Introduction to Worker Cooperatives and Their Role in the Changing Economy

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In May 2015, the *New York Times* made waves with a two-part expose on the dangerous working conditions and general mistreatment of nail salon workers.[1] The report details the low wages, routine incidents of ethnic

1. Sarah Maslin Nir, *The Price of Nice Nails*, N.Y. TIMES, May 7, 2015, http://www.nytimes.com/2015/05/10/nyregion/at-nail-salons-in-nyc-manicurists-are-underpaid-and-unprotected.html?_r=0 (last visited Aug. 31, 2015).

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discrimination, abusive treatment by management and business owners, exposure to unhealthy levels of chemicals, repeated wage theft, and other employment law violations, as well as a slew of other denigrations that created nightmarish working conditions.[2] The expose resulted in public outcry, prompting New York Governor Andrew Cuomo to sign emergency legislation providing basic health safety and wage protections for nail salon workers.[3] Just a month before the *New York Times* coverage, a new enterprise focused on providing manicures raised $5 million dollars in venture capital.[4] Manicube operates much like Uber, connecting clients seeking nail services with technicians who will come to your location.[5] In this scenario, the service you get is a pedicure—not a ride to the airport.

There is a steadily increasing emphasis on innovative, mission driven enterprises both by consumers and entrepreneurs. Popular businesses like Tom's Shoes[6] focus on more than the traditional *Dodge v. Ford* dicta of shareholder wealth maximization,[7] incorporating core values such as environmental sustainability and philanthropy as central to their enterprises. Manicube is no exception to this new social enterprise model.[8] For every manicure, the company donates a dollar to Kiva to help support female entrepreneurs in "third world countries."[9]

Although the social mission certainly sets them apart from a traditional nail business, I immediately wondered whether Manicube's *workers* were better off than their peers in New York nail salons. Did Manicube truly offer a better employment alternative or were these workers simply trading in one set of problems for another? Did Manicube provide health insurance and other benefits? Did workers have better schedules overall or simply better in comparison to traditional salons? If Manicube's business model mimics the Uber model, the workers are classified as independent

2. *Id.*

3. Laila Kearney, *New York Governor Signs Emergency Nail Salon Worker Law*, Reuters, July 6, 2015, http://www.reuters.com/article/2015/07/16/us-usa-new-york-nail-salons-idUSKCN0PQ26T20150716.

4. Scott Kirsner, *In-Office Manicure Start-Up Manicube Collects $5 Million from Bain*, Boston Globe, Apr. 4, 2014, http://www.betaboston.com/news/2014/04/14/in-office-manicure-startup-manicube-collects-5-million-from-bain/.

5. Manicube, http://manicube.com/about/ (last visited Sept. 16, 2015).

6. Tom's Shoes, http://www.toms.com/ (last visited Sept. 16, 2015).

7. *See* Dodge v. Ford Motor Co., 170 N.W. 668 (Mich. 1919) ("A business corporation is organized primarily for the profit of the stockholders."); *see also* J. William Callison, *Benefit Corporations, Innovation, and Statutory Design*, 26 Regent U. L. Rev. 143 (2013).

8. Nidhi Thapar, *Is Entrepreneurship Better with a Social Mission?*, Bus. Insider, Nov. 26, 2012, http://www.businessinsider.com/is-entrepreneurship-better-with-a-social-mission-2012-12.

9. Manicube, Twitter (Aug. 23, 2012, 11:51 AM) https://twitter.com/manicube/status/238710025751756800.

Electronic copy available at: https://ssrn.com/abstract=3132764

contractors,[10] relieving the company of certain obligations under federal labor laws.[11] As independent contractors, the workers would have to personally carry costs traditionally associated with corporate business expenses, like liability insurance, nail polish, and other supplies. I also wondered whether Manicube would be held accountable under Governor Cuomo's protections, which are directed at owners of nail salons.[12]

What if a third option protected workers, provided excellent service to customers, and preserved the social mission of supporting entrepreneurs with a *local* emphasis? The worker cooperative is an entity form poised to play this role in our growing, mission driven commercial sector. Worker cooperatives are businesses owned by and operated for the benefit of their workers, as opposed to the financial gains of shareholders. Workers in a worker cooperative have voting rights in a one member, one vote ratio, empowering them to weigh in on management and other decisions. Workers can design an enterprise that pays a living wage, hires from their community, and sets standards for workplace safety and worker dignity. This structure provides an exciting opportunity for job security, wealth retention, and enfranchisement of vulnerable workers otherwise facing low wage employment opportunities with little control over their working conditions.

