Using Worker Co-ops To Enhance The Economic Well-Being Of Rural Residents: A Report For The United States Department Of Agriculture

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Prepared By
Northcountry Cooperative Foundation's
Center For Cooperative Enterprise And Innovation

Northcountry
Cooperative
Foundation

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INTRODUCTION

Northcountry Cooperative Foundation undertook this study as a means to test the potential viability and opportunity for using the worker-cooperative market to enhance the economic well-being of rural areas. Our question was twofold:

1. Are there positive elements that worker-owned cooperatives can bring to rural communities?
2. If so, are there things that we, as a rural cooperative development center can do to facilitate the growth of this market?

The study was conducted through phone interviews between June, 2004 and September, 2004. Over eighteen cooperatives were initially identified, and we were able to complete interviews with members from seven worker-owned cooperatives across the country. Each cooperative member representative was asked the same set of questions concentrating on roughly the following areas: their cooperative genesis, compensation, probationary period and investment mechanism, management structure, governance structure, capital accumulation and disbursement, and company successes and challenges.

The following case studies are structured to give you a sense of:

a) the kind of business the cooperative runs;
b) the business structure and its participants, including management, workers, and owners;
c) the cooperative's survival and growth, including a description of how they manage their finances;
d) the cooperative's strengths and challenges throughout its history, and;
e) a brief analysis of the cooperative's benefit to the community.

Participating cooperatives represent areas as varied as Massachusetts, Montana, and Wisconsin. They include a grocery-delivery business, an auto shop, two design/build firms, and a database design firm.

Our hope is that these case studies will both make the case for worker-ownership in rural communities and provide both worker-owners and technical assistance providers with lessons that we can use in future rural cooperative development.

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WORKER COOPERATIVE CASE STUDIES

Artists' Palette Co-op
Manitowash Waters, population 646
Interviewee: Ronald Hines, Co-op member

Mission: "To give local artists an opportunity to sell their work"

Cooperative Business Description

The Artists' Palette Cooperative functions as a producer and marketing co-op in which members contribute time and money to the daily workings of the management of the shop. Opened in 1996, the co-op is located in Manitowash Waters, Wisconsin a small tourist community in Northeastern Wisconsin. The co-op began when a few members had the opportunity to rent a storefront in town. Deciding that this was a prime opportunity to market some of their work, which included carvings, prints and jewelry, the co-op began as a loose affiliation of six artists. Currently, the co-op membership includes 10 members. The co-op, now housed in a much larger shop, also rents space to 20 consignment artists.

Business Structure and participants: Management, Workers, and Owners

Because it is such a small cooperative which is open for only a part of the year, the Artists' Palette employs a loose management structure. There is no general manager, although a co-op member who has bookkeeping experience currently handles the finances. The main management committees include an Advertising committee and an "In-house" committee which manages the facility, accounting and payroll.

Each member is responsible for working in the store for a minimum of 20 days per year. Other membership responsibilities include sharing in the expenses of the co-op: these expenses include helping to pay for the rent, utilities and advertising. As Ronald explained, in the summer months, members get a check because the expenses are more than paid for through art sales. However, in the winter members often receive a bill for the expenses that were not covered in sales that month. This system most likely works because most members are retirees, and therefore not totally dependent on the co-op to provide 100% of their income. The co-op is open seven days a week during June through September, the busy tourist season, Monday through Saturday during the month of May, Thursday through Saturday from October through December, and is closed from mid-December through the end of April.

All ten members sit on the board of directors, which elects a president, vice president, and secretary. The board meets monthly, and committees meet as needed. At these meetings, monthly checks or bills are distributed and any decisions regarding promotion are presented to the board. The executive board's primary role is to organize and facilitate meetings. There are no other special decision-making structures. Most decisions

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are made through discussion and consensus building. It is relatively rare that the board needs to take a majority vote- in most cases consensus is relatively easily achieved through discussion.

While the co-op does not actively solicit new members, if someone would like to join the co-op they present their work for the co-op board. The board then votes on their membership. Criteria for membership include residence within 75 miles of the co-op (to preserve the local nature of the co-op) and the creation of original work. The fee for membership is $150.00, payable in one lump sum. Members are assigned more space within the storefront than consignment artists and, of course, forego any consignment fee. Members rarely leave the co-op. In the past eight years, the few members that have left have usually done so to move closer to family.

Prior to being a member in the co-op, none of the members had experience running a small business. One member had bookkeeping experience. However, this hasn't seemed to be an obstacle. Ronald believes that despite the lack of business expertise, each of the members had a plethora of experience in creating their art. He cites the high quality and local nature of their products as the reason for their continuing success.

In terms of training and leadership development, the co-op does very little formal work. Each new member is trained in the shop to use the cash register. For the first week working behind the counter in the storefront they work with a more experienced member. In addition, they're trained in their meeting procedures. In terms of leadership development, they haven't felt a need to do this kind of training. Everyone "steps up to the plate" when necessary, and the co-op seems to work well with the consensus-driven decision-making process that it uses.

Survival and Growth: Finances and the Market

The co-op operates on the funds it makes off consignment work. Of each sale by a consignment artist, 35% of the sale goes to the co-op in the form of a consignment fee. This revenue goes into the co-op "fund" which pays the co-op's expenses. Obviously, during some months that fund is sufficient, and some month's require that member's pay for monthly expenses. For any revenue that member's generate through sales, 5% goes into the fund.

Their market has grown. Since first opening in 1996, the co-op has added four members and expanded into a larger space. Though hesitant to share actual sales figures, Ronald did say that the co-op has been growing every year since opening.

Going Co-op: Successes, Challenges and a Broader Benefit

Members of the Artist's Palette Co-op have found the structure to work well for them. All members were prolific artists previously, so they both eliminated the expense of paying consignment fees and consolidated revenue to fund the co-op's expenses. Worker

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ownership is a neutral idea for customers, but for artists is highly positive. The group melds well and enjoys working together as a co-op. In fact, Ron mentions the relationships among artists as key to the co-op's success.

