

Equitable Development Toolkit

Cooperative Ownership Models

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What Is It?

Cooperative ownership of business enterprises produces financial benefits for member-owners, while building business skills, and providing experience in democratically controlled enterprise. Successful cooperative businesses enhance neighborhood revitalization and stability. Where cooperatives include community residents as member/owners, they create a strong linkage between people and place by helping to ensure that residents are direct stakeholders in and beneficiaries of local business activity.

Worker Cooperatives enable member-owners to obtain financial benefits as shareholders of the business. Worker cooperatives exist in nearly every business sector and include manufacturing and processing companies, health services agencies, restaurants, and other enterprises. Many include residents as member-owners, thereby playing a central role in the community development arena. A notable example is [Cooperative Home Care Associates](#) in the South Bronx, a worker cooperative that employs some 550 African-American and Latina women-75% of whom had previously been on public assistance.

Employee Stock Ownership Plans (ESOPs). ESOPs enable employees to own all or part of a company's stock. They range from "democratic" ESOPs that are controlled on the basis of one-member one-vote, to companies that provide their workers with stock options but no voting rights (the latter case does not constitute a cooperative ownership model). [ICA Group](#) has been at the forefront of efforts to expand the role of ESOPs as a community development strategy. ICA has assisted groups like the Fifth Avenue CDC in Brooklyn and Manna Inc. in Washington DC, to establish temporary services agencies that will ultimately be transitioned to worker-owned enterprises. Workers come from the neighborhoods where the agencies are located as well as from throughout New York City and Washington DC.

Consumer Cooperatives. Consumer co-ops enable a group to reap economies of scale through their joint purchasing power. They provide products and services to members in a local or regional area and enable members to exercise more leverage with suppliers. Because consumer coops make purchases in bulk, members are often able to save on per unit costs. Consumer cooperatives are organized primarily in the insurance, food, and utilities industries. Rural electric cooperatives operate more than half of the electric distribution lines in the United States and provide electricity for 26 million people.

Community development credit unions (CDCUs) are a type of consumer cooperative that plays an important role in communities in both rural and urban areas. CDCUs are financial institutions that are owned and operated by low-income residents and provide access to credit by recycling member deposits back into the community. Northeast Community Credit Union provides lending products such as mortgages for first-time homebuyers, small business loans, and credit restoration loans to inhabitants of San Francisco's Chinatown neighborhood and has 1,200 members.

Producer Cooperatives. Producers, individually, or as a group, own and operate cooperatives that provide members with expanded production, marketing and distribution capacity. Many smaller producers lack the production volume to do direct business with wholesalers and retailers of their products. Producer coops

thus enable individual producers to aggregate their products and gain more negotiating power in the market place. This coop model is particularly common in the agricultural and agro-industrial sectors. Another type of producer coop, the craft cooperative, has been particularly effective in helping low-income, low-wealth crafts people bring their products to a wider market.

How To Use it

Cooperatives operate according to a common set of principles, adopted by the International Cooperative Alliance in 1995. They include: voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education, training, and information; cooperation among cooperatives; and concern for community.

Entrepreneurship:

While their democratic principles distinguish them from traditional investor-owned enterprises, starting a cooperative is similar to starting any other business.

The proponents of the co-op must have a sound business concept, conduct market analysis, develop a detailed business plan, and secure financing. In addition, they must determine the co-op's membership, board, and capital structure. This entails making decisions on how members will vote; whether they will be grouped in classes; elections, whether board members will be paid, and how often they will meet. They must also decide how shares will earn dividends and what the share redemption procedure will be.

According to the National Cooperative Association, co-ops are more likely to be successful if they:

- provide only the goods and services members use;*
- maintain low administrative and overhead costs;
- maintain an open line of communication with members;
- select and develop a quality management team; and
- develop and implement a systematic method of cooperative education for members, employees, directors, and paid management.

For more keys to success as well as pitfalls to avoid, see <http://www.ncba.coop>.

