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# Rural Economic Development: A Stewardship Model for Organizing Worker Cooperatives Part Two

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# RURAL ECONOMIC DEVELOPMENT: A STEWARDSHIP MODEL FOR ORGANIZING WORKER COOPERATIVES PART TWO

**W**orker cooperative corporations are a particular way of organizing business and employment opportunities. They usually involve a for-profit business that is owned by the worker-members who are employed there. A worker cooperative must perform the same major functions as any other organized business. It must obtain sufficient financing, manage its personnel, and produce and market its product or service. Its staff engage in the same management activities as any other business: planning, staffing, controlling, organizing, and leading.

## **How A Worker Cooperative Differs from a Conventional Corporation**

- While the *conventional corporation* is primarily intended to be a profitable investment for its shareholder-owners, a *worker cooperative* is primarily intended to be a source of sustainable, high-quality employment for its employees.
- Stockholders in a cooperative business must be permanent employees, or “worker-members,” and each of them may own only a single share of stock.
- This share entitles the worker-member to one vote in all corporate decisions brought before the membership.
- Each worker-member earns a wage or salary that is limited to a fair reward for skill and seniority
- The cooperative’s profits are divided between a common account, owned by the corporation, and a series of internal capital accounts, one belonging to each worker-member.
- The corporate:members profit-allocation ratio is determined by a vote of the membership. A 50:50 split is common.
- The actual amount of profit distributed to a worker-member is determined by the value of the labor he or she has contributed.
- Only the corporate share of profits is subject to corporate income tax.
- A member’s share of profits is subject only to personal income tax.
- When the cooperative corporation is sold or liquidated, all present members, as well as those from the recent past, receive a share of the residual value, the amount of which is proportionate to their total labor contribution.
- On-going education in worker cooperative principles, practices, and behaviors figures prominently in start-up and operation of the business.
- Membership in the corporation is voluntary and non-discriminatory.

## **Disability-Friendly Cooperatives**

The benefits of cooperative business structure are no less relevant for people with disabilities. In fact, because people living with disabilities tend to experience such an extraordinarily high rate of unemployment, the self-empowerment and economic justice opportunities available through the worker cooperative may be even more relevant than for the remainder of the working population.

One method for creating a disability-friendly cooperative involves a stewardship model in which one or more organizations sponsor the creation and establishment of the cooperative. When rehabilitation providers and policymakers choose to investigate the possibilities inherent in worker cooperatives, they move away from the model of sheltered workshop employment and advance toward a workplace characterized by “self-determination.” In the few disability-friendly worker cooperatives now in operation, workers have taken over many day-to-day business operations, usually with some on-going outside help. Workers have been vested with legal authority for some business decisions, but not without reserved rights to protect the interests of the sponsoring founders. Workers have either avoided earning sufficient income and profits to seriously challenge eligibility for government disability benefits, or the experiments have yet to progress to the point where worker-members with disabilities will face these issues.

The choice of whether or not to participate in a worker cooperative business should be determined by the nature of the business opportunity, and by the potential member’s realistic self-assessment of what she or he is capable of doing. A combination of personal adaptive technologies and modifications in workplace attitudes and configurations can enable even those who have very significant impairments to work successfully.

### Getting Started

Those who choose to steward the development of a worker cooperative should begin by seeking out a constellation of community organizations that might also wish to encourage this type of community and job development. Each organization in the constellation adds its particular expertise and purpose to the emerging plan and will fulfill one or more key roles. *Figure A* provides an example in which seven organizations steward a cooperative and explains the role of each. In some cases, more than one of the roles might be fulfilled by the same organization, while in others, more than one organization might contribute to filling a single role.

*Figure A*

Key Elements of the Model		
Stewards	Roles	Partners
<p><b>Worker Cooperative Project:</b> A start-up worker cooperative business that would begin as a project supported by several community partners, but according to a pre-determined schedule, be spun off as an autonomous for-profit business, owned and controlled by its own workers.</p>	<p><b>Cooperative members would be responsible for:</b></p> <ul style="list-style-type: none"> <li>● Understanding and agreeing to the terms of the partnership that could eventually lead to owning and controlling their own business.</li> <li>● Satisfactorily performing their duties as employees of the business.</li> <li>● Learning the responsibilities, behaviors, and skills necessary to own and operate the worker cooperative business.</li> <li>● Repaying any indebtedness incurred during the start-up process (with personal liability limited as per stipulations of corporate law).</li> </ul>	<p><b>Membership of the cooperative might include:</b></p> <ul style="list-style-type: none"> <li>● Workers who have disabilities.</li> <li>● Support personnel (e.g., personal care attendants, interpreters, readers).</li> <li>● Workers who do not have disabilities.</li> </ul>
<p><b>Incubator Organization:</b> An entity that would serve as overall project manager and deliver, or coordinate delivery of, various forms of technical assistance and training.</p>	<p><b>The incubator organization would:</b></p> <ul style="list-style-type: none"> <li>● Provide overall project management.</li> <li>● Approve the business idea.</li> <li>● Conduct the feasibility study and prepare the business plan.</li> <li>● Approve the business parent.</li> <li>● Assist in making financing</li> </ul>	<p><b>The incubator organization might be:</b></p> <ul style="list-style-type: none"> <li>● An existing business incubator.</li> <li>● An independent living center.</li> <li>● A mental health</li> </ul>