Worker cooperatives are as diverse as the marketplace, spanning a number of industries, including manufacturing and service fields.[13] The largest worker cooperative in the United States, Cooperative Home Care Associates (CHCA), employs over 2,300 workers.[14] The company earned over $60 million in revenue in 2013, is 90 percent owned by minority women, and is based in one of the poorest congressional districts in the country.[15]

This article serves as an introduction to worker cooperatives and their potential role supporting vulnerable workers and disenfranchised communities in the changing U.S. economy. Part I defines the vulnerable worker; Part II defines worker cooperatives and provides a brief historical overview; Part III examines the benefits of worker cooperatives to individual workers and the community; Part IV discusses the various existing models of worker cooperatives. Part V focuses on common challenges and obstacles faced by today's worker cooperatives.

10. Uber, https://get.uber.com/drive/ (last visited Sept. 16, 2015).

11. 29 U.S.C.A. §§ 206–207.

12. Kearney, *supra* note 3.

13. Melissa Hoover, *Another Workplace Is Possible: Co-ops and Workplace Democracy*, *in* Solidarity Economy: Building Alternatives for People and Planet 237, 250 (Jenna Allard, Carl Davidson & Julie Matthaei eds., 2008).

14. Laura Flanders, *How America's Largest Worker Owned Co-Op Lifts People Out of Poverty*, Yes! Mag., Aug. 14, 2014, http://www.yesmagazine.org/issues/the-end-of-poverty/how-america-s-largest-worker-owned-co-op-lifts-people-out-of-poverty; Community Health Care Associates, http://www.chcany.org/ (last visited Sept. 16, 2015).

15. *Id.*

I. Who Are Our Vulnerable Workers?

In discussing the benefits of worker cooperatives to vulnerable workers, it is important to define who vulnerable workers are. Vulnerable workers are overrepresented in low-income communities of color throughout the United States.[16] These individuals are exposed to a variety of risks in their workplace, including low wages, long hours, lack of benefits, unsafe or hazardous work environments, and long commutes.[17] Many are employed in service sector jobs that lack stability or the ability to provide full-time employment, requiring them to work multiple jobs simply to pay their bills.[18] Any attempts for upward mobility are often stymied by little or no training or educational opportunities at their jobs.[19] Additionally, wage theft and other employer infractions are often not reported because vulnerable workers fear reprisals and loss of employment. Those with a complicated immigration status also fear deportation or similar retaliatory efforts from employers.[20]

The cleaning services industry clearly illustrates the obstacles faced by these workers. One study of workers in Silicon Valley uncovered the following details: the average house cleaner is an immigrant Latina who independently cleans homes and offices or works as a temporary cleaner for an agency. The work is poorly compensated, with starting wages as small as $7 an hour with no benefits. Workers are often required to travel long distances, leading to long work hours and negatively impacting personal and family life. Workers also have little control over what cleaning products are used and are routinely exposed to harmful chemicals. Finally the work is isolating and potentially dangerous because it often requires working alone in a stranger's home.[21]

House cleaners and other domestic workers have few avenues for relief when a client underpays them or engages in other unscrupulous behavior. Workers are reticent to unionize or pursue legal action against employers for fear of reprisals. Despite being a growing part of the workforce, they remain at risk.[22]

16. Brandon Roberts, Deborah Povich & Mark Mather, *Low-Income Working Families: The Growing Economic Gap*, Working Poor Families Project, at 5 (2013), *available at* http://www.workingpoorfamilies.org/wp-content/uploads/2013/01/Winter-2012_2013-WPFP-Data-Brief.pdf.

17. *Id.* at 4.

18. *Id.*

19. Gowri J. Krishna, *Worker Cooperative Creation As Progressive Lawyering? Moving Beyond the One-Person, One-Vote Floor*, 34 Berkeley J. Emp. & Lab. L. 65, 81 (2013).

20. *Id.*

21. WAGES has been reorganized as the nonprofit Prospera. *See* http://prosperacoops.org/ (last visited Sept. 17, 2015).

22. Linda Burnham & Nik Theodore, *Home Economics, The Invisible and Unregulated World of Domestic Work, National Domestic Workers Alliance*, at xi (2012), *available at* http://www.domesticworkers.org/pdfs/HomeEconomicsEnglish.pdf.

