Grassroots Economic Organizing

Catalyzing worker co-ops & the solidarity economy

What Is Worker Cooperative Development?

by Christopher Michael

In the 1980s, the British government supported a comprehensive system of local worker cooperative support organizations (CSOs). The first CSO was formed in Scotland in 1976. By 1986, approximately 100 CSOs spotted the country—with higher concentrations in urban areas. About 80 of these CSOs were funded—mostly by local municipalities—with full-time staff at an average of three employees. In tandem, Parliament chartered a national "Co-operative Development Agency" with a 1978 bill—which aided the growth of local CSOs, served as a "safety net" for regions without CSOs, collected statistics, and acted as government liaison with regard to new legislation.

These government-funded support organizations engaged primarily with low-income, ethnic minority, and female entrepreneurs. CSO staff members provided training courses on worker cooperatives, direct technical assistance, and also loan financing at an average of $50,000 (current U.S. dollars) per worker cooperative. This ten-year experiment produced approximately 2,000 new worker cooperatives—and almost none exist today.

New graduates from a free training program at the Cooperative Home Care Associates offices in the Bronx, N.Y. YES! photo by Stephanie Keith.

Worker assistance programs and incubators produce businesses that are dependent on a support organization. This is a general finding—and not limited to worker cooperative training and incubation. In an award-winning study of business incubators, Alejandro Amezcua found that "among the 18,426 incubated firms in the study, 7,543 of them failed while in incubation, 193 of them failed after incubation, 464 of the graduates remain in operation, and the remainder, 10,226, continue operating in the incubator." [See here for an abbreviated version of the study.] As such, when British municipalities severed CSO funding, it is no surprise that the incubated worker cooperatives rapidly failed. As Amezcua makes clear—the study results need not be interpreted as a critique of incubators—but should rather alter expectations as to outcomes.

The "Institutional" Model

This "worker assistance" model of worker cooperative development might usefully be contrasted with Mondragon's "institutional" model. Contemporaneous with the Whytes' research for their groundbreaking book on the history of Mondragon, David Ellerman produced a detailed study of Mondragon's approach to worker cooperative development between 1972 and 1982. During this period, Mondragon concentrated its development activities in the Entrepreneurial Division of the People's Labor Bank [translated]. By 1982, the Entrepreneurial Division comprised a 116-person staff dedicated to general research, agriculture, industrial manufacturing, export, marketing, operations, accounting, record keeping, personnel, administration, finance, legal, urban planning, housing, and construction. Staff members conducted feasibility studies of potential product lines—and periodically updated these studies on the basis of changing market conditions and new technologies. With a strong business prospect in hand, senior staff members worked closely for 18 months with a single salaried manager to further develop the feasibility study into an operational plan—and, ultimately, into a functioning business entity. At the time of Ellerman's visits, all eight senior staff members had engineering backgrounds—and most had formerly served as managers of Mondragon enterprises. Over the course of a decade of rapid expansion at Mondragon, the Entrepreneurial Division successfully launched 24 new entities—all of which are still in existence today.

Anecdotally, the success of Italian worker cooperatives—which have achieved a broad-based integration into Italy's economy—also resulted from an "institutional" model of worker cooperative creation. In the case of Italy, labor unions took the lead institutional role in the launch of new businesses. Unfortunately, little information is available in English on the history of Italy's democratic firms.

Closer to home, the United States's largest worker cooperative is also the product of an "institutional" startup model—again, in contrast to a "worker assistance" model. In 1985, Rick Surpin and Peggy Powell were salaried staff members at Community Service Society—a 100-year-old social services agency. They launched Cooperative Home Care Associates as a traditional business—and then "converted" it into a worker cooperative after the firm achieved a measure of operational stability. This "launch & convert" strategy is the unifying thread behind the institutional startup model of worker cooperative development.

