperative acts. Incorporating under any statute not specifically designed for a worker cooperative in your state may be problematic, so evaluate the best way to incorporate with the guidance of an attorney experienced with worker cooperatives.

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

- The articles should set forth the cooperative's name, address, duration, and purpose; how membership works; what capital is required of members; what happens to the cooperative's assets upon dissolution; and other information required by state regulations.
- Articles should be general (more general than bylaws) so that they are as flexible as state statutes allow. The articles take precedence over bylaws, and bylaws cannot contradict what is stated in the articles.
- The proposed articles of incorporation should be discussed with prospective mem-

bers, reviewed by an attorney familiar with worker cooperatives, and filed with the Secretary of State's office, although specific regulations vary by state. If the articles satisfy the statutory requirements and the fees and taxes are paid, the Secretary of State will issue a certificate of incorporation that creates the cooperative.

Secure membership commitments.

- Prospective members become members when they sign the approved membership agreement and follow through on its preliminary conditions, making an initial capital contribution.
- Depending on the amount of the capital contribution required, it may be necessary to obtain a loan from a credit union or other lender for the members. Members pay off the loan in installments or through payroll deductions once the enterprise is operational.
- Additional canvassing may be needed for prospective members who want more time to think about joining or those unable to attend the meeting.

KEY DECISIONS: CAN THE BUSINESS BE LEGALLY ORGANIZED TO ACCOMPLISH WHAT WE WANT TO DO, AND DO WE HAVE MEMBERSHIP COMMITMENT TO CO-OP?

For more detailed information: (for the complete citation, see the Bibliography)
 Adams and Hansen, *Putting Democracy to Work*, chapter 7, Appendix F
 Baldwin, *Cooperative Incorporation Sourcebook*
 Honigsberg, Kamoroff, and Beatty, *We Own It*, Sections IV and V
 National Cooperative Bank, *Draft Articles and Bylaws* (see *Resources for Further Assistance*)
 Soloman and Kirgis, *Business Cooperatives: A Primer*
 Utah Center for Productivity and Quality, *Draft Membership Agreement* (see *Resources for Further Assistance*)

FEATURE: CITYBIKES WORKER CO-OP

Roger Noehren owned and operated Citybikes, a bicycle repair shop in Portland, Oregon for many years. Tired of the endless demands of running a business, in 1989 he offered his employees the opportunity to buy the shop rather than close it or sell it to others. Noehren's asking price for the business was very reasonable, and he offered to finance a loan for his employees to purchase it.

One employee, Tim Calvert, who had experience with co-ops and collectives, was especially interested. His enthusiasm inspired a group of employees to consider buying the business. They researched successful worker co-ops through reading and personal visits and decided to buy the business and structure it as a worker cooperative.

The co-op opened for business in 1990 with five members. Each invested \$1,000. Members unable to invest that much substituted their labor for cash.

As the business grew, the co-op hired employees. The workload at Citybikes increases during spring and summer and is slow in winter. Hiring employees allows the co-op to adapt to the fluctuating workloads. Employees are paid on the same wage-scale as members. Interested employees are considered for membership after 6 months of satisfactory work. "Besides doing quality work, members need to work well with co-workers and with customers," says Tim Calvert.

Citybikes pays wages based on seniority and experience. Members are very mindful of pay differentials between the highest and lowest paid employees and have an informal policy of no more than a 2:1 ratio difference. Worker-members are guaranteed work at least 3 days a week year round, even during the slow winter season. The co-op retains from 50 to 70% of its profit for capital needs and distributes the remainder to members as "patronage refunds," a distribution of co-op profits based on hours worked. Patronage refunds average about 10% of the members' annual income.

Co-op membership has grown to 11 members, and the original membership fee has remained constant at \$1,000. Interestingly, Roger Noehren, the original owner of the shop, has joined the co-op as a member and co-owner. Because of its growth and financial success, the co-op has opened a second shop, "The Annex," that sells used bikes. The original shop remains a repairs-only facility. According to Tim Calvert, "Citybikes success is based upon worker-owners understanding what they do best and then doing it. It is [also] based upon people learning how to work in a cooperative way: being patient, tolerant, and clear."