II. What Is a Worker Cooperative and How Can It Help Vulnerable Workers?

Worker cooperatives can provide a more stable and safe employment opportunity for vulnerable workers. For instance, the nonprofit WAGES,[23] an organization dedicated to helping women gain economic security, collaborated with a group of the Silicon Valley house cleaners to create a sustainable and financially stable alternative to the working reality described above.[24] Emma's Eco-Clean, a full-service house cleaning cooperative in Redwood City was launched in 1999. The worker-owners pooled their collective resources and began cleaning houses and offices in teams. They were able to increase wages and provide a safer workplace for workers by using only non-toxic and eco-friendly cleaning products.[25] One year after founding Emma's Eco-Clean, each worker-owner earned $13 an hour compared to the industry standard of $7 an hour. In addition, worker-owners received patronage dividends[26] from the company's profits. Emma's Eco-Clean further provides medical benefits, mileage reimbursement, and better working hours for its worker-owners.[27]

At its core, a worker cooperative is a type of business that adheres to certain key principles shared by all cooperatives.[28]

1. Voluntary and Open Membership
   Co-operatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political, or religious discrimination.
2. Democratic Member Control
   Co-operatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives, members have equal voting rights (one member, one vote) and co-operatives at other levels are also organized in a democratic manner.
3. Member Economic Participation
   Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the

23. *Supra* note 21.

24. *Id.*

25. Emma's Eco-Clean, http://www.emmasecoclean.com/ (last visited Sept. 14, 2015).

26. Dmitriy Kustov, *Worker Cooperatives and Patronage Dividends, § 1.02, A Look Inside Worker Cooperatives*, LEXIS FED. TAX J.Q. (Sept. 2012), *available at* http://www.cooperativefund.org/system/files/WorkerCooperativesAndPatronageDividends.pdf.

27. *Supra* note 21.

28. The International Cooperative Alliance defines a cooperative as "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." *See* ICA, http://ica.coop/en/what-co-operative.

common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

4. Autonomy and Independence
   Co-operatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.
5. Education, Training, and Information
   Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public—particularly young people and opinion leaders—about the nature and benefits of co-operation.
6. Co-operation among Co-operatives
   Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional, and international structures.
7. Concern for Community
   Co-operatives work for the sustainable development of their communities through policies approved by their members.[29]

Worker cooperatives have a long and rich history, both internationally and in the United States. The early American economy was one of ownership and small enterprise, not mass employment by large corporations. It is no surprise that worker cooperatives have existed in the United States since the 1800s.[30]

Worker cooperatives have served two primary purposes in history, providing a vehicle for economic stability and, later, for political expression. Worker cooperatives often emerge and gain in popularity during times of economic distress. During the Great Depression, thousands of new cooperatives emerged with the express purpose of creating new jobs.[31] These cooperatives were not primarily focused on social justice or political expression. In contrast, the 1960s and 1970s saw a surge in the creation of worker cooperatives connected to larger social justice and political movements. These worker cooperatives were used as a

29. *7 Cooperative Principles, 2012 International Year of the Cooperatives*, NCBA, http://usa2012.coop/about-coops/7-cooperative-principles (last visited July 1, 2015).

30. Joyce Rothschild, *Workers' Cooperative and Social Enterprise: A Forgotten Route to Social Equity and Democracy*, 52 Am. Behavioral Sci. 1023, 1032 (2009).

31. *Id.*

means to empower workers and push back against capitalist values that negatively impacted communities and individuals.[32]

Modern worker cooperatives incorporate both elements to varying degrees, with some cooperatives focused more on ensuring job stability and others connected to broader social justice movements.[33] In both cases, worker cooperatives are dedicated to protecting workers and providing them with a safe, stable, and dignified working environment.

Today's worker cooperatives aim to (1) empower workers to create and control their own workplace through democratic participation, (2) provide workers with a safe and stable work environment, and (3) build wealth for workers as owners of the business.[34]

How do worker cooperatives achieve this? Like all businesses, worker cooperatives operate within the realities of the market system. However, unlike traditional businesses, worker cooperatives are not subject to pressure from shareholders or investors to maximize profits. Instead, worker cooperatives focus on the priorities of workers by creating a democratic workplace that is owned and controlled by the workers.[35] In a worker cooperative, voting rights are tied to status as worker and not capital investment.[36] All workers receive voting rights in a one worker, one vote ratio.[37] As the value of labor is prioritized over capital investment, workers are free to design a workplace in accordance with their needs and principles. Workers can agree to pay a living wage or provide child care or pursue certain eco-friendly business practices. Workers can manage the cooperative themselves or elect a management team to oversee daily operations.[38]