The organization seems to put a higher priority providing an arena in which local artists can market their products than on maximizing profit. This is evidenced in the checks they collect in summer months and the bills they pay in winter months. They've also learned that displaying a large variety of pieces increases traffic. Each artist has developed a smaller, more easily mass produced piece which increases sales volume during the summer and Christmas seasons and serves as a kind of starter piece for a customer, which many patrons purchase before buying larger or more expensive pieces.

The co-op hasn't engaged in any long term plans. All indications show that the co-op is comfortable in its size, serves the needs of its members, and is happy with its annual revenue.

The co-op did not seek out any technical assistance or support when they were in the start-up phase. Their bookkeeper is able to deal with the financial element of running the business, and no other services are needed.

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Collective Copies
Amherst, MA, population 34,847
Interviewee: Stephen Roy, Founding Member

Mission:
"We are committed to achieving success in business by...

> **Serving our customers to the very best of our ability and resources.**
> In the service of this goal, we apply our knowledge, creativity and experience to communicate effectively; foster an atmosphere of mutual trust, kindness and respect; and continually educate ourselves and our customers.
>
> **Fostering a fun, safe, free, creative, trusting and respectful working environment.**
> We commit ourselves to taking the time to celebrate one another's successes, console our losses and promote personal growth.
>
> **Minimizing our environmental impact.**
> To this end, we continue to recycle, to seek out alternative fiber papers, minimize our waste and our use of waste-producing materials and methods and explore promising alternatives to such materials as they become viable.
>
> **Contributing to our community and supporting local business.**
> We return 10% of our profits to the community that sustains us. We resolve to implement ways beyond this by which we might be of help to the community. We will promote, frequent and assist area businesses how and whenever possible.
>
> **Striving to empower all workers and to be a model/resource for positive and profitable worker-ownership.**
> We create secure, empowering and financially rewarding jobs for our own workers, and strive to facilitate the creation of similar opportunities for all workers."

Cooperative Business Description

Collective Copies was born in 1983 out of the long and slow death of Gnomon Copies, an investor-owned business in Amherst, Massachusetts. After working conditions induced the employees to unionize and strike (and win!), Gnomon Copies was forced to close when they were evicted from the storefront. Soon after, former employees opened Collective Copies, and the shop has been operating as a worker-owned collective ever since. Serving the busy college communities in and around Amherst and Florence in Western Massachusetts, the copy shop just celebrated its 20th anniversary.

Business Structure and Participants: Management, Owners and Workers

Collective Copies functions as a true collective. In addition to the tasks of carrying out the business of a copy shop, day to day administrative activities are carried out by several committees: Accounts payable, accounts receivable, financial, supply ordering, paper ordering, marketing/promotion, donations, accounts development, payroll/vacation, sales tax, benefits administration, machine maintenance & repair, new equipment & services research, aesthetics and physical plant. Because of the nature of their business, at certain times of the year a committee will also work on copyright clearance. Employees serve on a committee according to experience or inclination.

The cooperative has written bylaws and policies that the collective decided upon as a body. Stephen commented that the importance of implementing these policies consistently can not be overstated- cooperatives can avoid a great deal of conflict by creating an atmosphere where each member believes that the policies are fairly enforced.

Workers tend to stay at the collective longer than is the industry standard. In addition, Collective Copies is able to attract experienced worker owners who've worked in other copy shops in the area. When they do need to hire members, they advertise in area newspapers and via a sign in their shop windows. The collective's hiring process is not significantly different than any other copy shop's hiring process. Candidates with previous experience in printing or cooperatives are given preference, and the collective looks particularly favorably on self-directed candidates.

A new employee is first given a 3-month apprenticeship. During this time, the co-op membership decides whether or not to offer full membership to the new hire. An employee may participate in profit sharing during the apprenticeship, but does not have voting rights. In the past, new employees have asked that the apprenticeship period be extended or have decided not to become worker-owners. Currently, all workers are also owners.

All thirteen members are on the board. They meet once a month. The committees meet as needed. Most decisions are made by consensus, although a majority vote may be used when necessary.

Regarding long term or strategic planning, the collective does participate in this once a year or so when they host day-long retreats, although the interviewee was not a fan of this process (he did, however, admit that the more long-term planning you do, the better). The collective is not planning any large jumps in growth. They currently operate two stores in Amherst and Florence.

Collective Copies did not solicit any help when they were starting up the co-op. They were able to raise enough capital to buy equipment, rent space, and pay wages that they did not receive any initial assistance from a financial institution. Instead, workers and community members helped finance the collective by providing loans. The membership also raised capital by using marketing strategies like a prepaid copy program in which customers would receive 10% off their order when they would prepay for services.

The membership designed the management and governance systems in the collective and did not receive any outside technical assistance.

Survival and Growth: Finances and the Market

Membership costs $250, which is taken out of a member's paycheck five dollars at a time. The collective has found that the membership cost is enough to give the owner a share in the business, but doesn't act as a barrier to membership. When a member leaves the co-op, their share investment is returned to them, but it doesn't accrue any interest.

Worker-owners receive a large benefits package including paid vacation, health and dental coverage, long and short term disability and the benefit of sharing in any annual dividends. These dividends are distributed according to hours worked in a year. In addition, the co-op distributes 10% of their net profits throughout the local community and invests 15% of profits as retained earnings in a reserve account.

The copy shop is located in a prime market for their services. Surrounded by five colleges, including the University of Massachusetts, the co-op benefits from an annual business cycle that is virtually guaranteed. In addition, the community is a historically progressive area where residents have sought out worker-ownership as a business model that they support.

Going Co-op: Successes, Challenges, and a Broader Benefit

The collective has had great success in cornering the printing market in Florence and Amherst. As a collective, the shop garners a great deal of community support and is heavily patronized.

