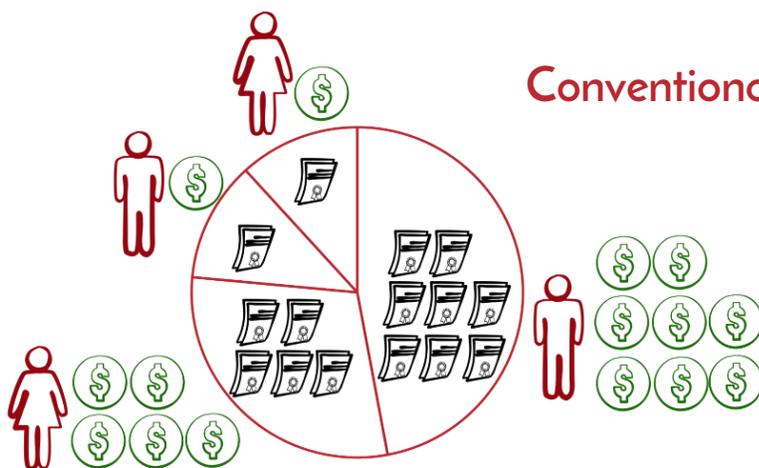


# What is a WORKER COOPERATIVE?

A worker cooperative applies the principle of democracy to the legal structure of the workplace. Simply put, it is a business where the people who work in the company own and control the business on a democratic basis of “one person, one vote”. In a worker cooperative, ownership and control of the business derive from *working* in the company, rather than from simply investing capital in it.

A central element of this business structure is that labor employs capital, rather than capital employs labor. Profits and losses from the business are allocated to the worker-owners according to either the hours worked or gross pay.

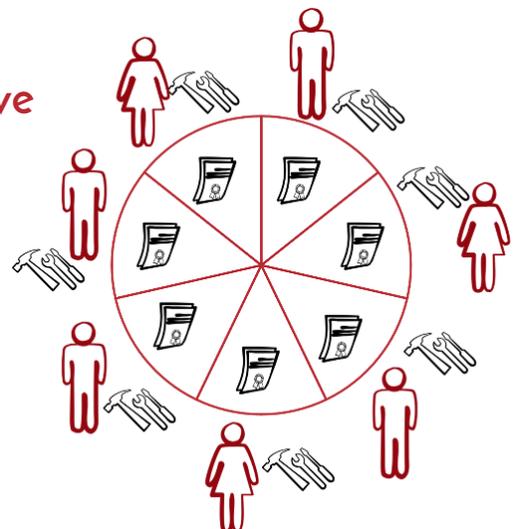


## Conventional Business

*Control in a conventional corporation is based upon the capital individuals invest in the company.*

## Worker Cooperative

*Control in a cooperative is based on working at the firm. Traditionally everyone's capital contribution is equal.*



# What kind of business can be a worker co-op?

Any kind of business can be organized as a worker co-op or a democratic firm. Today, more than 18 million workers in the US have some ownership stake in the place they work. Time and again, studies have found that when ownership is paired with a meaningful degree of employee participation, that performance, productivity and firm longevity is enhanced. A democratic workplace is more than just a way to make jobs better, it's a way to make companies better. Some of the democratic firms ICA has worked with include:



**Chroma Technology Corp.** is a leading manufacturer of optical filters and related products. Founded in Vermont, in 1991, Chroma is a leader in filter designs. While not a cooperative, Chroma is 100% employee owned and democratically run firm, with more than 100 employees and offices in Europe and Asia.



**Weaver Street Market** is a natural foods retailer located in North Carolina. It is a multi-stakeholder cooperative with separate classes of stock for consumers and workers. Weaver Street operates three locations and a commissary that acts as a central kitchen for its own and other locations.



**Big Timberworks** is a sustainable build/design firm based out of Bozeman, Montana that focuses on home building, timber framing, furniture and design. The firm has a focus on reclaimed materials and was the first worker cooperative in Montana.



**Cooperative Home Care Associates** in the Bronx is the largest worker cooperative in the US with more than 2,000 employees. CHCA is a leading innovator in the home care field. In partnership with its affiliate PHI, CHCA trains over 600 people for CHCA and other home care firms each year.