The "Conversion" Model

That said, an advocate of economic democracy might find even more benefit in an examination of the U.S. ESOP "conversion" model—as an arguably stronger approach to worker cooperative development than offered in the examples of Mondragon and Italy. The head count of worker-members across Europe is 1,231,102 according to a 2013-14 report by CICOPA. This count includes Mondragon's approximately 80,000 worker-members and—according to an earlier report by CICOPA—nearly one million Italian worker-members. In comparison, more than 10 million workers participate in an employee stock ownership plan—in the United States alone. This achievement is almost entirely the result of a conversion model that was popularized in the mid-to-late 1970s.

Under the conversion model, consultants (mainly lawyers, valuation analysts, estate planners) assist existing businesses and owners with the transfer of a portion of company stock to employees. To be clear, the vast majority of ESOPs function as retirement plans—with minimal voting control ascribed to workers. However, the basic paradigm of the conversion model is highly applicable to worker cooperative development—which is, namely, to incentivize businesses and owners to transfer stock to employees. Of course, the distinctive difference between ESOP and worker cooperative conversions—is the allocation of voting control over the transferred stock to workers on a "one person, one vote" basis. And, although ESOPs can be structured as democratic firms, any widespread adoption of the ESOP conversion model would necessarily require retooling for the purpose of democratic employee ownership.

The success of ESOP conversions followed on the early work of Louis Kelso; active lobbying by the ESOP Association (a national trade association) to legislate many of the incentives enjoyed by businesses and owners; the awareness-raising efforts of the National Center for Employee Ownership (a national educational nonprofit); and transactional services by scores of national for-profit firms (e.g., The Menke Group, American Working Capital, ESOP Plus), as well as independent professionals. To reiterate, *the conversion model leverages regulatory and market incentives for businesses and owners—as well as for the service providers themselves. These are incentives which are fundamentally absent in both institutional and worker assistance startup models.*

Chroma Technology Corp, a 100% employed owned optical filter business in Bellows Falls, Vermont. Photo from www.chroma.com

Next Steps Toward Economic Democracy

How, then, do we go about *democratizing* businesses and *transforming* jobs? What is worker cooperative development? What is *effective* worker cooperative development? And what standards do we use to measure effectiveness? An honest assessment—based on the slim historical evidence recounted above—is that a clear answer does not exist. In theory and practice, a "worker assistance" startup model is not likely to be particularly effective—if our standard is the creation of robust, independent, and scaled businesses. In contrast, an "institutional" startup model may result in measured success—albeit, this approach is highly dependent on the availability of institutional resources. Finally, the "conversion" model offers a theoretical advantage over startups—and has yielded a remarkable increase in the availability of pension plans to U.S. workers. However, conversions have only a limited track record to-date as a broad-based approach to democratic employee ownership—let alone as a catalyst for transition to a democratic, worker-owned economy.

As such, a program of worker cooperative development should likely take a two-pronged approach: 1) aggressive experimentation with conversion strategies that mimic and, ideally, expand upon the system of ESOP incentives—through the exploration of market-based and legislated incentives; and 2) institutional "launch & convert" startups, ideally in a manner that approaches that of Mondragon's Entrepreneurial Division. Lastly, in the case that significant investment capital becomes available to the worker cooperative community, an acquisitions strategy—i.e., "buy & convert"—would be a natural extension of the above.

Author's Note: This discussion is a product of many conversations with David Ellerman, Christopher Mackin, Fred Freundlich, Rick Surpin, and especially, David Hammer.

[*This article has been updated for clarity, 7/23/15 -.ed*]

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Josh Davis · a year ago

Thanks for submitting this Chris. I was unaware of the history of gov't support and incubation of worker co-ops in the UK. Seeing how poorly it worked out there, I have to ask: what is being done differently in NYC, where a bunch of money from the city government is going to co-op developers in order to incubate co-ops? Given what you've written above, I am suddenly very concerned that we may be setting ourselves up for failure. How do the developers in NYC, who will shortly be receiving their first batch of city funds (NYC NOWC, among them, iirc) plan to avoid the pitfalls that befell the Brits?