Challenges have arisen, most commonly during periods of change. The decision to open a second store in Florence was difficult for the collective, because there was general disagreement about whether they should expand. Fortunately, the second store opening was a success, and allowed the collective to make inroads in a second college market in the area. However, the decision was a contentious one and not easily made. The collective appears more than willing to deal with conflict and currently has in place a conflict-resolution committee, which mediates disputes. In the past, when particularly strong conflicts have arisen, the collective has hired a mediator to resolve the conflict. This solution has worked well for them and has allowed them to continue to successfully work together.

The cooperative has a two-fold community benefit. Most obviously, the cooperative donates 10% of its pre-tax profits to the community. In the past, they've supported the Western Massachusetts Food Bank, a local animal shelter, and Amherst Friends of the

Homeless. They'll also consider donating in-kind copying services for events or organizations that they'd like to support. Secondly, the collective provides living wage jobs in a sector that generally does not. Each employee receives higher than average compensation and benefits, and participates in the ownership and management of the business.

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Data Systems, Inc.
Burlington, VT, population 38,889
Interviewee: Don Schramm, Co-op Member

Cooperative Business Description

Data Systems, Inc. is a database systems design firm that was founded in 1978 and structured as a conventional partnership. Though they were discouraged from designing it as a worker-owned cooperative by an attorney, they decided to go ahead with the idea, and in 1989 they converted to a system of worker ownership. While the structure has worked well for them, they have struggled to retain employees who want to become owners and are increasingly deciphering how to overcome this challenge, particularly as the original owners grow older and begin to think of retirement.

Business Structure and Participants: Management, Owners and Workers

The business is structured as any conventional administrative software company might be structured. It is divided into four departments: sales, administration, support, and web/internet services. The administration of the business is done by a president and vice president. The cooperative currently has six full-time employees and three worker-owners. Not coincidentally, these owners are also the founders of the cooperative.

This co-op has run into a dilemma that does not seem unique to many worker co-ops: they find it difficult to recruit new employees that are interested in employee ownership. In the past, they've hired without a consideration for whether or not a new employee would be interested in participating in ownership, and they are currently working on strategies to hire and retain employees who have this commitment in mind. Historically, their employees have enjoyed the ability to work without the responsibility of also overseeing the management and operations of the company.

The cooperative has a probationary period of one year, after which an employee may apply for cooperative membership. After board approval, the new owner invests a lump sum of $5000 in the cooperative and is granted full voting rights.

The co-op currently has no formal board of directors. Instead, the three current members often meet informally to make any necessary decisions. The co-op does have a structure in place, designed by the ICA Group of Boston, Massachusetts, such that if the co-op ever got larger they would elect a board and impose a more formal structure on the decision-making process.

Survival and Growth: Finance and the Market

The cooperative has made it an informal policy that profits made in a given year are distributed to all employees, regardless of membership status. Members and employees are paid anywhere from $18.00-25.00 per hour depending not on their membership status, but upon the kind of work that they do.

Their market is growing a great deal. The interviewee said that they could easily hire another two full-time employees to keep up with their business, if they could find new hires who were interested in becoming owners. Currently, they do business with companies who have a combined annual revenue of $600 million.

Going Co-op: Successes, Challenges and a Broader Benefit

It's obvious that the cooperative faces a growing challenge to recruit and encourage employee ownership. As their membership grows older, the sustainability of the co-op becomes increasingly tenuous. However, it's obvious that they provide a necessary service that could potentially own a greater market share should they have the desire and ability to grow.

The cooperative also has the ability to give their employees and members a workplace that is flexible and hospitable. All workers work four days a week and participate in profit disbursement.

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Big Timberworks
Gallatin Gateway, MT, population 1600
Interviewee: Merle Adams, Founding member and previous sole proprietor

Mission

"Our mission is to create functional and beautiful buildings that will last for generations and improve the quality of life of their inhabitants and for ourselves in our communities.

The process of place-making should not only be satisfying and dignifying to us but the rewards should allow us to establish our own places in our community."

Cooperative Business Description

Big Timberworks was started as a sole proprietorship in 1983. In 1999, the owner decided to pursue worker-ownership in an effort to retain trained employees and broaden responsibility for the management of business operations. Big Timberworks is a construction co-op which specializes in timber framing, and design/build services. Other specialties include a Component Shop creating handmade products for the interiors of their buildings, a sawmill and molder dedicated to reusing salvaged wood, and a panel shop, which was created in an effort to build energy and material efficient exterior wall panels.

Business Structure: Management, Owners and Workers

Big Timberworks uses a fairly straightforward management structure. A General Manager and office manager oversee day to day operations, and four department supervisors monitor operations within each of the company's four divisions. Merle Adams serves as the CEO and is primarily an "idea guy" and resource for the Board of Directors. Though he is no longer sole proprietor, he continues to act as the face of the company.

In the past, member accountability has been a problem because the general manager wasn't strict enough. Because the company does so many things, its hard to keep everyone on the same page. However, the current general manager was with the company ten years before he took on his current position, and has worked in every department within the company. His work ethic sets the standard, and thus far leadership by example has been the most effective method of enforcing accountability.

The company recruits new members who express interest in employee ownership. Though they hire primarily based on experience and qualifications, the company also wants to ensure that when employees become eligible for ownership, they want to become a part of the business. This ensures sustainability and long-term success. From the time an employee is hired, there's a two year probationary period in which the membership evaluates the employee for qualification as an owner. There's little in the

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way of formal training to be a member of the co-op, but they encourage new hires to read *Built to Last*: *Successful Habits of Visionary Companies* by Jim Collins and Jerry Porras and a study of Mondragon co-ops entitled *We Build the Roads We Travel*. They're also encouraged to come to board meetings. Instead of institutionalized training, members try to create a culture of ownership by encouraging an atmosphere of mutual accountability and respect.

When an employee's probationary period is ended, they apply for co-op membership. The whole co-op then votes a new member in or out. Once they've been voted in as a member, they're obligated to invest $10,000 worth of equity ("the price of a good used car"). This amount was carefully chosen following South Mountain Company's example: the amount represented a significant enough investment to require commitment from the new owner that they would stay at the company for while, but not so significant that it would prevent employees from becoming members.