# Business as a Democratic Community

The best way to think about a worker co-op is that it's a business set up to mirror the structure of a democratic community. The citizens are the people who work in the company. The articles of incorporation serve as a charter or constitution, and the bylaws define rules, rights, and responsibilities.

The board of directors, like a legislature, is elected by the people it represents — citizens in a political community, worker-members in a cooperative. A town or city is a democratic community of people with the common purpose of living in a certain geographical area. People qualify to vote in a town election by simply residing there. A worker co-op is also a democratic community, but it is a community of work - It is a business. Membership rights in a worker co-op are personal rights attached to the functional role of working in the firm, rather than property rights that can be bought and sold.

*A worker co-op is a democratic community - but it is a community of work. Membership rights are personal rights rather than property rights that can be bought and sold.*

In contrast, ownership rights in a conventional firm - voting rights and the rights to capital dividends - are property rights which may be bought and sold as capital shares.

While each member has an equal vote in accordance with the democratic principle of one-person/one-vote, the extent of issues on which members vote varies from firm to firm. In practice, the board may decide many issues without voting by members, and managers make many day-to-day decisions without any voting at all.

Employee ownership doesn't necessarily change the impetus to maximize shareholder value, it just changes the calculus used to make that decision. When workers and owners are one and the same, the interests of the company and the community become aligned and investment decisions are made to ensure the ongoing viability of the company – including measures around job quality and supporting the local economy.



# Business Strategy: A Core Element of Success

As compelling as the framework of workplace democracy may be, it should never be forgotten that whatever its social goals, a worker cooperative must be first and foremost be a successful business. In ICA's decades long experience of helping convert or start new democratic firms, the difference between success and failure is usually one of a solid business strategy – all firms need to understand the fundamentals of success:

## Market

Just like any other business, a democratic business must serve a viable market. It must address a real need or problem that a customer is facing, and it must be able to do so at a reasonable cost.

## Management

Every firm needs strong capable leadership or management to lead it and the workforce must possess the necessary skills to manufacture the products or deliver the service.

## Money

The cooperative will need adequate financing (a mix of debt and equity) to cover the capital needs of the business, the development costs and the losses that must be anticipated before the cooperative fully establishes its market.

## About the ICA Group

The ICA Group is the country's oldest organization dedicated to the development of worker cooperatives. Since 1977, The ICA Group has applied expert analysis, results-based planning and a collaborative management approach to helping start and grow worker cooperatives, democratic ESOPs and other social purpose ventures. We believe that all people should enjoy economic self-determination as a means to foster an environment where workers' livelihoods and the communities where they live are stable and secure. We strive to facilitate such a society by acting as a catalyst for groups working to ensure workers have a meaningful say in their own economic future and through the development of firms that put these ideals into practice.

# Resources to Help You Succeed

ICA has developed a series of best in class materials designed to help worker co-ops and other democratic firms succeed.

**Model By-Laws for a Worker Cooperative:** This publication provides a comprehensive introduction to worker cooperatives and includes a compendium of model by-laws for stock corporations, LLCs, or non-profits. Also included are annotations to the by-laws, as well as multitude of model & sample legal forms.

**Governance Systems for Worker Co-ops:** Worker co-ops are built on a framework of democracy, but without an effective means to put this into place, it does worker very little good. This how-to guide walks you through establishing an effective mechanism to ensure you are creating a democratic culture that works with your business.

**The Internal Capital Account System:** Value in a worker co-ops is tracked using a system of internal capital accounts. This guide covers the basics of co-op finances, including the difference between capital shares and capital accounts, tax treatment for worker co-ops and how to deal with financial losses.

**Ensuring Your Legacy – Succession Planning & Democratic Ownership:** Many business owners look to employee ownership as a way to cement their legacy, yet the process can be confusing and perceived as risky. This report walks owners through the process of converting to a democratic firm helps owners address whether this is the right thing for them.

**A comparison of Employee Ownership Models:** This publication provides a basic overview of the key differences between worker cooperatives, ESOPs, and hybrid models. It walks through the details of the various forms to help business owners weigh the financial and tax impact of a sale.

**Business Valuation Basics:** Determining the value of a closely held company is a difficult and imprecise science. This publication walks you through the basics of how a firm's value is determined and provides a checklist of what information is necessary to complete the process.

To download these and see our other resources,  
visit our website: [www.ica-group.org](http://www.ica-group.org).

