Co-ops, Conversions, Ownership
COOP101

Intro to: Co-op Rapid Conversion Academy - From Owner to Owners

Led by: John McNamara, Grant Ruroede, and Kirk Vartan
coop.missioncollege.edu
Our Contact Info

Kirk Vartan
Founder/General Manager
A Slice of New York
www.asony.com
kirk@asliceofny.com

Grant Ruroede
Planner/Researcher
City of Escondido
gruroede@gmail.com

John A. McNamara, Ph.D.
Senior Cooperative Dev. Specialist
Northwest Cooperative Dev. Ctr
www.nwcdc.coop
johnm@nwcdc.coop
Quick Review of Zoom

Ask questions/make comments here

Please remain Muted

If you want follow-up, Raise Hand

Chat

Record

Reactions

Leave
Worker Cooperative Conversions
What is the need? Why now?

**Time** - Conversions typically take 12-18 months, sometimes longer. The intent of this workshop series is to compress that process into roughly two months.

**Money** - Conversion can cost $20-30K, maybe more. By reducing time and utilizing technology, this workshop series looks to dramatically reduce this.

A Worker Cooperative is a financially viable solution.
Another consideration...

“As small businesses go into crisis, we need to be pushing for worker ownership. Rather than being shut down, every workplace should have the option for workers to turn it into a cooperative before it goes into bankruptcy,” — Naomi Klein
Audience

**Owners** - Succession planning, retirement, exit strategy, or just simply wanting to sell the business.

**Workers** - Interested in becoming owners of a business or want to take on more responsibility. What does it mean to be an owner?

**Government agencies, city staff, and elected officials** - The opportunities, benefits, and challenges of a worker ownership strategy. Great for an Economic Development department, a policy maker, and support staff.
Today’s Workshop

We will focus on three areas.

There will be a Q&A at the end, so please write down your questions.

- Intro to Cooperatives
- A Transition Example: A Slice of New York
- How can Governments engage and why?
Reality Check

**Owner Check** – Being an owner is no joke. It takes a lot of time and mental energy, time that you normally spend watching TV, going to the movies, reading a book, hanging out with friends, sleeping, etc.

**Owner Mentality** – Being an owner is not about signing a document or owning a “thing.” It is a state-of-mind. It is about being a leader and leading by example. If you see something, deal with it. When walking through your business, you should be the one noticing the details and thinking of ways to constantly improve your business.

**Opportunity** – If the current owner and some of the team want to pursue this, respect the effort. Not everyone has to agree or join. Understand the current owner is not used to sharing decisions and might not have confidence in the outcomes it “they” don’t make the decisions.

**Trust/Respect** – Invest time in defining the process and then trust each other. If you start to doubt the integrity or good-faith efforts of the owner or the team, you are doomed. If you don’t trust each other now, figure that out now before you proceed.
Outcomes of the Series

Bylaws/Operating Agreement - This is the business’s constitution. It defines the “rules of the road” and is a team collaboration.

Decision Matrix - You define what part of the business is responsible for action.

Professional Services – Identify an accountant, attorney, and other technical assistance providers.

Board and Committees – Define core committees and identify who will be the initial Board members.

General Purchase Agreement – While the details of the sale will not be complete, the process for determining the value and basic parameters affecting the sale should be defined.
Cooperative Overview

John A. McNamara, Ph.D.
Senior Cooperative Dev. Specialist
Northwest Cooperative Dev. Ctr
www.nwcdc.coop
johnm@nwcdc.coop
Worker Cooperatives

Jobs with Dignity and Democracy

Photo by Brooke Lark on Unsplash
Early Cooperators

- Shore Porters Society (1498)
- Ben Franklin 1750s
- Robert Owen 1820s
- Rochdale Pioneers 1844
- W.E.B. DuBois
- Knights of Labor
### 20th Century Development

- Alphonse Desjardin—Credit Unions
- Moses Coady—Antigonish Movement
- Arizmendiarietta—Mondragon
- Collective Courage
- Fannie Lou Hamer—Freedom Farm
- Silent Spring—Natural Food Co-ops
1970s-1990s: Rebirth of Worker Co-ops
The Modern Era: Crisis and Response

- 2006 US Federation of Worker Co-ops
- 2008 Crisis and Occupy
- Year of the Coop 2012
- The Co-op Decade
- Cooperation Jackson
- Silver Tsunami
- Main Street Employee Ownership Act
- Covid Response
- The Cooperative Century?
The Co-op Identity

- Rochdale Principles: 1844
- Statement on the Co-op Identity: 1995
- World Declaration on Worker Co-ops: 2005
- Diversity, Equity, and Inclusion: 2025
A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.
Co-op Values and Ethics