Until recently, Citybikes had been managed by the entire group, but the co-op recently instituted a new management system. To address the needs of a larger membership, management has been broken into three committees: business policy, personnel, and quality control.

6.

Hold the co-op's first, or charter, meeting; define and accept roles.**PURPOSE**

Formally begin the cooperative and accept the articles of incorporation and bylaws.

GUIDELINES**The first membership meeting**

- The primary purpose is to approve legal documents and institutionalize the process of governing the new enterprise.
- This is also the first annual meeting. Most worker co-ops hold an annual membership meeting that typically considers financial reports, and reviews, discusses, and votes on proposed policies.
- Minutes should record what transpired.

Decision-making process and election of board of directors

- Members may decide to jointly manage their business as a collective without a formal board of directors and hired manager. In this case, the owners should discuss, develop, and approve bylaws and operating procedures that explain the co-op's governance and decision-making structures. If the co-op is incorporated the need for a board of directors can be met by making every member a director. In a collective managerial or other decisions are usually made by consensus. Indicate circumstances and conditions where majority voting may be appropriate and specify the majority necessary, such as 75%.
- If the worker cooperative is large, or the

organizers prefer to choose the more conventional governance structure, they will need to elect a board of directors.

Review and approve the articles of incorporation

- Review the articles. Allow time for members to discuss any concerns or questions.
- Vote to approve the articles.

Adopt bylaws

- Review and discuss bylaws. Amend, if necessary, assuring that changes are legal.
- Vote to approve the bylaws.
- If a board of directors is elected, hold the first board meeting shortly after the charter meeting and elect officers—board president, vice-president, secretary, treasurer, or other positions listed in the bylaws.

Convene the business or board meeting

- Select a financial institution; arrange for bookkeeping and the handling of finances.
- Clarify how roles are to be assigned and responsibilities fulfilled (e.g., preparing job descriptions, action plans, or work assignments); determine training needs, and arrange for the training to be provided.
- Devise a plan to work with members to address all start-up matters as detailed in the business plan.
- If the co-op plans to hire or appoint a professional manager, the board establishes procedures to carry out the search or selection (see Step 8).

KEY DECISIONS: ARE THE ARTICLES AND BYLAWS ACCEPTABLE TO THE MEMBERS AND THOSE WHO WILL SERVE ON THE BOARD OF DIRECTORS?

For more detailed information: (for the complete citation, see the Bibliography)
 Adams and Hansen, *Putting Democracy to Work*, chapter 8
 Saglio and Hackman, *Design of Governance Systems for Small Worker Cooperatives*
 Solomon and Kirgis, *Business Cooperatives: A Primer*
 USDA Cooperative Service, *Organizing and Conducting Cooperatives' Annual Meetings*

FEATURE: BASIC RESPONSIBILITIES OF THE WORKER CO-OP BOARD OF DIRECTORS

The board of directors is elected by the worker-owners. When a co-op chooses to operate without an elected board, each cooperative member should be designated as a director. The primary responsibility of the board of directors is to ensure that the best interests of the corporation (the cooperative) and its owners (the workers) are protected. The board is responsible for the co-op's actions and compliance with regulations.

The fundamental legal standard for every director is to act in good faith, in a manner he or she believes to be in the best interests of the co-op, and with such care as an ordinary prudent person in a similar position would use under similar circumstances.

The board is to meet at regular intervals—monthly, bimonthly, or quarterly. Where applicable, officers (president, vice president, secretary, and treasurer) are elected to organize the work and to assist in the board's internal operations. Effective boards obtain training and help as soon as possible and pursue ongoing training and educational programs to help them understand and effectively fulfill their responsibilities.

The board has three primary responsibilities:

1. **to act as trustees on behalf of the worker-members.** The board does this by establishing mechanisms for member input, by carefully monitoring the co-op's financial status, by hiring auditors to review the financial records, by making regular reports on the status of the co-op to the members, and by making sure that the co-op follows its bylaws, policies, and appropriate regulations.
2. **to ensure the sound management of the co-op.** The board is responsible for selecting and supervising the co-op's management. It does so by reviewing management reports and monitoring key indicators (such as inventory turnover, cost of operations, sales trends, or other financial ratios) and evaluating management performance.
3. **to set long-range goals and plan for the co-op's future.** The board does this by participating in strategic planning discussions with the membership and managers by approving yearly and long-range plans, and by setting performance goals.