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Chris Michael ➦ Josh Davis · a year ago

Thank you, Josh! I was aiming to suggest just these types of questions. Two partial answers to your questions:

1) The NYC money is in no way restricted to the "worker assistance" startup model, i.e., incubation. In theory, all of the money could be directed toward the "institutional" startup and "conversion" models.

2) I think it's possible to make a nuanced distinction between the "worker assistance" startup model and targeted investment of resources in existing businesses. Business literature on "high-impact" or "gazelle" firms suggests that government should direct more resources toward existing firms that are poised for growth—and that such support will have the highest net impact on new job creation. If an existing worker coop is already freestanding and independent—and appears ready for expansion—then it would likely serve as a good target for investment.

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Fred Freundlich ➦ Chris Michael · a year ago

Thanks Chris and Josh. ... I am not completely clear on the distinctions among the three models. The "worker assistance" model also seems "institutional" in that public or quasi-public institutions provided the TA, incubators and financing. Might the difference be more related to focus / strategy, to the kinds of groups the institutions worked with and the kinds of business opportunities they sought? It seems that, in the "worker assistance model", the institutions focused on "a population", that is, "disadvantaged groups", and their goal was to help people from these groups create good jobs / businesses for themselves (perhaps also with elements of broader entrepreneurship, co-operative, self-management / empowerment agendas) by helping them form new cooperatives. By contrast, the "institutional model" might not be more "institutional" per se, but its focus was different. The protagonist (in Mondragon at least; I am much less familiar with the Italian model) was still an institution, but its focus was not mainly on a particular population, but rather on a combination of (1) searching for opportunities in the market, for products/services it thought most feasible for the creation of a successful business, and (2) working closely with entrepreneurs or entrepreneurial groups -- potential leaders of the new firm -- to turn these opportunities into co-operative businesses. I think this might well be related to the second model's record

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Chris Michael → Fred Freundlich · a year ago

Thank you so much, Fred. It's very interesting, as you note, that some of Mondragon's early success might relate to conversions of existing entities. This lends additional credence to the notion that our efforts might be well-directed toward conversions.

Absolutely, the "conversion" model by all means presupposes the existence of institutions to provide transactional services, financing, public policy, and education. I mention just a few examples of such institutions in the piece, e.g., The ESOP Association, NCEO, American Working Capital, ESOP Plus. I might also have mentioned the very important financial institutions involved in ESOP conversions, e.g., Wells Fargo, Chase, and NCB, to name a few.

Of course, I am totally agreed that public policy—at government and non-government agencies—should support this conversion approach by building institutions in all four categories.

I think the distinction between the "worker assistance" and "institutional" model is in the role of founder. In the "worker assistance" model, an institution assists individuals to found worker cooperatives. In the

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Fred Freundlich → Chris Michael · a year ago

Hi Chris. Thanks for your considered response. I agree with you. Maybe we do need different category names, since institutions are involved in all of them to a greater or lesser extent.
I might add or emphasize a few things regarding economically successful approaches:
(1) in the "institutional model" (if we still want to call it that), the approach seems to have worked mainly when there have been entrepreneurial leaders

involved who have had or acquired business expertise and were committed to the broadly-shared ownership idea. They were identified or recruited by instiutions, or, maybe even more importantly, THEY THEMSELVES approached the institution and the institution provided crucial support. This seems to be the case with Rick Surpin and Peggy Powell and CSS in the CHCA case. I think Surpin and Powell were the real founders-entrepreneurs, but, of course, got tremendous support from CSS, ICA, etc. (The CHCA case is especially encouraging because it seems to have made a successful transition from the founder-leaders to the next generation of leaders.).

Mondragon's Caja's Entrepreneurial Division veterans say that they would

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Chris Michael ↪ Fred Freundlich · 9 months ago

This is fantastic, Fred—I agree completely. Businesses require leadership. My point in emphasizing the institution was meant in no way to diminish the importance of the entrepreneurial leader. Quite the opposite, one of the core functions of the entrepreneurial institution—as I envision it—is to finance the salary of the leader(s).

