

# Workplace Democracy

Sponsored by SolidarityNYC, Eastern Conference for Workplace Democracy, New York City Network of Worker Cooperatives, and the Occupy Wall Street Worker Co-operative Working Group. **Let's build an economy worth occupying.**

Aaron Dawson

Joe Marraffino

Democracy at  
Work Network

[www.DAWN.coop](http://www.DAWN.coop)

# Who we are

## Aaron Dawson

- Equal Exchange
- U.S. Federation of Worker Cooperatives
- Democracy at Work Network

## Joe Marraffino

- Arizmendi Bakery / Arizmendi Association
- Network of Bay Area Worker Cooperatives
- Democracy at Work Network

# Who you are

- Occupy Wall Street Worker Cooperative Working Group
- Emerging Occupy worker cooperatives
- Others...

## Goals

1. Offer highly practical information to start-ups
2. Connect startups with existing worker cooperatives
3. Connect startups with technical assistance
4. Broadcast the worker cooperative message as a useful strategy to the wider Occupy movement

# Context: Definitions

- **Cooperative:** a business that is owned and democratically controlled by its members for their common good or to accomplish a shared economic or social purpose
- **Democratic:** “One member, one vote”

# Context: Other types of cooperatives

Cooperative members  
are **not always workers**

- **Park Slope Food Coop**
- **Co-op City**
- **Credit Unions**
- **Ace Hardware**
- **Ocean Spray**
- **Associated Press**