A special note on the importance of clear board and management roles:

The co-op board of directors plays a key role in the success of the organization and is accountable to the worker-owners. The worker-owners elect the board. The board selects management from among the members. In some cases, particularly in large cooperatives, the board may hire outside management. Management is accountable to the board.

Management establishes and oversees administration of the co-op's affairs in accordance with the cooperative's bylaws, carries out the goals and objectives set by the board of directors and members, and supervises worker-owners, as needed.

7.

Implement management. Prepare for business start-up.**PURPOSE**

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

GUIDELINES

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

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

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

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

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

- Identify the knowledge, skills, and experience expected from your first manager.
- Prepare a job description that clearly speci-

fies responsibilities (see pp. 33–34). Establish specific goals for the manager during the first year.

- If applicable, advertise the position as widely as possible. Many trade magazines require substantial notice before listing positions. Local papers and employment offices often list jobs very quickly. Depending on the skills and experience needed, you may want to engage a search firm. Use local contacts—economic-development agencies, chambers of commerce, business people, other worker co-ops—to publicize the position.
- Carefully screen all applicants. Check references and job experience.
- The right manager for start-up may not be the right person to manage the worker co-op's long-term operations. Starting a new business requires special skills. As you search for potential worker co-op managers, consider looking for managers with start-up experience.
- Early management responsibilities include communicating with members, researching facilities and equipment, marketing or sales efforts, and making arrangements to begin the co-op's operations.

Secure financing and finalize agreements from all sources: members, grants, loans, purchases, and rentals.

- If some members have not paid their capital contributions, follow up on their commitment.
- Use the business plan to seek additional debt capital to start the business.
- Explore all possible economic-development funds for job creation or community revitalization.

Acquire facilities and necessary licenses and permits.

- Enter into the necessary agreements to rent or purchase business premises or production facilities.
- Obtain the business and other permits needed to operate the business.
- Obtain bids and purchase the equipment and raw materials to produce the products or services.

KEY DECISION: IS THE WORKER CO-OP READY TO BEGIN OPERATIONS?

For more detailed information: (for complete citation, see the Bibliography)
Adams and Hansen, *Putting Democracy to Work*, chapter 9.
Brandow and McDonnell, *No Bosses Here!*, Chapters 7 and 8.
Kamaroff, *Small-Time Operator*, chapters 4–6.

FEATURE: SAMPLE GENERAL MANAGER JOB DESCRIPTION**Accountability**

The general manager is selected, supervised by, and accountable to the co-op's board of directors. The general manager serves at the board's discretion.

General Responsibility

To establish and oversee the management of the co-op's affairs in accordance with the cooperative's bylaws, and to meet the goals and objectives set by the board of directors and members. To supervise worker-owners as needed.

Specific Responsibilities**Board relations**

- Work with the board to prepare for and ensure productive, effective board meetings. Prepare proposals for board consideration.
- Prepare clear, timely reports to the board. Address board concerns and issues.
- Keep the directors informed about pertinent matters between board meetings.

Financial

- Ensure adequate financial records and internal controls to provide timely and accurate financial statements.
- Ensure that the co-op's assets are adequately safeguarded from loss.
- Coordinate the preparation of all budgets and financial projections.
- Oversee in-depth financial analysis and promptly address financial problems.
- Initiate financial planning, including the use of the members' equity, financing needs, and future profitability.

Marketing

- Prepare comprehensive marketing plans to build short- and long-term stability.
- Ensure that the co-op is presented favorably to customers and to the public.
- Monitor and improve customer-service levels.
- Perform regular analyses of the co-op's competition and market potential.
- Represent the co-op in trade and local business associations, when applicable.