• Self-Help
• Self-Responsibility
• Solidarity
• Democracy
• Equality
• Equity
• Openness
• Honesty
• Social Responsibility
• Caring for Others
Co-op Principles

1. Open and Voluntary Membership
2. Member Economic Participation
3. Democratic Member Control
4. Autonomy and Independence
5. Education, Information and Training
6. Cooperation Among Cooperatives
7. Concern for Community
• **User-owner** – the people who use the cooperative own it.
• **User-control** – as owners, members control the overall operations and activities of the cooperative. This control is exercised through voting at annual meetings and other membership meetings, and indirectly through co-op members elected to the board of directors.
• **User-benefit** – members use cooperatives for the benefits they provide. Because cooperatives strive for a goal of providing service at cost, distribution of earnings is a key benefit for members.
What is a “worker cooperative”?

Objective to create meaningful, sustainable work with human.

Free and voluntary membership

Majority of workers are members

Majority of members are workers

Autonomous and independent of the State or third parties

Internal management process is democratically agreed upon by the worker members
What is the Co-op Advantage?

- Ability to respond to market “failures”.
- Openness and Transparency allows greater trust between consumer and co-operative.
- Provide a means for people to overcome unfavorable power dynamics in their economic lives.
- Build solidarity in communities.
- Co-ops are more resilient and make better use of resources.
- Provide a means for human development.
## ESOP vs. Coop vs. Collective

<table>
<thead>
<tr>
<th></th>
<th>ESOP</th>
<th>CO-OP</th>
<th>COLLECTIVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement Plan</td>
<td>Corporation</td>
<td>No formal structure</td>
<td></td>
</tr>
<tr>
<td>Voting power</td>
<td>Voting power in member</td>
<td>Voting power in member</td>
<td></td>
</tr>
<tr>
<td>generally held</td>
<td>One member-one vote</td>
<td>Consensus</td>
<td></td>
</tr>
<tr>
<td>by Trustee</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>One share-one vote</td>
<td>Worker generally have voice</td>
<td>Collective members control</td>
<td></td>
</tr>
<tr>
<td></td>
<td>in operations and/or seat on</td>
<td>all aspects of organization</td>
<td></td>
</tr>
<tr>
<td></td>
<td>board.</td>
<td>equally (no board)</td>
<td></td>
</tr>
<tr>
<td>Worker may or may</td>
<td>Worker generally have voice</td>
<td></td>
<td></td>
</tr>
<tr>
<td>not have voice in</td>
<td>in operations and always</td>
<td></td>
<td></td>
</tr>
<tr>
<td>operations and/or</td>
<td>control board.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>seat on board.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Decision-Making

Hierarchy
(Parliamentary Decision Making)

Collective
(Consensus Decision Making)

Sociocratic (Consent and Circles)
- Relationship and decision making based on authority and power in structure.
- Board and membership uses one-person, one vote with parliamentary decision-making protocol.
- Management is by fiat within board policies.
Collectivism

- Uses consensus. Consensus means agreement.
- All workers engaged in all decisions unless they agree to form committees or delegate to a single person.
- Best for smaller organizations (30 members or less)
Dynamic Governance

• Hierarchy of work
• Circles double-linked
• Each circle semi-autonomous.
• Circle leaders coordinate activity.
• Circles create agreement with regards to how to achieve aims.
• Aims connected to mission.
• “Safe enough to try, Good enough for now”
• Consent means “no paramount objections”
Variations on a theme

There is no “right way” to co-op.
“At some point, the Policy Manual becomes the ‘boss’”
— Melissa Hoover, DAWI
Show Me the Money

Photo by Michele Henderson on Unsplash
Worker Co-ops are “At Cost” Orgs

- Not a charity—there needs to be a viable economic model
- Not “for profit”—the needs of the members provide the purpose

- At Cost doesn’t mean break even.
- The Co-op needs to cover wages, materials, capital equipment. . .
- The Co-op needs a reserve fund (rainy day)
- Retained Equity
  - Unallocated
  - Individual Capital Accounts
Profit Sharing vs. Patronage Refund

Profit Share is treated as wages and bonuses.

Patronage Refund is an equity distribution.

Decisions are “1 member, 1 vote” but distribution is: % input = % output
Examples of Worker Co-ops
Quick Poll – Menti Poll

1. Go to menti.com
2. Enter the code: 1092 2084
Quick Poll – Menti Poll

Website: menti.com    Enter code: 1092 2084

Which Co-op Principle is the most meaningful to you?

- Open and Voluntary Membership: 0
- Member Economic Participation: 0
- Democratic Member Control: 0
- Autonomy and Independence: 0
- Education, Information and Training: 0
- Cooperation Among Cooperatives: 0
- Concern for Community: 0
Why did you convert to a co-op?