**members are**  
consumers  
residents  
depositors  
purchasers  
farmers  
newspapers

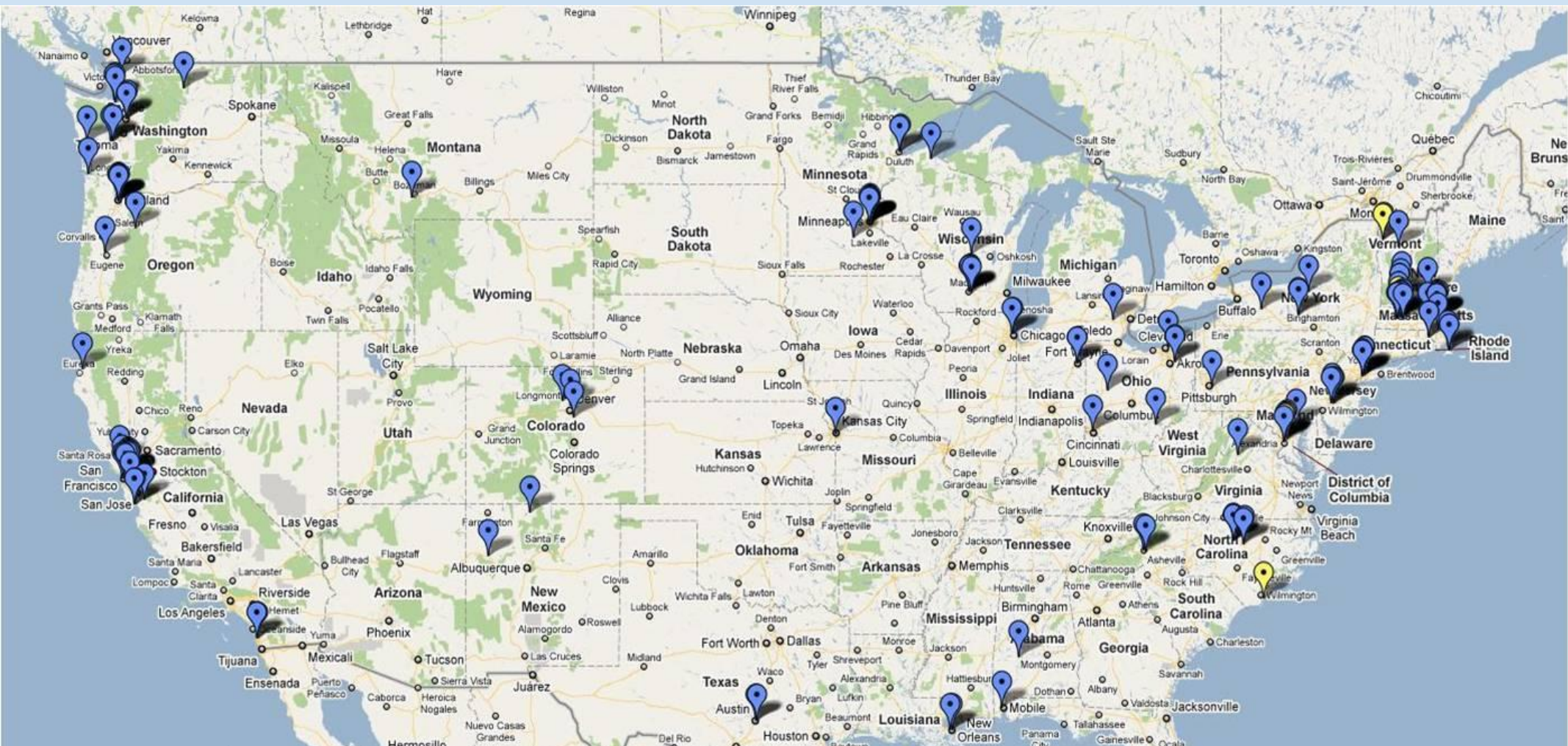
**But always**

Owned and controlled by members

One member, one vote



- 300+ worker cooperatives in the United States
- 6 regional federations, 1 national federation, 30 CDCs
- Largest worker cooperative in U.S. has over 1,600 workers, several have over 100 workers
- Oldest operating worker cooperatives in the U.S. 40+ years