Operations

- Organize operations to maximize profitability and meet specified goals of members.
- Identify and address operational problems.
- Plan for the co-op's ongoing operational needs, including product development, technology, facilities, and equipment.
- Ensure compliance with all applicable federal, state, and local laws.
- Maintain adequate security of facilities and insurance for the business.
- Prepare plans for effectively developing and utilizing the skills of worker-owners.
- Establish and ensure that effective worker-participation policies and procedures are in place and that they support the co-op's established goals and objectives.
- Select/hire, and evaluate the effectiveness of additional management, as needed.
- Ensure adequate training, evaluation, safety, and compliance with the co-op's grievance systems.
- Conduct long-range planning and plan for product improvements and expansion as needed.

Member relations

- Establish communication systems and procedures to keep the worker-members fully informed about the co-op's financial status, needs, and activities.
- Make sure that members' needs and interests, as workers and owners, are regularly determined and addressed.

8.

Start operations. Implement the business plan.**PURPOSE**

Begin operations.

GUIDELINES

Once the co-op is incorporated, has approved its bylaws and basic rules, hired or appointed a manager, acquired the necessary finances, and obtained suitable premises, it is ready to begin operations. The first task of management and worker-owners is to implement the co-op's business plan. Aside from operational matters, management will:

Develop community recognition.

- Publicize the worker co-op's opening in the appropriate media to create name recognition and a positive image in target markets.

Establish and maintain ongoing member communication about co-op performance.

Effective communication, participation, and decision making are critical to co-op success.

- Establish procedures or systems to keep members informed of progress and problems, and ensure ongoing communication among worker-members, as well as among workers, managers, and the board.

Establish and maintain good relationships with customers and suppliers.

- Conduct periodic customer surveys to

make sure the co-op is meeting its customers' needs and expectations along with achieving its business objectives.

Implement the education and training plan.

Because education is critical to the success of a worker-co-op, regular education and training to improve the business, communication, and cooperative skills of the worker-members should begin as soon as possible—even before start-up—and continue regularly.

Hold a planning session or retreat. Once operations have been underway for 6 to 9 months, hold an intense planning session or retreat for the board and management (or for the entire cooperative—if the membership is not too large) to discuss how things are going and where to go next.

- Establish short- (1 year) and medium-term (5 year) business goals. The co-op's ongoing success depends on constant vigilance to effective worker participation, good business practices, good customer relations, and anticipating changes in the marketplace.
- Review the *Keys to Success* list after this section and develop a strategy for strengthening the co-op's operations in those areas.
- Review results of education and training or the co-op's board, management, and workers and modify where needed.

KEY DECISION: HOW CAN WE MAKE THE CO-OP AN ENDURING, SUCCESSFUL WORKER-OWNED BUSINESS?

For more detailed information: (for the complete citation, see the Bibliography)

Adams and Hansen, *Putting Democracy to Work*, chapter 9

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FEATURE: PORT TOWNSEND SHIPWRIGHTS

In 1981 an ad appeared in a Port Townsend, Washington newspaper, announcing a meeting to explore the idea of forming a co-op for workers involved in boat repair and building. Many boat repair people who worked only seasonally and wanted more stable employment and income found the idea appealing. Twenty people showed up to learn if a co-op could help them.

From the beginning, the group decided to form a worker co-op, not a market or service organization for independent contractors. They researched other worker co-op groups and worked with a local consultant familiar with cooperatives to plan their new business.

It took about a year to get the new co-op started. But once it started operations, it had no problem finding business because many members were well known for their skills. The co-op members realized the importance of a well-capitalized and profitable co-op, thus the co-op initially charged customers \$20 per hour and paid members \$10 per hour. No benefits were paid at first. This structure ensured that the co-op was profitable from the beginning and was able to build capital for growth and expansion.

The co-op has raised rates several times. It now charges \$34 per hour and pays members \$15 per hour. In addition, members now receive a generous benefits package—including medical and dental insurance, short-term disability, paid vacation, and a retirement plan. All members are paid the same rate, and benefits are accrued based on hours worked. The co-op has built two workshops and sales have grown to \$530,000 per year.

When the co-op has work that the members cannot fill, it hires subcontractors. Subcontractors who are interested in joining the co-op may apply after the co-op has a chance to assess the quality of their work. In addition to quality work, prospective members are screened for compatibility with the cooperative structure and work environment. New members are required to invest \$2,000. Although the co-op does not finance members' investments, it co-signs loans for new members with a local credit union.