This equity may be paid in cash. They can take out a three-year, no-interest loan from the co-op, or they can use any year-end profits they would receive to pay off their equity share. They must pay off their equity share within three years. Merle commented that while paying your equity investment by using year-end profits was a popular method it also made the idea of membership less valuable to new worker-owners. They've had a few worker-owners who used this method and then quickly left the company, requiring the company to pay out equity quickly and with no small detriment to the business's finances. They've learned over the years that the most meaningful equity investment would come directly out of the worker-owner's pocket.

All eleven worker-owners sit on the Board of Directors, which is primarily a consensus-driven body. The Board of Directors governs policy, and approves any significant purchase or expense (capital improvements, any new equipment purchases, etc.). The general manager does have the power to fire employees and is free to implement all policies that the board has voted on. Most Board decisions are not contentious, and it's rare that there is a major conflict among owners.

Merle has played an admittedly large role in helping the co-op make decisions, being that he is the former owner, and the possessor of more sophisticated business instincts than the relatively new board. One of the biggest challenges the co-op has had to overcome is the lack of business experience on the Board of Directors. They've hosted trainings on such topics as how to read financial statements, and often Merle's advice is used to interpret subjective business data. The co-op has found that because of this lack of expertise, members are often conservative risk takers despite the business's historic reputation of being "ahead of the pack" because of its willingness to take risks. It's expected that this conservatism would recede as co-op members become more experienced and business instincts are honed. As the board's skill-set becomes more developed, Merle's role is expected to diminish.

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Survival and Growth: Finances and the Market

In a single year, profits are disbursed to members according to hours worked. They distribute up to 50% of net profits to owners, although that number usually hovers around 30%. In 2003 this meant that each owner received approximately $8000 in dividends. The economy created an unusually good market for the co-op when it was beginning in 1999. The first three years they operated as a cooperative business was high and so were profits. Year-end dividends to owners were flush. This created some tension when the economy began to slow down and year-end profits dried up; employees felt as if they'd been betrayed. It was difficult for owners to realize (though they did) that the good of the business was more important then their year-end dividend check.

Employees and worker-owners earn the industry standard, anywhere from $9-30 per hour depending on the position.

Their market has grown a great deal. Their design principles: using salvaged wood, handcrafting timber framed homes, designing energy efficient buildings, and creating small, homemade building components are becoming more generally accepted and desired in the marketplace. Their strong emphasis on craft and ability to both design and build homes has helped the cooperative cement a strong reputation both in the area and around the country. However, for many years their success was contingent on being the only business of its kind. There was no real pressure to become more efficient or think strategically about their market. The current group of owners is more aware of market pressures. There's a movement to both make operations more efficient by analyzing their business figures more closely and to market themselves better and more strategically.

Worker-ownership has had a positive effect on marketing. Clients are generally pleased that they are a worker-owned business, although it is unclear whether they actually attract customers because of this structure. Despite the conversion to worker-ownership, the co-op membership consciously preserved Merle's position as the CEO and face of the company.

The business has been increasingly aware of the need to engage in long term planning. There are several concepts that have come out of recent long term planning sessions:

- They need to work less and make more money
- They will need to shift emphasis away from some departments to concentrate on others
- They need to set goals on annual sales
- Their business is craft-oriented, and they don't want to get so big that they can't create what they're best at. This means their business should never be larger than 40-45 employees.

Sales figures, which have been all over the board, have come down since 2003. In their biggest year since becoming a co-op, their sales were $6 million. Last year, they took in $4 million in sales. This is mainly attributed to a changing economic climate.

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Going co-op: Successes, challenges, and a Broader Benefit

Merle Adams thinks that the benefits the co-op structure brought to the business were key to its continued success. First, the pace at which the business was growing was unsustainable for one person to manage. However, he didn't want to put his employees' jobs at risk by selling the business to another sole proprietor. He didn't want to leave the business right away, and he didn't want the business to suffer if he did leave. Worker ownership neatly solved this problem. Shared ownership relieved the pressure on one individual and shared the duties of ownership. All owners could go on vacation and know that the business would continue to run smoothly.

Secondly, the business is stronger as a result of worker ownership because the co-op can retain skilled workers. The business of construction is one that usually spawns many small sole-proprietorships because once employees have mastered the craft many want to start their own businesses and "be their own boss." Big Timberworks specifically wanted to retain its crew of highly trained, specialized and talented craftspeople. Worker ownership allowed employees to have the benefits of ownership without leaving the business. In addition, Merle sees this as a sustainable way to keep Big Timberworks in operation indefinitely, with or without his presence. Merle also says that worker ownership promotes behaviors key to the success of a business like Big Timberworks: shared decision-making builds teamwork, and the regular airing of diverse viewpoints promotes a vital, thriving community.

Merle is careful to articulate that converting to worker ownership is not a panacea or a simple process. First, in their process to become a worker-owned business, they had to lobby for a change in state law. In addition, they hired an attorney and an accountant to ferret out the complexities of cooperative law and accounting. Merle cautions that these people need to believe in the idea of worker-ownership because the process is complex- their first accountant left because he didn't believe in what they were doing. Their new accountant, in tandem with the general manager, had to figure out a way to finance the conversion in such a way that the co-op could afford it. In the end, Merle sold the co-op the buildings and equipment he owned, while he retained ownership of the land. They engineered an eight-year buyout plan, and structured the timeline according to what the co-op could afford.

As a co-op they had to be much more organized. During the 16 years that Merle owned the business, he never had an employee handbook. As a co-op, personnel policies and procedures need to be laid out clearly and carefully, and they now have a handbook that the first worker-owners hammered out and voted on together.