# Union Cab Madison (1979-present)



# Port Townsend Shipwrights Washington (1981-present)





# **Cooperative Home Care Associates New York City (1985-present)**





# Equal Exchange Massachusetts (1986-present)





# 5 WAGES Cooperatives Bay Area (1994-present)



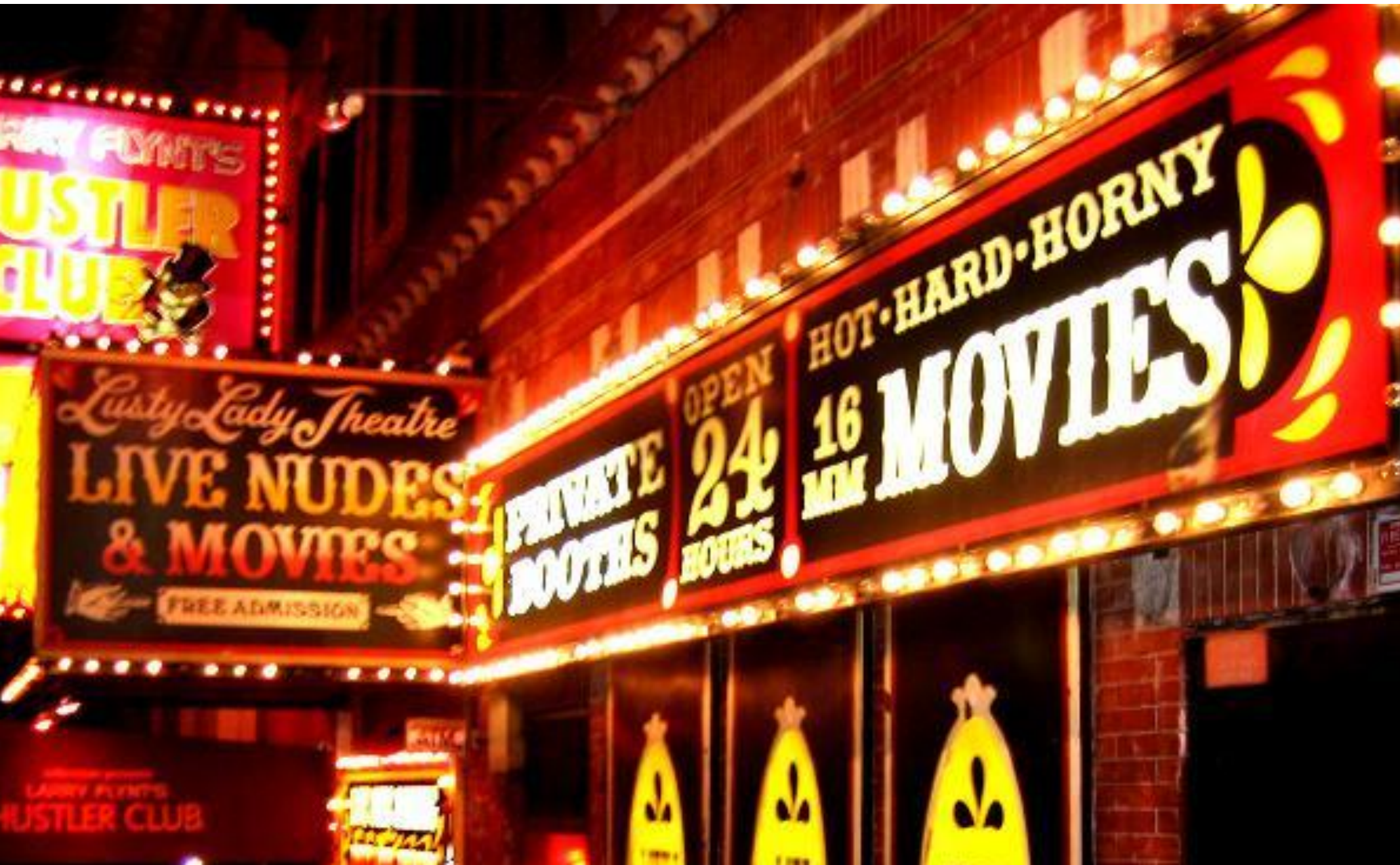


# 5 Arizmendi Bakeries Bay Area (1997-present)





# The Lusty Lady San Francisco (2003)



# **COLORS Restaurant**

## **New York City (2005-present)**





# Select Machine Ohio (2005-present)



# Evergreen Laundry Cleveland (2009-present)





# **Worker cooperative organizing waves**

**They are emergent throughout American history,  
but especially in waves that correspond to**

- Periods of unemployment as a result of poor economic conditions
- Periods of rapid technological change which engender social dislocation
- Periods of social upheaval which call into question conventional world views about the nature and proper structure of work

*- Jackall and Levin, Worker Cooperatives in America, 1984*



# **Steps to starting a worker cooperative**

**Who initiates the cooperative?**

Some are Incubator-initiated,

Some are employee buyouts

Some are spin-offs

Our focus is **Member-initiated co-ops**

## **Reflect at each step: should we continue?**

1. Assemble an organizing group
2. Research business idea(s)' feasibility
3. Define membership and governance structure
4. Write a business plan
5. Incorporate legally
6. Set up financial systems
7. Raise start up capital
8. Start operating and implement business plan
9. Connect with your market and grow
10. Educate workers for participation (ongoing)
11. Adapt to the business climate (ongoing)

# **Worker Cooperative Business Planning and Finances**



# Create a meaningful business plan

What is your business setting out to do?

- Serve an economic need?
- Benefit a specific community?
- Change an economic sector?
- Change a supply chain or trade pattern?
- Fill an under-served market niche?
- Create jobs? Better jobs? Jobs for certain people?
- Build local / regional assets? Stabilize an economy?

*“Use internal democracy to benefit the external world”*

# Example

# Equal Exchange

## **Mission**

Equal Exchange's mission is to build long-term trade partnerships that are economically just and environmentally sound, to foster mutually beneficial relationships between farmers and consumers and to demonstrate, through our success, the contribution of worker co-operatives and Fair Trade to a more equitable, democratic and sustainable world.