Is that the right question:
- Why are you selling your business?
- What are your goals?
- Do you want to retire?
- Do you need money?
- Do you want to reduce your time in your business?

Is this even real? Yes. Don’t spend time asking if this is real.
Main Street Employee Ownership Act

Provides **directives** to the SBA
- Finance the transition of existing businesses to worker-owned companies.
- Training and education around worker cooperatives.
- Tracking lending and support provided to employee-owned businesses.
Co-ops – A New (Old) Approach

Co-ops are just like any other business:
• They have managers
• They focus on profit
• General operations are the same

Key differences:
• Members participate in company governance (finance, strategy, etc.)
• Members are entitled to profits, based on work equity
• Member (owner) benefit is the priority; transparency

NOT FRINGE!!
Our Organization – Our culture

Note: member = owner

• Hybrid - Members and non-members
• Not all employees qualify
• Members elect the board. 1 person = 1 vote.
• Board creates policy/strategy. Hires General Manager.
• Committees (we have 4)
• Profits get distributed to all employees (this was a decision of the board – to treat all employees equitably)
• Members are stewards of the co-op
ASONY Process (high level)

1. Identified an internal Business Development team (culture)
2. Engaged Project Equity for conversion (Technical Assistance)
3. Secured co-op legal and accounting resources
4. Created our company constitution (Operating Agreement)
5. Valued the company
6. Drew up legal documents, including a promissory note
7. Executed the transaction
8. Signed on new members

This is a very collaborative, transparent, and inclusive process
How Does It Work?

1. The sale is **financed through company profits** (leveraged buyout)
2. Owner holds 6-year note (can be private or financed)
3. Employees apply to become members (criteria)
4. **Members elect a board** for governance
5. Members and non-members work along side each other
6. Profit sharing (patronage) is “by right” → % contribution
7. Existing legal structures (e.g., LLC) are used
ASONY Member Requirements

1. Been an employee of ASONY for a minimum of 12 months
2. Worked a minimum of 1,200 hours
3. On the schedule for at least 25 hours per week
4. $750 deposit ($3,000 total membership fee)
5. Willing to work outside of shop hours (e.g., meetings, committees, etc.)
6. Two year commitment
Co-op Challenges

1. Awareness (what’s a co-op?)
2. Local resources/support (who do you turn to?)
3. **Time to convert** (it took us over a year...goal of <6 months)
4. **Cost to convert** (expect $5-40K – ultimately a % of value)
5. The majority of businesses do not understand co-ops yet
6. Traditional requirements not compatible (leases, CC)
Government Focus

Grant Ruroede
Planner/Researcher
City of Escondido
gruroede@gmail.com
How are worker cooperatives different?

Worker cooperatives widen business ownership, allow people to pool resources and risk, and have different internal incentives. They’re also...

- Internally democratic
- Enterprises without absentee ownership
- Internally equitable
Challenges that worker cooperatives face

• Lack of knowledge about cooperatives
• Legal issues
• Limited technical support
• Difficulties in obtaining startup capital
• The cost, time and complexity of the conversion process
• Workers’ lack of capital and expertise
Economic and community benefits of worker cooperatives

- Lessen capital leakage
- Keep local businesses local
- High survival rate
- The democratic spillover
- Pay higher wages
- Widen business ownership
- Good business succession strategy
What cities are doing to support worker cooperatives

- Support for business conversions
- City Council Resolutions
- Technical assistance
- Government & anchor procurement
- Zoning changes
- Education campaigns
- Loans and grants
- Leverage and pool federal and non-profit support
- Partner with cooperative support organizations
Case Study:
City of Santa Clara

- 2017 - First Worker Cooperative
- **Mar 2019** – EDCM Committee presentation
- **July 2019** – Full City Council study session. **Unanimous support** for a *Worker Cooperative Initiative*
- **Nov 2019** – $100K in funding
- **Mar 2020** – Worker Cooperative Resolution
- **Jun 2020** – Worker Co-op Vendor contracts
- **Jan 2021** – Public launch of Worker Co-op Init
  
  SantaClaraCA.gov/WorkerCooperative
Case Study: Santa Ana

- Resolution supporting cooperatives
- Created a webpage on worker cooperatives
- Created city liaison to cooperatives
- Educated staff on cooperatives
- Pledged to provide technical assistance
Case Study: Cleveland

- Helped to organize anchor procurement
- TIF funds and low interest rate loans
- Leveraged federal low interest rate loans
- Changed ordinances and donated land
- Very capital intensive
- Created 3 cooperatives (employing 250 workers, 80% are owners)
- Financial arm: Fund for Employee Ownership
City governments can also partner with cooperative support organizations.
Questions and Answers

We want this to be as informative as possible.

