

Report on the ICA Research Conference and a study of Cooperative Innovations in the Worker

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Innovation & Co-operatives

- Symposium addressed:

How do co-operative organizations innovate?

What does innovation mean within cooperative organizations?

What are some of the most important innovations taking place today?

What can we learn about innovative approaches in the past?

Does the co-operative model encourage or discourage innovation?

What are the greatest needs for innovation today?

How can an innovative culture be encouraged within co-operatives?

Research on Worker Co-ops in the US

- How are worker co-ops started?
- How do the development organizations approach the entrepreneurial challenges?
- Who are the founders of worker co-ops and democratic ESOP's in the US?
- Why did they start their co-ops?

Democratic Workplaces by Sector in USA (2007)

Sector	# of firms in the sector
Manufacturing	81
Services	46
Retailing	43
Nonprofit democratic workplaces	26
Media	14
Construction	9
Education	7
Wholesale	2
Energy	1
Forestry	1

Cooperative Innovations

1. Multiple Paths to Co-op Development
2. Creation of New Co-ops Out of Other Co-ops
3. Use of ESOP tax code to promote new co-ops
4. Sectoral strategy
5. Cooperative financing
6. National Federation and Regional Groups

Innovations 1 & 2: Diverse Motivations in Startups of Cooperatives

Entrepreneurial Motivations	Sector	Company Name
Ideological cooperators (fair trade, anti-corporate, cooperators)	Construction	Builders Commonwealth; Whole Builders Cooperative
	Manufacturing	Equal Exchange; Salcedo Press; Once Again Nut Butter, Inkworks Press, Design Action Collective
	Retail	Positively Third Street Bakery; Weaver Street Market, Cheeseboard
Opportunistic self help groups	Service	Beluga Software
	Manufacturing	Chroma Technology; Isthmus Engineering; King Arthur Flour;
Developer led Antipoverty intervention	Service	Cooperative Care; Cooperative Home Care; Enterprise Staffing Services; WorkSource Staffing
	Manufacturing	Red Sun Press; Tierra Alta Fuels;
Labor Intervention by cooperative developers (plant closing, anti-labor move by owner)	Service	Collective Voices; I Am Unique; Union Cab, Lusty Lady
	Manufacturing	Collective Copies

Innovation 3: Tax policies to foster retiring owner conversions to worker cooperatives

- US Employee Stock Ownership Plan (ESOP) legislation allows owners of closely held businesses to sell 30% or more of their firm to employees through an ESOP or cooperative. Until September 30, 2005, no one had used this “1042 rollover” provision for creating a cooperative. Select Machine of OH was the first.
- ESOPs work for capital intensive firms of 20-25 or more employees.
- The 1042 rollover works where you have fewer than 20 employees and an owner who is willing to become part of the cooperative. It is also less expensive than implementing an ESOP.

Innovation 4: Sectoral Strategy

- A sectoral strategy enables co-op developers to concentrate on building expertise in a few business sectors rather than attempting to serve all sectors.
- It is industry focused.
- Targets a specific population or community.
- Allows developers to strengthen & deepen knowledge of the sector.
- Funders can support an industry intervention

Co-op Developers Employing Sectoral Strategies

Co-op Development Organization	Sector	Population
Arizmendi Development & Support	Retailing: bakeries	
Green Worker Cooperatives	Green businesses	Youth
The ICA Group	Staffing agencies Healthcare	Unemployed ; Home Health aides & Nurses
Paraprofessional Healthcare	Healthcare	Home Health Aides

Innovation 5: Cooperative Financing

- Debt financing has been available from 3 co-op funds, National Cooperative Bank and local community loan funds.
- These groups work with one another to provide “layered financing”.
- Recent innovation in creation of new fund by worker cooperatives to serve worker cooperatives. The fund is modeled on one created by consumer co-ops.

Innovation 5: Cooperative Financing

- Changes in 2005 tax law have made it more viable for cooperatives to use preferred stock as a way to raise equity. The stock is nonvoting and bears interest for the investor when the co-op is profitable.
- Working capital line of credit where banks manage the line but risk is passed to the social investor rather than remaining with the bank.
- Cooperative Fund of New England has developed new equity fund, Cooperative Capital Fund with initial capitalization of \$100,000.

Innovation 6: National Federation & Regional Groups

- With support from the ICA and National Cooperative Business Association created US Federation of Worker Cooperatives in 2004
- Regional groups now meeting in Northwest; San Francisco Bay Area; Western MA; Boston, MA; and Midwest
- Regional conferences and National conference have alternated years for meetings
- There is increasing visibility of worker cooperatives through websites and conferences.
- Providing information for people interested in how to develop cooperatives