## **Guiding Principles**

- Trade directly with democratically organized small farmer cooperatives.
- Facilitate access to credit for producer organizations.
- Pay producers a guaranteed minimum price that provides a stable source of income as well as improved social services.
- Provide high quality food products.
- Support sustainable farming practices.
- Build a democratically-run cooperative workplace.
- Develop more environmentally-sound business practices.

## Example

# Cooperative Home Care Associates

Cooperative Home Care Associates (CHCA) is a nationally recognized, South Bronx-based owner home care agency. Founded in 1985 to provide quality home care to clients by providing quality jobs for paraprofessionals, CHCA now anchors a national cooperative network generating over \$60 million annually in revenue and creating quality jobs for over 1600 individuals.

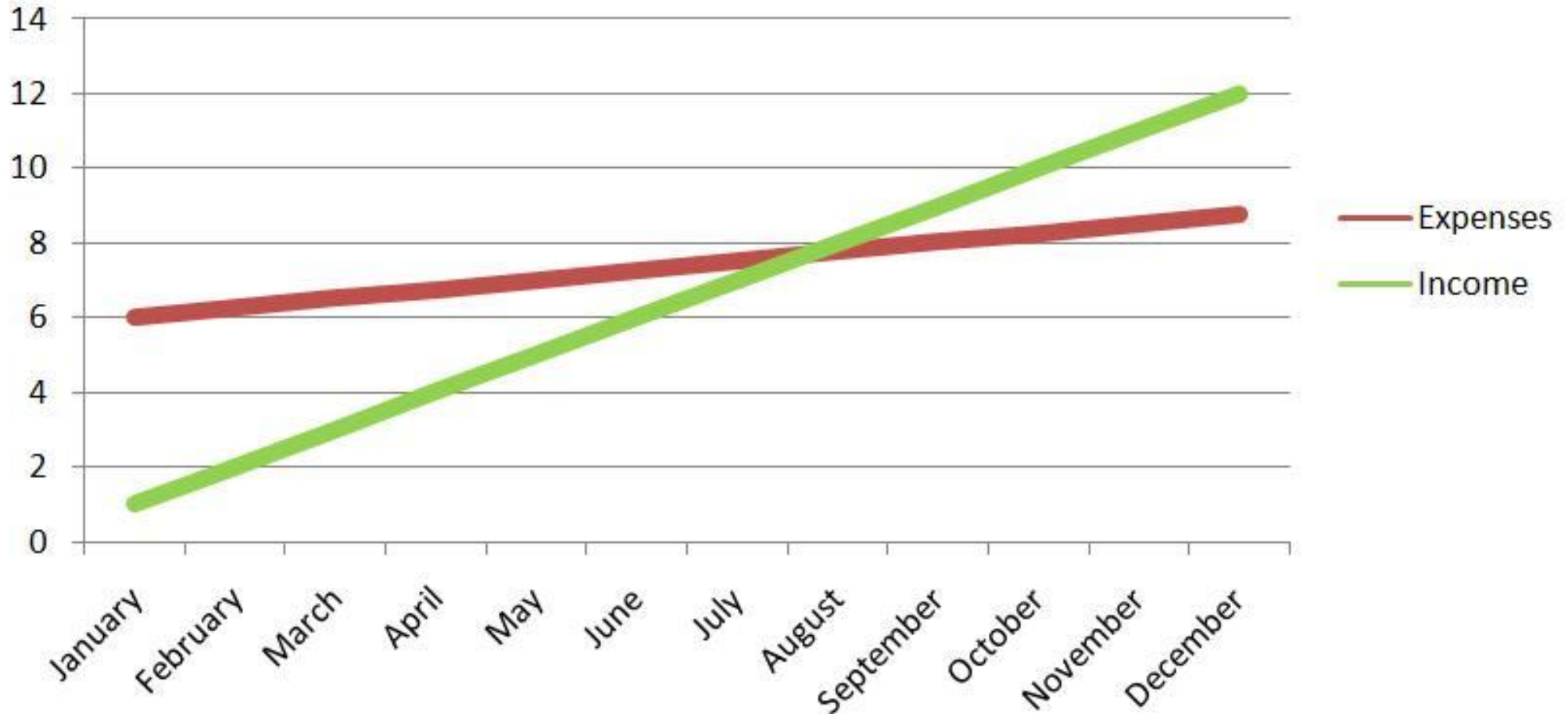
### Goals

- Offer the highest possible salaries and benefits while building a profitable worker-owned company;
- Give workers opportunities to learn and grow as members of a health care team; and in doing so
- Provide reliable, high-quality home health care services to individuals who are elderly, chronically ill, or living with disabilities.



# Plan for growth

- Grow to serve your market, or to serve your mission
- Most start-ups operate at a loss for some period
- External forces may force growth: demand, market change
- Better to plan for change than react to it



# Getting start-up capital

## **Member equity: initial capital contribution**

- Cooperatives can pool member money as equity
- Equity gives membership rights, not property rights
- Co-op can lend equity to members, repaid through payroll withholding over some period
- Equity is "skin in the game" – it can be lost
- Equity level should be accessible to future members
- Question: should value of the equity grow?

## **Debt**

- Investor equity is non-standard
- Debt from lenders is available from some sources
- Lenders will want some member equity at risk
- Lending can be shared - primary / subordinate
- Supporters sometimes will lend unsecured capital
- 5 Cs: Character, Collateral, Cash flow, Conditions, Capital

# "Profit sharing"

## Is it “Profit,” or “Surplus?”

- Business profits become equity as **Retained Income** - and the value of the business increases
- Cooperative surpluses can be refunded to members as a **Patronage**.

## Member equity

- (Initial capital contribution, as mentioned previously)
- **Retained patronage**: member equity, held in the company
- The **indivisible account**: collectively owned equity