Please ask questions in chat or raise your hand!
What is the Workshop Series?

<table>
<thead>
<tr>
<th>Workshop Series</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Worker Cooperative Boot Camp</strong></td>
</tr>
<tr>
<td>4 days</td>
</tr>
<tr>
<td><strong>Introduction to Owner Transition</strong></td>
</tr>
<tr>
<td>2 days</td>
</tr>
<tr>
<td><strong>Advanced Owner Transition</strong></td>
</tr>
<tr>
<td>2 days</td>
</tr>
<tr>
<td><strong>Cooperative Operations</strong></td>
</tr>
<tr>
<td>1 month</td>
</tr>
<tr>
<td>6 months</td>
</tr>
<tr>
<td><strong>Cooperative Operations</strong></td>
</tr>
<tr>
<td>4 sessions (1 per week)</td>
</tr>
<tr>
<td><strong>Worker Cooperative Boot Camp</strong></td>
</tr>
<tr>
<td>4 days</td>
</tr>
<tr>
<td><strong>Introduction to Owner Transition</strong></td>
</tr>
<tr>
<td>2 days</td>
</tr>
<tr>
<td><strong>Advanced Owner Transition</strong></td>
</tr>
<tr>
<td>2 days</td>
</tr>
<tr>
<td><strong>Cooperative Operations</strong></td>
</tr>
<tr>
<td>1 month</td>
</tr>
<tr>
<td>6 sessions (1 per month)</td>
</tr>
</tbody>
</table>

**COOP 125**
As the need to convert businesses to worker ownership grows, this four-day intensive program will provide the foundation, fundamentals, and tools to understand and become an owner.

**COOP 301**
Any owner faced with selling their business has many questions, from determining business value to taxation.

**COOP 401**
Review plans, create a decision matrix, review owner goals, share worker expectations, discuss sales price, and outline risk/reward benefits for both current owners and workers.

**COOP 225**
Once you’re operating as a coop, governance and budgeting are critical to the success of the business.

**COOP 325**
Operating a board and committees, understanding the power of delegation and empowerment, and Open Book Management.
Outcomes of the Series

Bylaws/Operating Agreement - This is the business’s constitution. It defines the “rules of the road” and is a team collaboration.

Decision Matrix - You define what part of the business is responsible for action.

Professional Services – Identify an accountant, attorney, and other technical assistance providers

Board and Committees – Define core committees and identify who will be the initial Board members.

General Purchase Agreement – While the details of the sale will not be complete, the process for determining the value and basic parameters affecting the sale should be defined.
Worker-Cooperative Resources and Worker-Cooperative Support Organizations in California

Democracy at Work Institute – Municipal/Business Technical Assistance – institute.coop

Democratic Management: A Practical Guide for Managers and Others

Becoming Employee Owned

Sustainable Economies Law Center – Co-op Legal Services – www.theSELC.org

Guide to Accountants and Lawyers

Resilient Communities Legal Café

Project Equity – Business Technical Assistance – project-equity.org

Publications

Case Studies

Webinars

US Federation of Worker Cooperatives – National Support – usworker.coop

Directory of Co-ops

California Center for Cooperative Development – Technical Assistance – cccd.coop

East Bay Community Law Center – Legal Services – ebclc.org

Seed Commons – Financial – seedcommons.org

The Working World – Financial – theworkingworld.org

Worker-Owned Recovery California (WORC) Coalition – State policy focus – WORCcoalition.org


And many more!
Additional Resources

Co-op Resources

Scaling the cooperative movement necessitates greater synergy across cooperative sectors as well as collaboration with both government and private business. A Slice of New York has created this site to provide advocacy and policy resources for cooperators to use in building awareness and support for co-ops. Sign up for the listserv to stay updated on policy developments and action alerts.

Co-op Info and Resources

National Listserv

asony.com/coop

In folder: “Background Information”
Name: CCCD - 2020 Cooperative Resources.pdf
Next Steps - Contacts

1. Contact Mission College for additional information at: Niall.Adler@missioncollege.edu
2. Reach out to the City of Santa Clara at: santaclaraca.gov/WorkerCooperative
3. Mission College page update with this presentation: coop.missioncollege.edu
4. If you are interested in this program, contact Mission College. It won’t happen without your interest, so speak up if interested and tell others!
Thank you Mission College!

Special thanks to:

2. Niall Alder – Director, Marketing & Public Relations
3. Rob Gamble – Director, Workforce and Economic Development
4. Edward Fedalizo – Instructional Technology Analyst, Office of Instruction
5. WORC Coalition – Supporting the pilot and proof-of-concept of this new conversion approach