Considering Cooperatives: Democratic Workplaces & Succession Planning

Carolyn Edsell-Vetter, AOLCP
President & Co-CEO
A Yard & A Half Landscaping Cooperative, Inc.
Waltham, MA
Why are you here?

- Aspiring farmer or apprentice
  - Need land
  - Need capital (money)
- Farmer or landscaper looking to retire
- Owner who wants to go back to doing what you love -- working **in** the business, rather than **on** the business
- Social entrepreneur
- Cooperative enthusiast
- Other??
What do you want to learn?

- What are worker-owned cooperatives?
- What is the cooperative movement all about?
- When is a worker-coop an appropriate option for:
  - Joining together to raise capital and get access to land?
  - Building local economies?
  - Creating a more democratic workplace?
  - Succession planning?
- How can I start a coop or transition an existing privately-held business to a worker-owned cooperative?
- What can I learn from the experience of other coop start-ups?
Some Disclaimers...
Some Disclaimers...

I am NOT a farmer.
Some Disclaimers...

I am NOT a farmer.

Or a Coop developer.
Some Disclaimers...

I am NOT a farmer.

Or a Coop developer.

I like to weed.
So, why am I here?
Access to Capital & Land

Inherited Wealth
- Expansion Capital?
- Limited Production

Viable Farmland
- Expansion Space?
- Limited Growth

Apprentice Labor
- Progressive Wages?
- Loss of Skilled Labor

Commercial-Scale Skilled Laborer

Adapted from an essay at: https://medium.com/praxis-journal/ee5fd7fa9b3c
“A co-operative 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.”
What is a Worker-Cooperative?

- **Worker-owned** – workers finance the coop together through an initial buy-in
- **Worker-controlled** on basis of “One worker, one vote”
- **Workers share surplus**
- **Worker-owner equity** stays in the coop as working capital
Why Worker-Cooperatives?

- Joint Ownership
- Democratic Control
- Shared Equity Reserves
- Cooperative Distribution of Profits
Why Worker-Cooperatives?

- Accessible to lower income owners
- Shared start-up costs and risks
- Employee buy-in and responsibility

Diagram:

- Joint Ownership
- Democratic Control
- Shared Equity Reserves
- Cooperative Distribution of Profits
Why Worker-Cooperatives?

- Accessible to lower income owners
- Shared start-up costs and risks
- Employee buy-in and responsibility

- Higher employee well-being and satisfaction
- Professional growth & development

Joint Ownership

Democratic Control

Shared Equity Reserves

Cooperative Distribution of Profits

aYard & aHalf
LANDSCAPING COOPERATIVE
Why Worker-Cooperatives?

- Accessible to lower income owners
- Shared start-up costs and risks
- Employee buy-in and responsibility

- Higher employee well-being and satisfaction
- Professional growth & development

- Direct benefit from personal labor
- Reinvestment in local economies
- Stabilization of family & community

Joint Ownership

Democratic Control

Shared Equity Reserves

Cooperative Distribution of Profits
Why Worker-Cooperatives?

- Direct benefit from personal labor
- Reinvestment in local economies
- Stabilization of family & community
- Working capital for seasonal business
- Owner accounts “loan” capital for improvements and equipment
- Accessible to lower income owners
- Shared start-up costs and risks
- Employee buy-in and responsibility
- Higher employee well-being and satisfaction
- Professional growth & development
- Direct benefit from personal labor
- Reinvestment in local economies
- Stabilization of family & community

Joint Ownership • Democratic Control

Shared Equity Reserves • Cooperative Distribution of Profits
7 Cooperative Principles
7 Cooperative Principles

1. Voluntary and open membership

A cooperatives is a voluntary organization, open to all people able to use its services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.
7 Cooperative Principles

1. Voluntary and open membership
2. Democratic member control

Cooperatives are democratic organizations controlled by their members—those who buy the goods or use the services of the cooperative—who actively participate in setting policies and making decisions.
7 Cooperative Principles

1. Voluntary and open membership
2. Democratic member control
3. Members’ economic participation

Members contribute equally to, and democratically control, the capital of the cooperative. This benefits members in proportion to the business they conduct with the cooperative rather than on the capital invested.
Cooperatives are autonomous, self-help organizations controlled by their members. If the co-op enters into agreements with other organizations or raises capital from external sources, it is done so based on terms that ensure democratic control by the members and maintains the cooperative’s autonomy.
7 Cooperative Principles