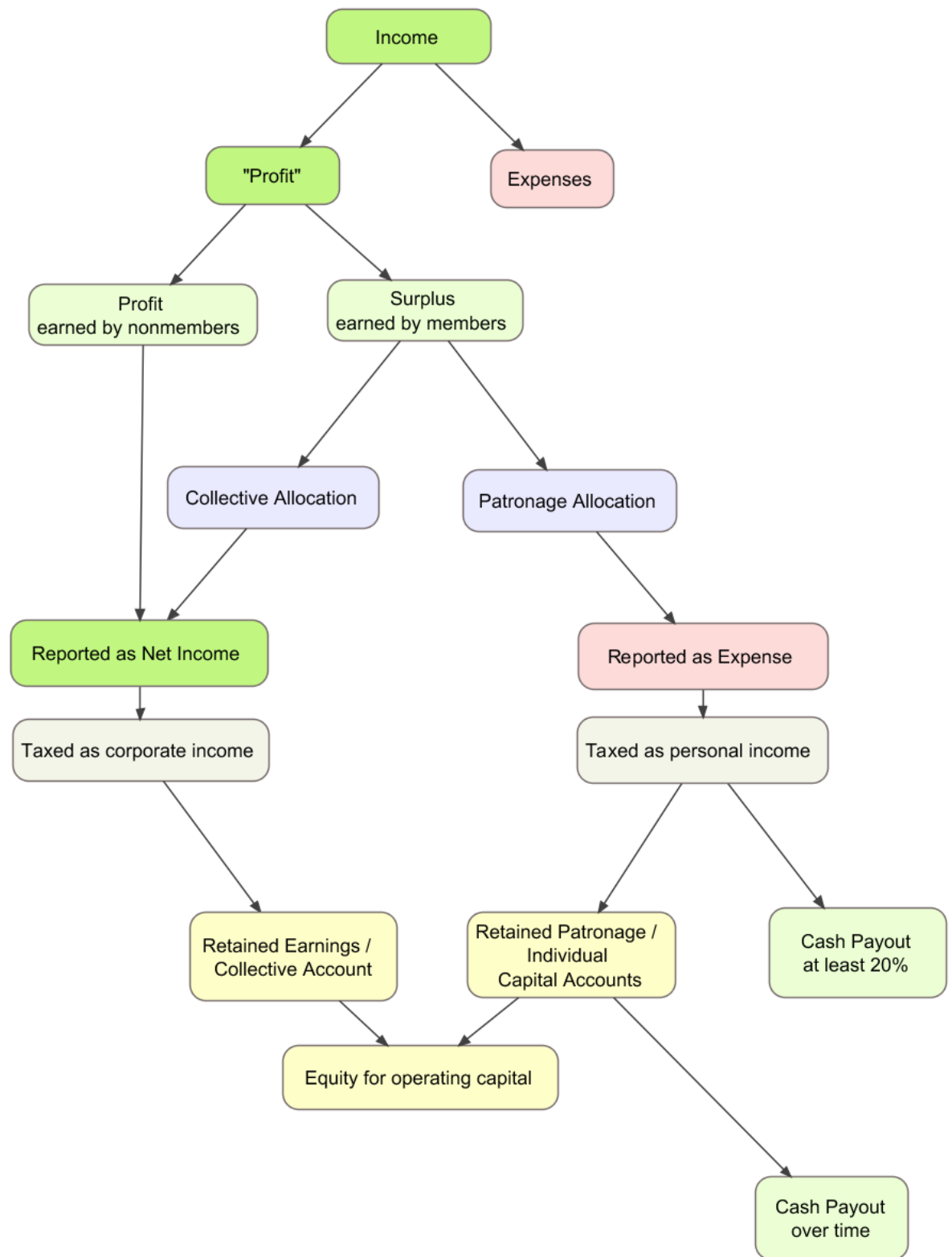
## Sharing losses

- Net income, positive or negative, is distributed to members.



# Patronage

The flow of surplus through the cooperative



# **Models for Everyday Democratic Management**

# Governance Matrix

## Equal Exchange Governance Matrix

(approved by the Board of Directors, October 12, 2005)

While Equal Exchange encourages participation on many issues at all levels of the company, this matrix describes the required roles in governance decisions. The matrix is maintained by the Governance Committee; material changes are ratified by the Board

**Key:**

D	<b>Decision Maker</b> , also responsible for decision making process
R	<b>Ratifier</b> , must formally approve or reject the decision
I	<b>Required Input</b> , decision maker must seek their input and counsel

Decision	Executive Director(s)	Board of Directors	Worker Owners	Mgmt Council	Recommend places / people where you can provide input.
<b>FINANCIAL</b>					
Create Annual Budget	D	R		I	Department Head
Change Budget > 7%	D	R		I	Department Head
Out of Budget Borrowing > \$15% of Equity	D	R			OED, Board Member