This was precisely the role of the Caja Laboral, which financed the salary of the entrepreneurial leaders of the startup worker coops.

In turn, CSS did more than finance the salaries of Rick and Peggy—they outright paid their salaries with no expectation of reimbursement. Of course, CSS was acting as a charity in providing this founding support to CHCA.

In short, institutions are founders in the sense that they are generally required to absorb and finance the costs of building new businesses. And one of the core costs of founding any new business—is the salary of the individual entrepreneurial leaders.

It seems to me that the initiative can come from either side. The institution

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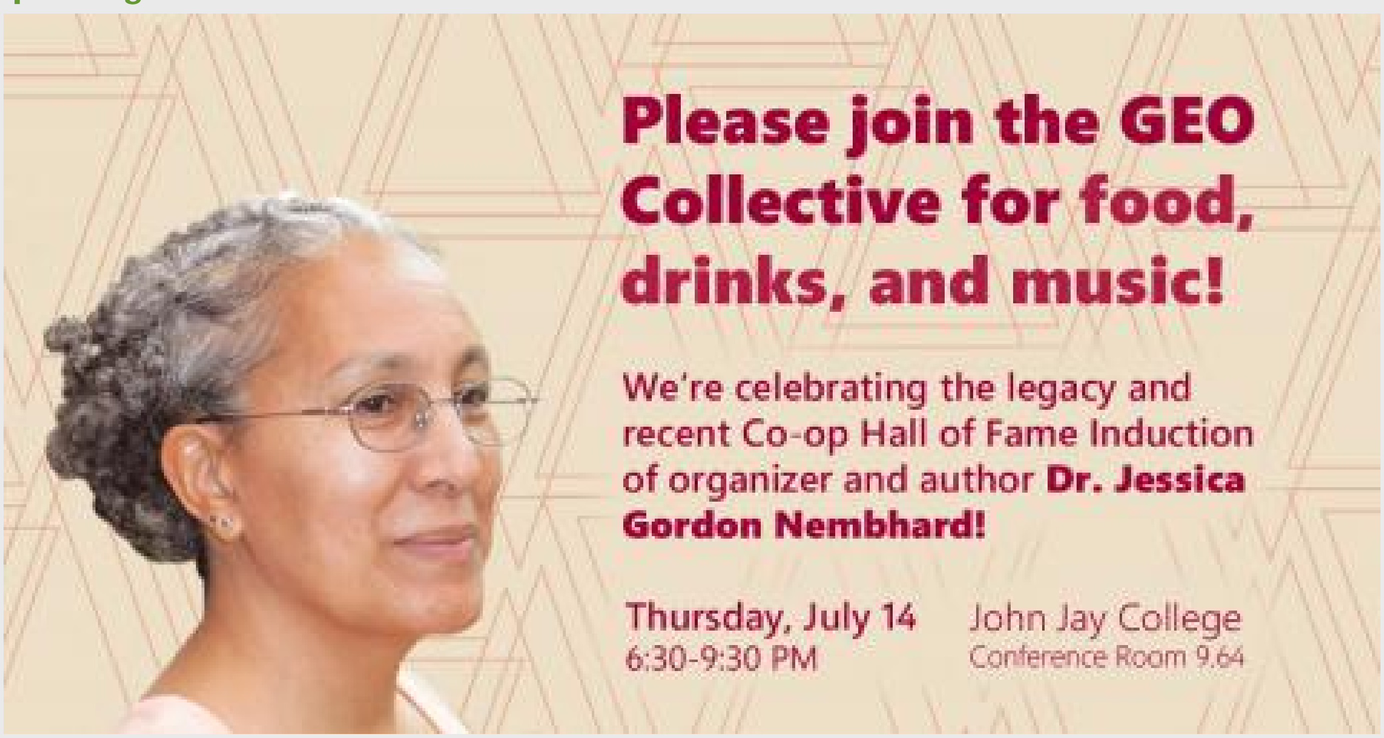