Another challenge the co-op has faced is paying out equity to those workers who leave the co-op. They pledge to return equity to former employees at the same rate that members pay in their equity: three years. However, they're currently repaying three owners that left and this is a strain for the company. They're dealing with strategies to mitigate the co-op's risk while continuing to pay out equity. This situation has made the

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co-op less willing to consider inviting new members to join, as they can't risk losing anyone's equity presently.

Merle also offers that the dynamics of the business will change when the conversion takes place, and workers need to understand that for a period of time the business will be in transition and people's roles will change. For the co-op to work, members must realize and embrace the transition. The original founders thought that if they provided an option for workers to become owners, employees would become more efficient and committed. They found that this was not inherently true, and if they weren't careful some members misunderstood ownership to mean that they could vocalize criticism, or become increasingly competitive. He emphasized that owners must truly engage in cooperation to allow the business to be successful.

Finally, the cooperative has had a lasting benefit on the larger community. Working in Gallatin Gateway, Montana, outside of Bozeman, the community has seen a surge in new residents. The average length of tenure in Bozeman is just five years. Merle suggests that with transitory residents, the community is not as strong. Since Big Timberworks provides good jobs with strong benefits, they are able to retain highly skilled workers for a long time, which creates a stable base of community residents.

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South Mountain Company
West Tisbury, MA, population 2,467
Interviewee: John Abrams, Previous owner and founding co-op member

Mission:
"To enrich our community through our work."

Cooperative Business Description

South Mountain Company began as a construction firm specializing in design and build services in 1975. In 1984 it became a sole proprietorship owned by John Abrams. In 1986, in an effort to keep his highly skilled workforce, and with the encouragement of his employees, he began the process of converting the business into a worker-owned cooperative. Beginning with three members in 1986, the co-op now has 15 owners, with another 15 on track toward becoming members. They specialize in creating buildings for which they participate in every aspect of the design process: planning, architecture, development and interior design. Environmental building practices are a priority for the company, and are part of the standard design of each of their buildings.

Business Structure & Participants: Management, Workers, and Owners

South Mountain Company employs a standard management structure. Workers are divided up into four areas of the business, referenced on their website as "field people" who do the carpentry work on the buildings they create (there are currently three carpentry teams), "shop people" who create the woodwork, cabinetry and furniture for their building interiors, and the design and office people, who do the administrative work, or create building interior and exterior designs. Each of these areas or departments is managed by an individual or small team. This management entity not only manages but also participates in the day to day activities of the department.

Other business management tasks are handled mainly by committees. An executive committee, a production committee, a design committee, and a personnel committee meet and act on a regular basis. A charitable contributions committee, an education committee, and a facilities committee meet as necessary. While committees have much power to expedite decision-making, the ultimate authority rests with the Board of Directors.
In addition to these committees some responsibilities or "multidisciplinary jobs" are handled by individuals who have expressed interest or aptitude. For example, a carpenter with South Mountain Company also manages the company's pension fund and reserve fund. A financial manager began managing their interior design work when it was discovered that she had a strong interest and talent for it. The computer systems operator does lighting and mechanical design as well. John Abrams touts these situations as one of the company's strengths: it is an example of the company's flexibility in allowing employees to develop talents and skills and put them to use for the business.

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Because of the nature of the business at South Mountain Company, each employee has a discrete, defined position. They may be a carpenter, interior designer, or woodworker. As such, wages vary according to seniority and industry standard. At the company, wages vary from $15 per hour to $125,000 per year.

At South Mountain Company they emphasize the importance of the separation between management and policy (or governance) decisions. To deal with the daily issues of running a business, management teams are vested with the power to make management decisions. The board of directors, made up of all worker-owners, make policy decisions. Though South Mountain Company concedes that it is sometimes difficult to understand the difference, they differentiate these decisions roughly along the following lines: policy issues include accepting new owners, compensation and profit-sharing, company direction and future planning, major expansions, new ventures or investments and involvement in community projects and major donations. Management decisions deal with the company's daily operations and must be made quickly and efficiently. John emphasizes that the ability to tell the difference between these kinds of decisions is a skill that must be developed.

Board decisions are made at monthly board meetings. It is rare that a vote is necessary; most decisions are based on a consensus driven decision making technique. In the 17 years that the co-op has been in existence, they have taken three votes. Formal votes are taken in situations where a consensus isn't clear after two meetings. When a vote is taken, a 75% majority is necessary to make a decision. In addition, John emphasizes that board meetings are carefully facilitated and generally last no more than two hours, which makes them more productive and useful to members.

The cooperative rarely has to search for new employees. John Abrams says, "We do not recruit members. We rarely grow and people rarely leave." The co-op does retain a list of people seeking employment with South Mountain Company that they refer to when they are hiring. In addition, the co-op advertises in the rare instance that they need to fill a very specific job description. New employees are hired with their desire to become an employee-owner in mind. With an eye on the sustainability of their business, the board would like every new employee to become an owner and they look for commitment and compatibility when they do their hiring. After three years, an employee is encouraged to attend board meetings and acculturate to worker-ownership. There is no real formal training in worker-ownership. Instead new employees, by working collaboratively with owners, naturally come to understand the process. They are evaluated annually by the owners and, after five years and 7500 hours worked, an employee becomes eligible for membership in the cooperative.

After a new member is approved by the board of directors, they are required to invest their equity of $11,000, or the price of a good used car. The figure was chosen because it was thought to be a sum significant enough to require a commitment from the new member, but affordable enough that employees could easily invest it. In 1987, when they began the process, the equity investment was $3500. John credits the long probationary

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period as an element of the company's success. It requires a strong commitment to the cooperative that may not otherwise be achieved.

Through this long vesting process, the co-op has vetted many owners who have stayed with the company for many years. In addition, the company website emphasizes the importance of making the membership process transparent and clearly defined: "Employees are evaluated for ownership suitability and educated about the meaning of ownership during their first five years of employment. The process is conducted by our personnel committee. The intention is that it will be clear when each individual reaches eligibility whether the individual wishes to accept the responsibility and whether the current owners wish to accept the individual as a new owner."