Allocate Annual Class A Patronage Rebate	I	D	I		W/O Coordinator, Board Member
Allocate Annual Class B Dividend	I	D			Investor Coord., OED, Board Member
<b>PERSONNEL</b>					
Set/Amend Personnel Policy	I	D			Personnel Committee, OED
Change Salary Max:Min Ratio	I	D	I		W/O Coordinator, Board Rep
Define Compensation Structure	D	R			Department Head, Board Member
Define Compensation Philosophy	I	D	I		
<b>CORPORATE ORGANIZATION</b>					
Amend Articles of Incorporation*		D	D		W/O meeting, Board Member
Amend By-Laws*		D	D		W/O meeting, Board Member
Elect Directors to the Board			D		W/O meeting
Elect Chair of the Board of Directors		D			Board Member
Hire Executive Director(s)		D	I		Board Member
Elect Company Officers		D			Board Member
Appoint Education Committee Chair			D		
Appoint Personnel Committee Chair		D			
Appoint Governance Committee Chair		D			
Approve Sale of Class A Stock (Membership)			D		W/O Meeting
Approve Sale of Class B Stock	I	D			
<b>OPERATIONS</b>					
Change Organization Location	D	I	R		W/O Meeting
Add New Service or Operation	D	I	R		W/O Meeting
Add/Remove Producer Groups	D				
Add Product Line	D	R		I	Product Mgmt Comm.