The co-op prefers to maintain a membership size of ten. Because the co-op is small, all members serve on the board of directors. The board makes decisions regarding overall direction, management, job scheduling, and finances. All members are required to contribute 120 unpaid hours per year to "co-op work," including committee responsibilities, attending meetings, and occasional necessary tasks (like office cleaning and maintenance). Members average 150 hours per year in co-op work.

Financially, the co-op has been very successful. It has paid a patronage refund (profit sharing) to its members in all but one year. The co-op's bylaws require that 40% of all profits be retained by the co-op for operating reserves. The remainder is allocated to members based on hours worked. In good years, members' patronage refunds can exceed 20% of their total yearly income.

KEYS TO SUCCESS

Each cooperative has unique aspects and faces different start-up challenges. However, there are common areas critical to the future success of the enterprise. Studies show the main reasons that new businesses fail are *insufficient financing* and *lack of business expertise*. In addition, worker co-ops that fail do so most often because they lack:

- shared objectives;
- an effective system for worker participation in decision making; or
- suitable ownership and equity structures.

By paying careful attention to these areas you can avoid many of the problems that shut down new businesses. The following are some key areas, learned from past worker-cooperative successes and failures, that help to ensure the success of a new worker cooperative.

1. Clearly Defined Purpose and Focus

If you don't know where you're going, any old place will do.

When a co-op's purpose is clear and understood by everyone involved, it is much easier to define the path (business plan) and achieve stated goals.

To succeed, the co-op must begin with a viable business idea and a specific focus, such as producing a particular product or service. Equally important, members must share the same objectives.

2. Feasible Business Idea and Thorough Business Plan

The business plan is a road map that details where your worker co-op is going and how to get there.

All new businesses involve risk. The purpose

of the business plan is to minimize the risk and maximize the chances of success through careful research and planning.

The business plan of a worker co-op should be so accurate and comprehensive that people feel secure investing large amounts of their own money. If the members do not have enough confidence in the plan to invest their own money, no banker will.

3. Suitable Ownership and Equity Structures

Having a financial stake in a business, receiving a meaningful share of the profits, and actively participating in decision making are powerful incentives to succeed.

There are several ownership and equity structures that can be used in the organization of a worker cooperative. Select ownership and equity structures that help to build a strong capital base for the enterprise and a positive financial incentive system for the cooperative's members.

4. Adequate Financing

Success is more a function of consistent common sense than of genius (An Wang; Boston Magazine, 1986).

Co-op members are the key source of initial financing for the worker cooperative. Money is collected from the members through the sale of membership shares—the ownership certificates of the cooperative. Equity capital supplied by the members must be sufficient to provide enough collateral to leverage additional debt financing from banks or other lending institutions, or economic-development agencies.

**5. Business Advisors and Consultants
Knowledgeable about Worker Cooperatives**

Many failed worker cooperatives neglected to take advantage of business and worker cooperative consulting expertise.

Advisors and consultants can save you time and money while helping your co-op avoid predictable pitfalls. Most workers are not business experts, and worker cooperatives are complex businesses. Utilize competent legal, accounting, lending, and business-development advisors—check references and get referrals from other worker cooperatives and businesses. Someone familiar with worker co-ops should review work completed for your group.

6. Clearly Defined Roles and Procedures for Decision Making

Although the specific decision-making structures of worker co-ops vary, they share in common the need for clear roles and procedures.

When the worker co-op operates as a collective and does not have managers, clear procedures for decision making are important. Clearly define what types of decisions can be made by individual workers, which can be made by specified work groups, and what kinds of issues should be addressed at meetings that include all worker-members. For legal purposes, each worker-owner of cooperative corporations that are operated collectively is automatically a board member.

When the worker co-op uses a management structure, workers and managers must clearly understand their respective roles and responsibilities. Appropriate structures must be established to promote and maintain worker participation and involvement in shop-floor and boardroom decision making. Many problems associated with worker cooperatives can be avoided by ensuring that all entities—the board of directors, management, and worker-owners—clearly understand their respective roles and responsibilities.

7. Sound Business Practices

Don't reinvent the wheel—use proven methods!