Survival and Growth: Finances and the Market

An employee may take up to 36 months to pay in their equity. After 50% of their equity share is paid, they become full members of the co-op with both voting rights and all profit-sharing benefits. When a member decides to leave the co-op, their investment is paid out to them over a 10-year period, to preserve the financial stability of the cooperative. If an employee would like their investment returned more quickly, they receive their investment at a discounted rate:

- Immediate payout: 60% of initial investment
- Three-year payout: 72.% of initial investment
- Five year payout: 79.5% of initial investment
- Seven year payout: 86 .5% of initial investment
- Ten year payout: 100% of initial investment

At South Mountain Company, an important benefit of worker ownership is the profit-sharing aspect, or "Internal Capital Account." These accounts are paper accounts supported by the company's net worth and are, for the most part, only accessible to employees upon their departure from the company. An account is opened when an employee begins to pay their equity investment towards ownership. It grows at the end of each profitable year, when 50% of net income is distributed among the owners according to hours worked in a given year. A separate cash profit sharing program is used to distribute 35% of annual net profits to all employees at the end of a year in the form of wage bonuses. In particularly high profit years, additional taxable dividends are distributed to owners including at least 20% in cash.

The company's website indicates that "At the end of fiscal year 2003, the cumulative total of the fourteen capital accounts was $930,000. Individual accounts ranged from $20,000 to $170,000. In 1999 we established a reserve fund to back up the equity and to use to pay off owners as they leave in the future. We build this account aggressively and invest the funds in socially responsible venues. As of December 2003 the account contained approximately $450,000. If the Owners were to choose to, we could use this fund for other purposes, such as paying employees during a down business cycle, but to

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date nothing has been spent. These reserves are the foundation of the stake that each of us has been earning."

Since the company has been operating on the island of Martha's Vineyard since 1976, they have found it unnecessary to do any marketing. They operate through word of mouth, and they limit their work to the island. They began the company with a commitment to exploring alternatives to conventional construction practices and dedication to the art of woodworking. They created a unique market niche which has held them in good standing with residents of the island. Currently they do an average of $5-6 million in annual sales. They've plateaued at this number and are happy with their size and annual revenue.

The board of directors does engage in semiannual strategic planning. Twice a year the board and employees meet for an all-company meeting where future directions, new technologies, growth and other issues that affect the company are discussed. They've found this process to be helpful in creating an environment where everyone is involved in the future of the cooperative and insuring that the business is working according to its mission.

Going Co-op: Successes, Challenges and a Broader Benefit

The conversion to worker ownership was positive for many of the same reasons Merle Adams of Big Timberworks articulated. The opportunity to govern, manage and build equity in the company kept skilled and talented employees from leaving. John comments that a business such as South Mountain Company often tends to spawn many other small, similar businesses. However, with the ownership option, the business has managed to retain those skilled workers, offer them ownership and similar benefits and create an environment where owners feel that they are "at home." In addition, the ability to share management responsibilities makes ownership more attractive to many members, including John Abrams who was the original founder and owner of the company.

John offers some advice to worker co-ops:

- Transition to cooperative ownership slowly, by providing a long probationary period. In John's experience, those co-ops that have a shorter vesting period often have more trouble retaining members that have a strong understanding of what's best for the cooperative.
- Employee ownership is not a panacea. If a business is dysfunctional, it will be a dysfunctional co-op. However, worker ownership provides an avenue for fairness, transparency, and shared responsibility.

When South Mountain Company decided to become a worker-owner cooperative, they enlisted the help of ICA Group, a for-profit consulting company which provides technical assistance to businesses contemplating conversion. John says that ICA Group provided "legal answers, a supportive ear, and an experienced hand." However, he commented that there was no template that the company could follow, as each co-op decides on governance procedures, profit-sharing formulas and management structures. In particular, the co-op adopted a much longer probationary period than most worker co-ops to gauge commitment, and allow time for an employee to acculturate to worker ownership.

As one can interpret from South Mountain Company's guiding principles, they have strict ideas about the work they do and how it can benefit the community. They provide living wage jobs that allow for equity creation and community investment, which creates stable community-minded citizens who have a long-term investment in and connection to the area.

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Pelham Auto Service
Belchertown, MA, population 12, 968
Interviewee: Jason Fair, Co-op member

Cooperative Business Description

Pelham Auto Service began as a partnership in 1972. In 1977, after other employees indicated interest in the possibility of ownership, they converted to a worker cooperative to retain employees and create an equitable work space. Currently, they service imported cars and a limited number of American models. They have 11 co-owners and 3 employees. The last founding member retired in 2000, but the co-op continues to operate smoothly, and business is better than ever.

Business Structure: Management, Owners and Workers

Pelham Auto Service follows a management structure similar to any conventional auto shop. The shop has six mechanics, whose work is managed by two service writers whose job it is to take in the work, assign jobs and do the billing. Each mechanic owns their own bay and their own tools. Other positions include bookkeeper and accountant. This system has worked well and accountability hasn't been a problem for worker-owners.

All eleven members sit on the Board of Directors. They meet biweekly or monthly, depending on how busy they are. Issues discussed at a typical board meeting include any upcoming large purchases or policy changes. Any decision is made through a majority vote, and one member has one vote.

It hasn't been difficult to find new employees. The flexible schedule, opportunity for ownership and good pay attracts committed worker owners. To recruit new worker-owners, the co-op most often uses word of mouth. It's not difficult to find interested prospects due to the higher-than-average pay scale and benefits. In the past ten years, two employees have left.

An employee becomes eligible for membership after one year. The co-op holds a full membership meeting at that time and a simple majority will decide whether or not the employee will become a member. However, at this time their membership responsibilities are limited to voting rights. After three years, a member becomes eligible for the profit-sharing benefit of cooperative membership. A certain percentage of net profits are distributed according to hours worked and this amount is distributed monthly or bimonthly during the following year. In year where there's a large capital outlay, this check may be small or nonexistent. In a typical year profit sharing can total $1500 per member.