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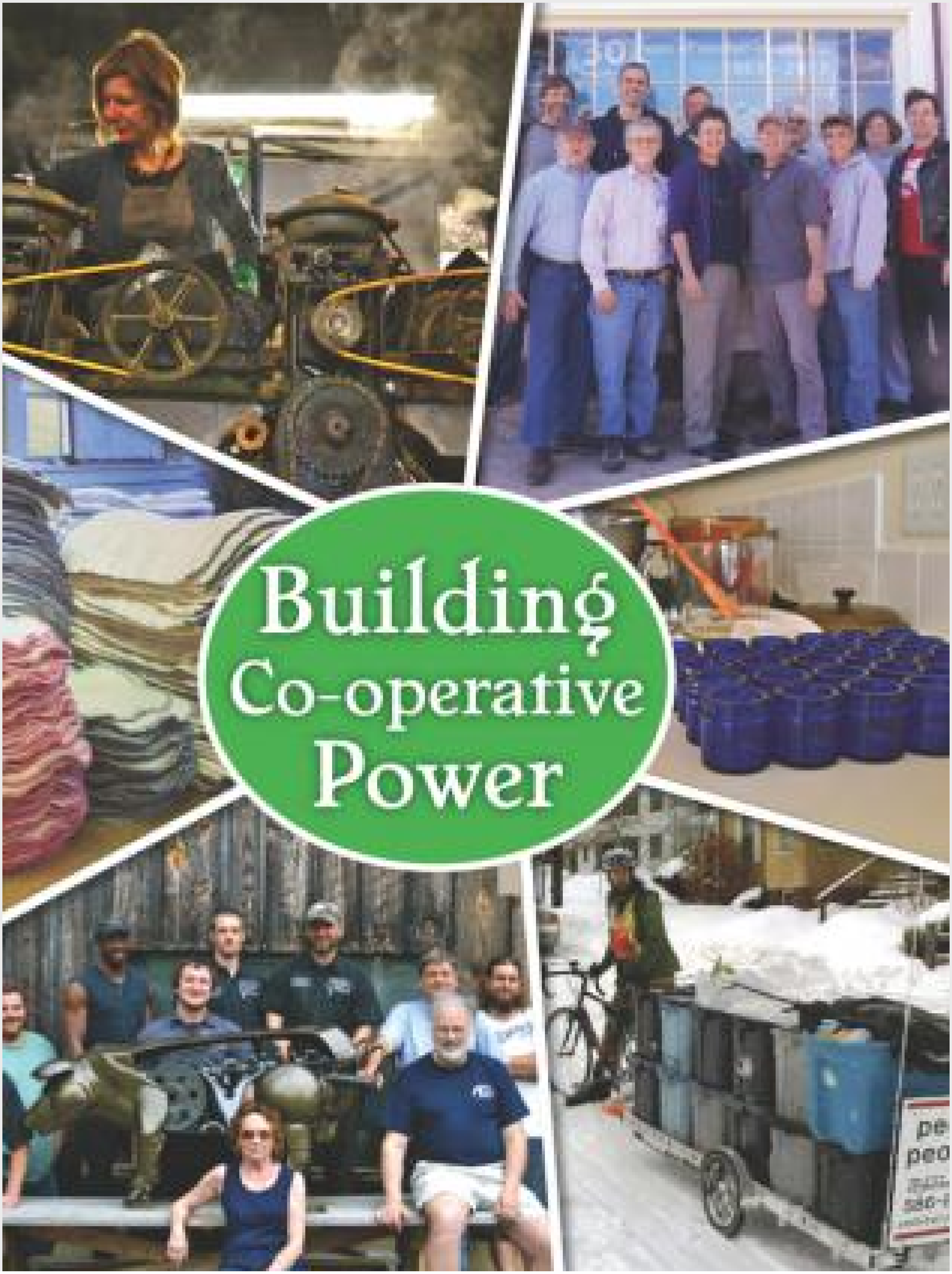
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