Sound business practices include attention to finances and product quality, and recognition of the importance of the clients or customers. Develop quality-control standards to maintain consistency for products and services. Use established systems of record keeping, accounting procedures, and financial controls to prevent financial problems down the road.

8. Ongoing Education and Training for Worker-Members, Directors, and Management

We must learn how to work together and make decisions cooperatively.

Education and training are critical to the long-term stability and strength of a worker co-op and to its success as a business. Our society does not teach groups of people how to own and operate a business cooperatively. This deficit must be overcome if the cooperative is to succeed.

Training in how to interpret a financial statement and to comprehend all aspects of business finance is essential for worker-owners to fully understand the financial side of their business. Worker-owners and management have important leadership roles. Owners set policy and vision, and managers use their expertise to implement policies and visions with the best possible results.

Because of the unique ownership and governance structures of worker co-ops, managers have to learn how to effectively work with the workers and involve them in decision making, and worker-owners have to learn how to effectively work with managers who have been selected to supervise their work and lead their enterprise. Making this process work requires a commitment to education and training.

CONCLUSION

Starting a worker co-op can be a challenging and rewarding activity. It requires research, careful planning, and patience, as well as substantial investments of time and finances. It will inevitably take longer than you would like to get it started, and the business may not turn out as originally conceptualized.

Nevertheless, groups that invest the necessary time, money, and hard work can find abundant rewards and benefits, including acquiring valuable information about successful businesses, providing employment, income, and other tangible economic and personal benefits.

Co-op members also become the co-workers and co-owners of a dynamic and valuable business.

Worker cooperatives increase human dignity by giving worker-owners control over their work environment. Worker cooperatives have existed for hundreds of years, and today many successful businesses are owned by the people who work in them. We encourage you to connect with other worker co-ops and with the larger cooperative community, to take advantage of the lessons learned as you set out to start your cooperative. *Good luck!*

RESOURCES FOR FURTHER ASSISTANCE

Center for Cooperatives

University of California
Davis, CA 95616
tel: 916/752-2408 fax: 916/752-5451

Center for Democratic Solutions

2128 Hayes Street
San Francisco, CA 94117
tel: 415/221-7644

ICA Group

20 Park Plaza, Suite 1127
Boston, MA 02116
tel: 617/338-0010 fax: 617/338-2788

National Center for Employee Ownership

1201 Martin Luther King Jr. Way
Oakland, CA 94612
tel: 510/272-9461 fax: 510/272-9510

National Cooperative Bank Development Corporation

1401 Eye St., NW, Suite 700
Washington, DC 20005-2204
ph: 202/336-7680 fax: 202/336-7804

National Cooperative Business Association

1401 New York Avenue, NW, Suite 1100
Washington, DC 20005
tel: 202/638-6222 fax: 202/638-1374

Northwest Cooperative Federation

4201 Roosevelt Way, NE
Seattle, WA 98105
tel: 206/632-4559 fax: 206/545-7131

Utah Center for Productivity and Quality

Utah State University
Logan, Utah 84322-3555
tel: 801/797-2787 fax: 801/797-1091

GLOSSARY OF TERMS USED

articles of incorporation—the founding legal documents of a corporation. When articles of incorporation are filed with and approved by the appropriate state agency, the corporation begins its existence, subject to the laws and regulations affecting that type of corporation.

board of directors—the elected body responsible for the actions of a corporation.

bylaws—describe how the co-op will conduct its affairs. Although bylaws need to be more detailed than articles of incorporation, it is wise to avoid being too specific. Bylaws should explain such things as the number of board members and their responsibilities, and procedures for approving members, distributing net income, repaying members' capital, and voting.

capital—money used in a business, whether supplied by owners (equity) or borrowed (debt).

collective account—unindividualized or unallocated portion of business earnings that are retained within the cooperative and not returned to individual members during the lifetime of the corporation.

collective—a collectively managed and operated business is a cooperative that is distinguished by a commitment to parity among members. Worker collectives typically use consensus decision making and operate and manage the business themselves.