1. Voluntary and open membership
2. Democratic member control
3. Members’ economic participation
4. Autonomy and independence
5. Education, training, and information

Cooperatives provide education and training for members, elected representatives, managers and employees so they can contribute effectively to the development of their cooperative. Members also inform the general public about the nature and benefits of cooperatives.
Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.
7 Cooperative Principles

1. Voluntary and open membership
2. Democratic member control
3. Members’ economic participation
4. Autonomy and independence
5. Education, training, and information
6. Cooperation among cooperatives
7. Concern for community

While focusing on member needs, cooperatives work for the sustainable development of communities through policies and programs accepted by the members.
Our Story
A Yard & A Half Landscaping Cooperative, Inc.
Who We Are

Democratic Control
Joint Ownership
Shared Equity Reserves
Cooperative Distribution of Profits
Who We Are
Who We Are
Who We Are

THE COOPERATIVE ADVANTAGE

Why Worker Co-ops?

- Who we are
- Democratic control
- Joint ownership
- Shared equity
- Cooperative distribution of profits

25

25% of

Revenue

Reduced

9 out of 15

Businesses

are owned by Baby-

Boomers

4x

4x more

Layoff

of

in a recession

500

500 billion dollars

annual wages from

10,000 co-ops

Continuity

9 out of 15

Businesses

are owned by Baby-

Boomers

Job Security

4x

Less likely to

lay off

employees

in a recession

Building Wealth

Employees at worker-owned

companies earn

5-12% more

Continuity

9 out of 15

Businesses

are owned by Baby-

Boomers

Job Security

4x

Less likely to

lay off

employees

in a recession

Building Wealth

Employees at worker-owned

companies earn

5-12% more

Continuity

9 out of 15

Businesses

are owned by Baby-

Boomers

Job Security

4x

Less likely to

lay off

employees

in a recession

Building Wealth

Employees at worker-owned

companies earn

5-12% more

Continuity

9 out of 15

Businesses

are owned by Baby-

Boomers

Job Security

4x

Less likely to

lay off

employees

in a recession

Building Wealth

Employees at worker-owned

companies earn

5-12% more

Continuity

9 out of 15

Businesses

are owned by Baby-

Boomers

Job Security

4x

Less likely to

lay off

employees

in a recession

Building Wealth

Employees at worker-owned

companies earn

5-12% more
Why We Went Coop

✓ Succession Strategy
✓ Leaving a Legacy
✓ The Workers Become the Owners
Cooperative Structures
Incorporation, Governance, and Management
## Incorporation & Governance

<table>
<thead>
<tr>
<th></th>
<th>LLC</th>
<th>Worker Cooperative Corporation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Governance</strong></td>
<td>Flexible operating agreement may separate voting rights from capital investment. Investors or incubating nonprofits may have voting rights. May or may not elect Board of Directors.</td>
<td>Each worker owner purchases one voting share. No voting shares to non-workers. Voting shares elect Board of Directors.</td>
</tr>
<tr>
<td><strong>Distribution of Income to Worker-Owners</strong></td>
<td>Worker owners may receive wages and a share of earnings, or only a share of earnings, with weekly advances against projected earnings</td>
<td>Worker owners generally paid wages and a share of profits in proportion to hours worked or wages earned. Undistributed profit share kept in internal capital accounts.</td>
</tr>
<tr>
<td><strong>Taxes</strong></td>
<td>No federal tax on company earning. Each worker owner liable for tax on her share of annual earnings, whether or not distributed</td>
<td>Pays federal corporate income tax except on qualified patronage dividends to worker-owners. Worker-owners taxed on dividends received.</td>
</tr>
</tbody>
</table>

Governance vs. Management

Worker Coop Collective with Direct Governance & Flat Management

Worker Coop with Representational Governance & Hired Management

Worker Coop with Representational Governance & Hired Management

Cultivate.coop “Worker Cooperatives”  http://cultivate.coop/wiki/Worker_Cooperatives
and Equal Exchange  www.equalexchange.coop
Getting Started
Options for Launching a Worker-Cooperative
Getting Started

* From the ground up
* Succession/Conversion
  - Gradual buy-out
* Succession/Closure
  – 100% buy-out
From the Ground Up

Benefits

* Equal footing - No seniority
* Time for discernment
* Lower start-up costs
* Poor on paper
Challenges