Level of Use

Cooperatives are organized at both the local and regional level. Operating regionally can offer co-ops several advantages. Local co-ops benefit from associating and networking with other local co-ops. Some consumer cooperatives maximize their economies of scale by pooling the purchasing power of members across a region. Regional collaboration creates links of economic exchange between individual co-op models and maximizes assistance from regional support organizations.

Financing

As with any business start-up, financing a cooperative can be challenging. It often involves accessing capital from several sources, including loans from banks, nonprofits, and governmental sources, as well as owner investment. Member equity investment is particularly important to starting a co-op. The [National Cooperative Bank](#), a financial services company for cooperatives that has been in existence since 1978, outlines a general financing approach.

Cooperatives must have ownership capital to conduct day-to-day operations, to provide the necessary facilities, and to create a base for obtaining external (bank) financing. Members provide this capital through investments, retained earnings, member deposits, or subordinated member loans. Member capital is the best source of financing; the more members provide the less the cooperative will need to borrow from other sources. It is also a measure of their commitment to the venture.

Loans may be used to finance working capital, equipment, and buildings. Such financing is available from the [NCB Development Corporation](#). New cooperatives may be able to obtain private or government loans, grants, or guarantees, depending on programs currently available and the specific need the cooperative intends to address. In seeking financing, the cooperative leadership should develop a business plan that describes local demand for cooperative services, details membership support, incorporates marketing, projects cash flow, and anticipates operating results for the next three to five years.

Who Benefits?

The primary beneficiaries are the member-owners of the business. Cooperatives that employ former welfare recipients as does New York City Cooperative Home Health Care Associates or the "hard to employ" such as Baltimore's SSC Employment Agency (see [Tool In Action](#)), provide important opportunities for low-income/low-wealth residents to build financial security and stability. In disinvested areas, the community derives benefits from the co-op to the degree that the enterprise supports local revitalization and business development; creates jobs in areas of high unemployment; and serves members and includes residents as member/owners.

Key Players

Key players include those who represent the cooperative's potential members as well as cooperative business, legal and financial specialists

Advantages

- Member-owners control their working conditions and have a voice in business decisions.
- Profits are distributed internally rather than to outside investors, thus building the financial assets of members. The level of financial benefit depends on the company's health.
- Cooperatives may be eligible for tax advantages under the U.S. Tax Code.
- Where member-owners are community residents, co-ops forge social bonds between the business and the community.

Challenges

- Starting any business is risky. According to the U.S. Small Business Administration, fewer than half of small businesses last more than four years.
- Establishing and operating a co-op may require more training and technical assistance than does a traditional business.
- Running a democratically organized business is time-consuming because of the need to keep members informed and educated regarding cooperative practices.

Tool in Action

The following are examples of cooperatives with a strong link to the local community.

SSC Employment Agency, Baltimore, Maryland, is a worker cooperative temp agency that was established in 1997. Committed to providing optimum employment opportunities to its workers and with a focus on client satisfaction, SSC began with 10 workers drawn from a pool of individuals considered the hardest to employ, including some with criminal records or problems related to substance abuse. In 2000, SSC placed 260 workers in jobs, mainly in Baltimore's hospitality industry.

SSC gives its workers both ownership and voice in the agency. After 160 hours as employees, workers are eligible to apply to become members of the cooperative. If the cooperative board, comprised of other worker-owners, approves their application, a one-time \$100 membership fee is deducted from their paychecks. Currently, SSC has 17 worker-owners who elect the company's board of directors and receive dividends from the company's profits.

According to Avis Ransom, one of the founders of SSC, being owners, not just workers, helps members cope with a challenging work environment. "Working in the hospitality industry is not easy: most jobs are low-wage, and sometimes workers face little respect in their job environment," says Ransom. "There's a sense of internal dignity that comes from perceiving oneself as an owner rather than just an employee."

Jobs range from janitorial and job-site cleanup to assembly and light clerical work. Assignments encompass one-event placements, such as a football game where workers are employed as stadium cleanup crews, to office assignments that last several weeks at 40 hours per week. A local business management and development firm, R&B Unlimited, Inc., provides management assistance to SSC.