\* By intent, either the Board, or the Worker-Owners may amend the Articles of Incorporation and By-laws.

### Five Elements of Decision Making

When trying to understand a decision to be made, these are five questions you should ask.

1. What is decision to be made?
2. When will be made?
3. What are the forums for input and debate?
4. Who makes the decision?
5. What body, if any, ratifies the decision?



# Accountability

- 360 Transparent Peer Reviews
- Monthly Work Plans
- Annual Goals
- Measures of Success
- Annual Elections



# Fostering Cooperative Participation

- Board of Directors
- Worker Owner Cabinet
- Education Committee
- Exchange Time
- Owners Manual
- Mentor/buddy Program
- Library
- 10% Time



# Pitfalls of Democratic Management

- Overstepping authority
- Slipping through the cracks
- Whose job is it, anyways?





# **Legal Form**

**Harvey Epstein**

Director, Urban Justice Center

# Why not go without legal form?

- Ambiguous financial and legal relationships lead to problems down the line
- Unincorporated form can hamper growth and limit the relationships you can form
- Default legal form leaves you open to liability

# Choosing a legal entity

	Liability	Ownership	Transfer of interest	Corporate income tax	Governance
<b>Sole proprietorship</b>	Personal	Proprietor	No	No	Sole
<b>Partnership</b>	Personal	Partners	As agreed	No	As agreed
<b>C Corporation</b>	Limited	Shareholders	Yes	Yes	Shareholders
<b>S Corporation</b>	Limited	Shareholders	Yes	No	Shareholders
<b>LLC</b>	Limited	Members	As agreed	No	As agreed
<b>Cooperative Corporation</b>	Limited	Members	As agreed	Yes and no	Democratic



# **Steps to incorporation:**

## **1. Decide Membership and governance structure**

- Who can be a member?
- What are members' rights and responsibilities?
- Who decides what? Committees? Elections?
- How are decisions made?

## **2. Decide Financial structure (equity? patronage? debt?)**

- Do members contribute initial equity?
- Does the cooperative need start-up capital?
- How will patronage be distributed?

## **3. Create plain language bylaws**

## **4. Consult with an attorney who is familiar with cooperatives**

# **Challenges and failures**

in the worker cooperative development

# Missteps happen...

1. Assemble an organizing group
2. Research business idea(s)' feasibility
3. Define membership and governance structure
4. Write a business plan
5. Incorporate legally
6. Set up financial systems
7. Raise start up capital
8. Start operating and implement business plan
9. Connect with your market and grow
10. Educate workers for participation (ongoing)
11. Adapt to the business climate (ongoing)

## **Presenters**

Aaron Dawson - [adawson@equalexchange.coop](mailto:adawson@equalexchange.coop)

Equal Exchange W/O Manual: <https://public.me.com/starspeed>

Joe Marraffino - [joe@american.coop](mailto:joe@american.coop)

Democracy at Work Network - [dawn.coop](http://dawn.coop)

## **Sponsors**

Eastern Conference for Workplace Democracy - [usworker.coop/east](http://usworker.coop/east)

Fund for Democratic Communities - [f4dc.org](http://f4dc.org)

NYC Network of Worker Cooperatives - [nycworker.coop](http://nycworker.coop)

Occupy Wall Street Worker Co-operative Working Group

SolidarityNYC - [solidaritynyc.org](http://solidaritynyc.org)

Urban Justice Center Community Development Project -  
[urbanjustice.org](http://urbanjustice.org)

U.S. Federation of Worker Cooperatives - [usworker.coop](http://usworker.coop)