* Developing culture & business simultaneously
* Getting everyone on the same page takes time
* Need strong business skills
* Financing w/o track record
From the Ground Up

What You Need

* Member commitment
* Clear decision-making structure – who/what/how
* Sound business plan w/ demonstrated market need
* Internal & external resources (skills, labor, social capital, cash)
* Business advisors who know coops (lawyer, accountant)
* Ongoing member education
Succession – Gradual Buy-Out

Benefits

* Build team from within
* Strategic hiring/gradual phase out of un-invested employees
* Access to owner/manager’s expertise
* Former owner can stay in the business as worker-owner
* Can stretch out the process if needed
* Tax benefits to seller - maybe
Succession – Gradual Buy-Out

Challenges

* Personality conflicts if former owner is top-down
* Developing people, helping owner get out of the way to let others lead, while still being present as a resource
* Shifting habits, learning to step up & speak up with former boss
Succession – Gradual Buy-Out

What You Need

Everything from “From the Ground Up,” plus:

* Stable, committed workforce
* Relatively open & democratic structure under former owner
* Open & honest communication up and down throughout the organization
* Open books & transparency on part of the exiting owner
* Independent valuation of the business and clear P&S agreement early in the process
Succession – 100% Buy-Out

Benefits

* First-hand knowledge of the company
* Leadership from within - No choice but to step up
* Trial by fire – Teambuilding
* Dramatic story may help with PR & fundraising
Succession – 100% Buy-Out

Challenges

* Requires strong, healthy business
* Potential for adversarial atmosphere
* Large buy-out amount
* Short time to build up member equity
* Not all workers may be able to buy in initially
Succession – Gradual Buy-Out

What You Need
Everything from “Gradual Buy-Out” helps! Plus:

* Core leadership group with strong management and operational skills
* Early buy-in and trust from significant percentage of workers
* Agreement about what will happen to owners who don’t want to become owners
* Value for the cooperative purpose – ideally by both parties
* Entrepreneurial spirit and energy
* Good lawyers on both sides who are committed to help preserve the buyer/seller relationship, if that is what is desired
* Outside cooperative developer/consultant especially helpful
Lessons Learned
or “Hindsight is 20/20”
Lessons Learned

* Even if the owner intends to retire, structure the deal as a **gradual buy-out**.
* Train everyone in **democratic decision-making** early-on. Agree about how decisions will be made, and by whom, so that as you build your coop, you’re building consensus, not resentments.
* Focus on the **soft skills**: democratic participation, assertive communication, addressing differences in race, class, gender, education level, immigration status.
* Get an **independent valuation** of the business early, including allocation of assets vs intangibles (good will, customer lists, policies and procedures, logos, web presence, intellectual property, etc.).
* Seller should **pay off all vehicles and equipment**. Add these to the purchase price.
* Even if your business has been operating successfully for years, **do a new business plan** based on the cooperative’s goals and capacity.
* **Do cash flow projections**, not just a budget.
Where We Are Today

* **Funded** over $600,000 for purchase and working capital
* **Retired owner involved** as non-voting board member & mgmt consultant
* **Ongoing member education** through monthly big-picture meetings and 1:1 buddies
* **Training** in democratic participation
* **Members engaged in committee work** to determine evaluation and compensation, employee wellness programs, and member development

Cooperative
## Next Steps

<table>
<thead>
<tr>
<th>New England Co-op Networks</th>
<th>NE Technical Assistance Providers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valley Alliance of Worker Co-ops</td>
<td>CDS Cooperative</td>
</tr>
<tr>
<td>Worker Owned and Run Co-op Network of Greater Boston (WORC'N)</td>
<td>Cooperative Development Institute</td>
</tr>
<tr>
<td>Larger Co-op Networks</td>
<td>Democracy At Work Network</td>
</tr>
<tr>
<td>International Cooperative Alliance</td>
<td>ICA Group</td>
</tr>
<tr>
<td>National Cooperative Business Association</td>
<td>Co-op News and Information Sources</td>
</tr>
<tr>
<td>US Federation of Worker Cooperatives</td>
<td>American Worker Cooperative Blog</td>
</tr>
<tr>
<td></td>
<td>Grassroots Economic Organizing</td>
</tr>
<tr>
<td></td>
<td>Newsletter</td>
</tr>
</tbody>
</table>