There is no formal training for incoming employees.

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Pelham Auto Service didn't receive any technical assistance to convert to a worker owned structure. They did, however, have the help of a supportive accountant who helped them create a profit-sharing system and an attorney who helped them navigate through the vagaries of cooperative law in Massachusetts. Without these resources, Jason doubted that the cooperative would have been successful.

Survival and Growth: Finances and the Market

The profit-sharing mechanism is an attractive part of ownership at Pelham Auto. Each year they disburse a certain amount of their net profit, according to what other improvements the shop might need as well as any savings the company may need to accrue. The shop also provides 100% of all employees' health coverage.

The pay scale at Pelham Auto is noticeably higher than the industry standard. Mechanics bill a higher than usual percentage (40%) of each repair that they make to labor. While mechanics in the area usually make between ten and fifteen dollars an hour, their mechanics make closer to twenty dollars an hour. All of these benefits mean that owners are paid at a higher rate and receive better benefits than their counterparts at a conventional auto repair shop. This substantially reduces their staff turnover (two employees left the shop in the past ten years). In addition to the profit-sharing, complete health care coverage and flexibility, the co-op also participates in a Simplified Employee Pension Plan for 10 of its 11 employees.

Going Co-op: Successes, Challenges, and a Broader Benefit

The fact that they are a cooperative contributes to their success; owners stay longer and work harder because they have a vote in the way that the business is run. In addition, many owners are highly appreciative of the flexible schedule: they can come and go when they want, as long as they get their work done. The interviewee notes that this can lead to problems when there are more jobs than mechanics in the shop, but for the most part this flexibility is seen as a benefit. Thus far there hasn't been any need for a formal accountability mechanism and there are no formal procedures to insure accountability. Jason credits this as an element of ownership: they all sink or swim together.

The fact that they are a cooperative has also contributed to their success as a business. Jason comments that once customers find out that it is an employee-owned co-op, they have an increased level of confidence and trust in the business. Since converting in 1977, they have marketed themselves regularly in print ads, and on the radio. However, they're finding that they can't keep up with demand, so every year they do less and less formal marketing. Currently, between eighty and eighty-five percent of their customers are returning clients.

The next challenge for the co-op is their aging workforce. They hadn't been doing any long term or strategic planning, but as many members near retirement, they've begun to address issues of sustainability at their monthly board meetings.

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When asked if there was anything particular about the business or the community in which they worked that made it more conducive to employee ownership, Jason said that there wasn't anything about their business that couldn't be replicated. He commented that Belchertown is, for the most part, a progressive college town, where folks are inclined to support worker-owned businesses.

In this case, the cooperative provides very real and substantially more meaningful benefits than a conventional auto repair service might. The cooperative is able to create family wage jobs that provide a superior level of compensation, flexibility, health care coverage and ownership than equivalent positions in conventional auto repair shops. Whereas Jason said that many mechanics make between $20,000 and $30,000, their mechanics make between $40,000 and $50,000 per year.

FINDINGS

Our research and interviews have led us to believe that worker-ownership is markedly underdeveloped in rural areas. The rural market could become a large one for worker-owned cooperatives with the changing demographics in rural communities. This potential could be more easily harnessed should technical assistance organizations increase their focus and resource base on rural worker-ownership. Some general themes emerged from our discussions, which are outlined below. Observations fall into three main categories: market opportunity, human resources and good governance, and suggestions for technical assistance providers.

Market Opportunity

The most striking finding of the study was the preponderance and success of cooperative conversions. The conversion of conventional sole proprietorships or partnerships to cooperatives may be a growing market for the worker-owned cooperative model throughout the western and midwestern United States. Many of the most successful cooperatives in the study were the products of the conversion process including the South Mountain Company, Big Timberworks, and the Pelham Auto Service. As one respondent noted, this is much easier than starting a brand new worker co-op, in that a business need only convert the ownership structure, while everything else- the client base, market niche, and skill set remain in place. As baby-boomers age and begin retiring, a worker-owned cooperative model may provide local economies with the ability to sustain small businesses that would otherwise close while simultaneously creating living wage jobs.

Worker-owned cooperatives also seem a natural fit in college and tourist communities. Four of the seven cooperatives we profiled were located in college communities (Data Systems, Inc, Collective Copies, Just Local Food, and Pelham Auto), and many of the other rural worker-owned co-ops that were not profiled in this study were located in college communities. Tapping into this market could be a key to economic success in these areas. Jobs that are not conventionally thought of as family wage jobs (i.e. employment at a copy shop), are able to provide community members with both a living wage, generous benefits, and ownership.

Additionally, tapping into this economic market in tourist communities can both supplement workers' incomes, and provide tourist communities with a more equitable means to capture tourist revenue and keep that revenue in the community. At the Artists' Palette Co-op in Manitowash Waters, the cooperative provided residents, many of whom were retired, with important supplemental income. In addition, it provided an affordable venue for the artists to market their work, as they didn't have to pay a consignment fee. At the South Mountain Company, the owners take advantage of being located in a unique community (Martha's Vineyard) and serving a market that is particularly interested in the kind of holistic design/build services that the company offers to create jobs that both provide a living wage and an opportunity for ownership.

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Despite the preponderance of worker cooperatives in college or tourist communities, this is obviously not a prerequisite for cooperative success. Several worker-owners stressed that a worker-owned cooperative is not more applicable to any one business, service or locale. Though worker-owned cooperatives may find more community support for the ideology of a worker-owned cooperative in a college or tourist community, the model does not require this kind of market to be successful. In fact, several of the cooperative members we interviewed mentioned that most of their customers aren't aware of their business structure and customers instead patronize their cooperative because it provides a needed good or service in an efficient, cost effective way.