Key Elements of the Model		
Stewards	Roles	Partners
<b>Incubator Organization</b> (continued)	<ul style="list-style-type: none"> <li>arrangements.</li> <li>●Raise funds for the loan guarantee trust.</li> <li>●Provide education and training.</li> </ul>	<ul style="list-style-type: none"> <li>center.</li> <li>●A community economic development center.</li> </ul>
<b>Disability Service Provider:</b> A government, a non-profit, or private provider of disability support services.	<b>Provider roles could include:</b> <ul style="list-style-type: none"> <li>●Coordinating referrals of potential workers with disabilities to the incubator entity.</li> <li>●Making an equity contribution to the loan guarantee trust fund on behalf of each consumer.</li> <li>●Consumer support and monitoring.</li> <li>●Benefits management consultation.</li> <li>●Lease of capital equipment.</li> </ul>	<b>Disability service providers could include:</b> <ul style="list-style-type: none"> <li>●An RSA VR office.</li> <li>●independent living center.</li> <li>●mental health center.</li> <li>●Social Security Administration.</li> </ul>
<b>Job Developer:</b> A government or non-profit organization whose purpose is to prepare workers to be successful in the job market.	<b>The Job Developer role would include:</b> <ul style="list-style-type: none"> <li>●Referring potential workers who may not have disabilities to the incubator entity.</li> <li>●Assisting in the employee screening and hiring process.</li> <li>●Providing training in basic job skills.</li> </ul>	<b>This might be done by:</b> <ul style="list-style-type: none"> <li>●A Job Service office.</li> <li>●A Job Training Partnership Act (now WIIA) entity.</li> </ul>
<b>Lending Institution:</b> A lender that is committed to supporting community development	<b>The role of the lender would be:</b> <ul style="list-style-type: none"> <li>●Loaning start-up capital.</li> <li>●Subjecting to an approved business plan, and</li> <li>●Full or partial loan guaranteeing by balances in a loan guarantee trust fund.</li> </ul>	<b>The lender might be:</b> <ul style="list-style-type: none"> <li>●A credit union.</li> <li>●A community development financial institution</li> <li>●A bank.</li> </ul>
<b>Loan Guarantee Trust:</b> A qualified individual or organizational trust administrator.	<b>The trust administrator would:</b> <ul style="list-style-type: none"> <li>●Establish a loan guarantee trust (funding from provider agencies and other benefactors).</li> <li>●Legally and competently manage contributions to the fund and disbursements from it.</li> </ul>	<b>This might be done by:</b> <ul style="list-style-type: none"> <li>●An attorney.</li> <li>●A financial institution.</li> </ul>

Throughout the stewardship process, lead partners can monitor progress by reviewing the following criteria, which are widely considered to be predictors of a worker cooperative's long term success. (Adams & Hansen, 1993; Adams, Gordon & Shirley, 1991; Bauen, 1996, 1995). ●A business orientation—good product and good market. ●Strong skilled management—proven business leaders who understand, and are committed to, principles of worker ownership and control. ●Adequate capital—access to an appropriate mix of debt and equity capital. ●A local development entity—a public-minded entity, committed to the principles of worker ownership, with the technical and financial resources to play the role of entrepreneurial sponsor. ●Education— those social skills and cooperative business-management skills needed to understand how to effectively run a worker cooperative business. Ideally, this would be a prerequisite to workers' full control of the business, as well as a condition of continued employment.

*(While the focus of this research is on employment of people with disabilities, there are several good reasons for including worker-members who do not have disabilities in a disability-friendly worker*

cooperative. Most important among these is the desirability of creating integrated workplaces that are not substantially different than other workplaces. Another reason for including people who do not have disabilities, and for including people with differing kinds of disabilities, is the potential for a mixture of compensating abilities; this assures that all necessary tasks can be done by someone within the cooperative's workforce.)

When all participants, including the lender, agree that the business is in good health and the workers are ready to accept full management responsibility, day-to-day operations would be taken over by the worker-members. However, final authority and ownership would remain with the incubator and partners until a trial period of perhaps several years demonstrated the workers' ability to successfully manage the new cooperative business on their own. The importance of this final step—the actual release of the new cooperative as an autonomous business—cannot be stressed too strongly. Until more worker cooperatives spawned by this stewardship-type model have succeeded, the advice of a well-qualified worker cooperative consultant is probably indicated.

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