consensus decision making—a decision making process in which the group actively participates in making the decisions and is committed to finding common agreement. In contrast to democratic decision making, where decisions are established by majority vote, consensus demands the support and commitment of each member. Groups often have a provision for use when consensus on crucial issues is impossible; this includes specified procedures to verify stalemate, and voting using an established supermajority, such as a two-thirds majority vote.

corporation—a legal entity created under state corporation laws. Once established, a corporation has its own legal powers, rights, and liabilities distinct from those of its owners or managers.

debt financing—obtaining money for a business by borrowing from a bank or other lender. While some collateral may be required to obtain the loan, the lender does not have any ownership or direct control of the business affairs, except in certain instances of default.

democratic ESOP—an employee stock-ownership plan is a special kind of defined-contribution benefit plan authorized under federal law (Employee Retirement Income Security Act of 1974) that allows employees to own company stock. Democratic ESOPs are organized so that workers democratically elect a board of directors and have a voice in how the company runs.

dividend—amount paid to business owners based on their investment. Typically, dividends represent a portion of profits paid to members proportionate to the shares held; this is usually determined by patronage, or hours worked.

equity—the ownership interest in a business, typically calculated by subtracting all liabilities (amounts owed) from all assets (amounts and property owned). Equity is generally made up of investments by worker-owners, other than loans, and the cumulative profits of the business.

governance system—the mechanisms or practices that encourage communication among members, specify procedures for decision making and authority, and that specify member participation in setting business or cooperative policies.

incorporate—to establish a business as a legal entity. Incorporation typically entails filing articles of incorporation with the state or other entity necessary to conform to a corporate statute.

individual accounts—internal capital accounts, maintained for each member, that record the portion of business earnings to ultimately be returned to each member. An individual account consists of the member's initial membership fee (contributed capital) and written notices of allocation (retained earnings).

internal capital account—instead of using stock to evidence a member's equity, worker cooperatives use an individual capital account. A member's initial membership fee, or "capital contribution" goes to this account and is not usually repaid until after the membership is terminated. Generally, a portion of the net profits (or net losses) of the business are added to (or taken from), members' capital accounts each year. Once the member leaves the cooperative, the initial capital contribution is repaid over a period of years, as is the other equity built up over the course of membership.

labor patronage—Calculated during each fiscal year, in a worker cooperative this refers to the number of hours worked, the total labor compensation, or other objective "value of labor" as defined by the members.

market survey—a study of the market potential for the products or services of a business. A market survey is carried out to determine if sufficient demand exists for the types of products or services that the business intends to produce and sell.

membership fee—term used to refer to the cost of a membership share in the cooperative, as determined by the board of directors or other established decision making body.

membership share—single class of nontransferable voting stock. In a worker cooperative, each member owns one and only one membership share. No other stock, other than membership shares, is given voting power.

net worth—the difference between the assets and liabilities on the corporate books. Also referred to as *net book value* (although used interchangeably, the term *net book value* technically differs from net worth because it is guided by accounting rules that record assets at their historic costs, rather than their current values, so the net book value often differs from net worth).

net income—total income (sales) less total expenses. Also called *profit* or *net savings*.

patronage dividend—distribution of profits made by co-ops to members, either as cash or written notices of allocation, proportionate to worker-member's labor performed for the co-op. Patronage dividends may not be declared on nonmember or unrelated business income. Also called *patronage rebate* or *patronage refund*.

revolving capital accounts—written notices of allocation that are paid to members on a first-in, first-out basis, rather than upon termination of membership or fixed maturity date. Dates of redemption are generally flexible and controlled by the board or other designated decision-making body.

revolving funds—funds made available for cooperative and business investment purposes by some public agencies or nonprofit organizations. These may be borrowed and then repaid on specified terms so that others may borrow the money at a later time.

rollover—money loaned or placed in an account with a specified time or term limit, but which may be “rolled over” or left in the account by the owner in agreement with the enterprise or financial institution.

steering committee—the organizing group responsible for researching and planning a new co-op. A steering committee is made up of potential cooperative members who have been elected or selected by those interested in researching the feasibility of starting a co-op. Also referred to in this manual as *organizing group*.

worker-owned cooperative—a cooperative business owned and controlled by the workers. Worker co-ops are established primarily to provide employment and income to member-workers.

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