Human Resources & Good Governance

The role of governance in a worker-owned cooperative plays an important role in the co-op's level of success. Good governance is most easily achieved by having clear and transparent policies and procedures approved by the membership and uniformly enforced. Most of the cooperatives in the case study had printed policies or procedures created by the co-op's membership. At Big Timberworks, they created the first handbook the business ever had after cooperative conversion. This process helped enforce an atmosphere of employee ownership, as each member was involved in its creation. Small or more informal cooperatives may be able to exist more easily without these policies: the Artist's Palette Cooperative makes all decisions through a majority vote, which is its only governance procedure.

Good governance is more than the decision-making process. The case studies illustrate that financial management is also key to a cooperative's success. While several of the cooperatives that were profiled cited one of their most popular ownership benefits as the annual disbursement, several of the cooperatives also invest a discrete amount of annual profits into a reserve fund. The amount of their annual dividend is decided after they've fully invested a predetermined percentage of profits into these reserve accounts.

Several owners emphasized the importance of growing a culture of ownership, wherein every member feels like an owner. The conversion process can make the shift to an ownership mentality difficult, particularly when the former owner is present as a co-op member. At South Mountain Company the membership has been particularly attuned to this dynamic. Over the course of the past five years, the former owner's role has gradually shifted: where he used to provide oversight on issues of financial and business management, he's now more simply the face of the company. The best example of the company's ownership culture was displayed during the former owner's sabbatical: he left for the better part of a year, and the company continued to manage itself just fine.

This ability to create an ownership culture within the cooperative is key to a cooperative's success. In a particularly dramatic example, the Worker Owned Sewing Company of North Carolina was forced to close when one of its most active members died. This member was responsible for managing the daily operations of the business,

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and no one else was able to take on this role in his absence because he hadn't shared this position of knowledge with any other worker-owner. Not coincidentally, most cooperatives in the study had committees that oversaw the management, governance and finances of the organization.

Finally, it is clear that the idea of ownership should be a part of the hiring process. In cooperatives where interest in ownership is used as a criteria for employment (Collective Copies, Big Timberworks, South Mountain Company, and Pelham Auto Service) the cooperative has a broad membership base that's committed to ownership. When this is not used as a criterion, the membership may become smaller and more stressed, as the responsibilities of ownership are concentrated with fewer people. South Mountain Company, where the cooperative's membership process includes five years of education before an employee qualifies for membership may have a better chance of sustainability and long-term success than Data Systems, Inc., where employees are hired to do a single task and ownership is not a criterion of employment.

For Technical Assistance Providers

While it is clear that all cooperatives do not need the expertise of an outside technical assistance provider for their success, there are several areas in which those organizations may play an important and as yet unfulfilled role.

1. *Act as a source of referrals to attorneys and accountants with cooperative expertise.* Several interviewees cited their sheer luck at finding an attorney or accountant who was able to navigate their state's complex laws governing worker-owned cooperatives. There are most likely innumerable groups who didn't have the luck to find a professional with this cooperative expertise. These professional linkages could be key to worker cooperative development in rural communities. Big Timberworks had to find a new accountant after their first accountant told them he couldn't in good conscience assist with their conversion. Just Local Foods continues to struggle to develop an accounting system that will accommodate the needs of a worker-owned cooperative such as dividends distribution.

2. *Provide instruction on general financial literacy*. Financial literacy was one of the key stumbling blocks that John Abrams ran into as South Mountain Company converted to cooperative ownership. Board members had to learn how to read financial statements, appropriately fund their reserve accounts, and make important decisions on worker compensation. Creating an easily accessible service to educate cooperative members about the fundamentals of financial literacy could ensure the long-term health of many worker-owned cooperatives. These services will play a crucial role in supporting rural cooperative development by providing new cooperatives the tools they will need to build good business practices and strong governance policies.

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3. *Provide a "toolbox" guide for workplaces contemplating conversion to cooperative ownership.* Conversion appears to be the most feasible way to increase worker ownership in rural markets. This toolbox or comprehensive resource for organizations would lay out all the steps an organization would need to follow to successfully complete conversion. Best practices, resources, and a list of other worker cooperatives could be included.

4. *Create affordable technical assistance resources for worker cooperatives in the Midwest and the South.* More than one of the cooperatives profiled in this study received assistance from the ICA Group in Boston, MA. Not surprisingly, these were co-ops located in that geographical area. The cooperatives located in the Midwest mentioned no parallel technical assistance organization dedicated to the formation of worker cooperatives specifically, and there are few resources found in the Southern United States. Providing a central organization to act as both a network and a resource for information on governance, finance, and management would provide both start-up cooperatives and converted cooperatives in a broader geographic area with the resources to succeed.

   Additionally, these services should be available to cooperatives at an affordable price. Discussions with several experts in the worker-cooperative field revealed that current services are available at a consultant's rate of $75 to $80 dollars an hour. For a cooperative in its formative stages, this cost may be prohibitive.

CONCLUSION

Worker-owned cooperatives could play a much larger role in rural economic development. The changing demographics of rural communities paired with a growing need to retain living wage jobs make the worker-cooperative model a natural fit. Cooperative businesses in rural areas are not, for the most part, experimental or frivolous. They fill very real market needs including auto repair, grocery delivery, construction and software design. These case studies illustrate that the cooperative structure could conceivably work for any kind of business. Additionally, the scope of worker cooperatives in rural areas is much broader than previously considered. While only seven were able to complete an interview for this study, worker-owned cooperatives serve markets across the United States, from Massachusetts to Ohio to Washington, as book shops, restaurants, and even boat repair companies.

However, there is a decided lack of technical assistance resources in these areas to give emerging worker-owned cooperatives the support they need. Particular challenges facing new worker-owned cooperatives include developing an appropriate accounting system, encouraging a culture of ownership, navigating the hiring process in an ownership situation, and deciding on appropriate compensation. In rural situations, the relative isolation that many worker-owned cooperatives find themselves in also may lead to a sense of defeatism and paralysis. Technical assistance providers could play a critical role

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in providing new and converting worker-owned cooperatives with resources and support to succeed.

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