Las Flores Metalarte, Coamo, Puerto Rico. Metalarte is a worker-controlled, democratically run producer of household furniture and kitchen cabinets. It began 25 years ago, when resident Miriam Rodriguez enlisted the aid of a local priest and started a social action committee to provide employment opportunities for local youth.

Since its modest beginnings, Metalarte has grown and prospered, employing 180 worker-owners. The co-op owns several facilities in Coamo with 140,000 square feet of space. An additional 35,000-square-foot building is under construction to house the heart of the operation, the cutting and processing area. Company clients include the Home Depot in Puerto Rico; a number of small family-owned furniture stores throughout the island and several furniture stores in the Virgin Islands

The cooperative's success has had a ripple effect on the organization's employees, the town they live in, and the local economy. The brother of one of the workers established his own sandwich shop across the street from the factory. The sister of another started a catering business that delivers lunches and dinners to the Las Flores Metalarte cafeteria. The Association of Independent Producers, another local non-profit sewing company, uses space and equipment provided by Metalarte. Metalarte pays the light and water bills for the local Head Start center, which serves 40 girls and boys, the children of Metalarte workers and other residents

in the town.

New workers at Metalarte have a one-year probationary period, after which they become owner-members. Currently all profits are reinvested into the company. Both worker-owners and community representatives sit on the board of directors, an arrangement that contributes to Metalarte's strong ties to the community. "With one vote each, workers elect board members who decide the future direction of the firm and determine how profits are used. They hold a general assembly of all workers that meets once a year and elect the board of directors every two years. Eight workers and five community representatives comprise the board, and [the] CEO holds a nonvoting seat," says Rebecca Bauen.

The company currently employs 180 worker-owners. A new worker at Metalarte has a one-year probationary period, after which he or she becomes a full owner-member with voting rights. Currently all profits are reinvested into the company.

Resources

Organizations

Center for Cooperatives at University of California

One Shields Drive

Davis, CA 95616

<http://cooperatives.ucdavis.edu>

Cooperative Development Foundation

1401 New York Ave, NW, Suite 1100

Washington, DC 20005

<http://www.cdf.coop/mission>

Cooperative Development Institute

277 Federal Street

Greenfield, Massachusetts, 01301

<http://www.cdi.coop/>

The ICA Group

One Harvard Street, Suite 200

Brookline, MA 02445

<http://www.ICA-Group.org>

National Cooperative Bank

NCB Development Corporation

1725 Eye Street, NW Suite 600

Washington, DC 20006

<http://www.ncb.com>

National Cooperative Business Association (NCBA)

1401 New York Avenue, NW

Suite 1000

Washington, DC 20005-2160

<http://www.ncba.org>

The University of Wisconsin Center for Cooperatives

230 Taylor Hall

427 Lorch Street

Madison, WI 53706

<http://www.uwcc.wisc.edu>

Suggested Reading:

Bauen, Rebecca. 1996. "Las Flores Metalarte: Creating Community Jobs in Puerto Rico." Boston: ICA Group. Case Study.

Haynes, Jr., Curtis and Jessica Gordon Nembhard. 1999. "Cooperative Economics: A Community Revitalization Strategy." *Review of Black Political Economy* 27(1).

How to Organize a Cooperative. 1990. Washington D.C.: National Cooperative Bank, and National Cooperative Business Association.

Megson, James D. and Michael O'Toole. 1993. *Employee Ownership: The Vehicle for Community Development and Local Economic Control*. Boston: ICA Group.

Schaars, Marvin A. 1980. *Cooperative Principles and Practices*. Madison: University of Wisconsin Center for Cooperatives.

Whyte, William F. and Kathleen K. Whyte. 1991. *Making Mondragon Work: The Growth and Dynamics of the Worker Cooperative Complex*. Ithaca, NY: Cornell University.

Zimbelman, Karen, E. Kim Coontz, and Audrey Malan. 2000 . *Steps to Starting a Marketing Co-op* . Center for Cooperatives, University of California.