A. The Detroit Snack Cooperative—The Nuts and Bolts of a Worker Cooperative

Imagine, if you will, the Detroit Snack Cooperative owned and operated by Ms. A, Ms. B, and Ms. C.[39] All three women were previously cooks in various Detroit public schools. Unfortunately, a shrinking population led to school closures and their recent unemployment. The three women decided to start a business to provide healthy snacks and catering to new downtown businesses. As former cooks, they know first hand the difficulties of such a physical profession. Long hours in the kitchen for minimum wages meant they worked multiple jobs to make ends meet.

32. Krishna, *supra* note 19, at 79. *See also* JOHN CURL, FOR ALL THE PEOPLE: UNCOVERING THE HIDDEN HISTORY OF COOPERATION, COOPERATIVE MOVEMENTS, AND COMMUNALISM IN AMERICA 6 (2009).
33. Hoover, *supra* note 13, at 240.
34. CURL, *supra* note 32, at 8.
35. *Id.*
36. Kustov, *supra* note 26.
37. CURL, *supra* note 32, at 9
38. Krishna, *supra* note 19, at 77.
39. This hypothetical is loosely based on a real client scenario.

The physical demands of commercial kitchen work led to health issues, including arthritis. The cooperative's priorities include providing job security and a living wage for all workers. They also want to provide medical benefits and reasonable working hours.

As a worker cooperative, all three women have an equal stake and equal vote in the business simply by being worker-owners. This would be true even if Ms. A contributed the majority of the start-up capital.[40] Ms. A does not become a majority shareholder or owner because of her larger initial investment. The purpose of the cooperative is to run a successful business that ensures the common goals of providing a living wage, medical benefits, and reasonable working hours; not for Ms. A or another investor to make a large return on her capital investment. Likewise, the capital investment does not "buy" Ms. A the right to manage the enterprise. If all three decide to elect a manager to oversee the daily activities, Ms. A can make a case for her candidacy. The three women could just as easily decide to collectively manage the enterprise.

Worker cooperatives can offer great flexibility and reflect the nuances of the business, the different roles of different workers, or other goals. For instance, what if workers have different hours because certain jobs are more difficult or dangerous? The commitment to pay all workers a living wage and ensure reasonable hours can be honored in a worker cooperative, even if there are variations between roles and hours of individual workers.

In the Snack Cooperative, operating the ovens is a far more taxing job than managing the sales and orders, a mostly administrative position. Ms. A is able to spend forty hours a week managing the administrative tasks. Ms. B is in charge of the ovens and works only twenty hours a week. The Snack Cooperative can institute a policy that all workers are paid wages for thirty-five hours a week, regardless of whether they work more or less. This ensures Ms. B receives equal wages to Ms. A despite the difference in total hours worked.

B. Cooperatives and Wealth Building

It is important to recognize that worker cooperatives are profit generating and wealth building ventures.[41] A successful worker cooperative is a successful business; one that enables its members to build wealth though two important means: wages and dividends.

First, worker cooperatives are businesses with employees and therefore pay wages. As the workers are also the owners, they often strive to pay

40. Some, but not all, worker cooperatives may require an initial capital investment, also called a "buy-in." This initial investment is not returned until the worker leaves the cooperative. When a worker member leaves, it is treated as a loan to the cooperative and paid back accordingly. The rate of return and other details are determined in advance and codified in the cooperatives governance documents. For more information, see http://www.co-oplaw.org/topics-2/patronage/.

41. *See* Hoover, *supra* note 13.

higher wages than the traditional corporation because they do not have the same incentive to keep wages low.[42] Second, the profits are distributed to worker-owners through patronage dividends.[43] These patronage dividends are similar to shareholder dividends. They are surplus profits that are distributed to the owners of the enterprise. However, patronage dividends are not distributed based on how much capital the worker invests in the business. Instead, patronage is usually calculated by the amount of labor contributed to the cooperative.[44] This ensures all worker-owners receive living wages for the time they spend working. It also enables those who work more to receive more compensation through their patronage dividends.

Let us revisit the Snack Cooperative. The cooperative is doing brisk business. The three worker-owners receive an hourly wage of $13/hour and full health care benefits. At the end of their first year, they have a net gain of $12,000. Like a traditional business, they have a number of options. The Snack Cooperative can reinvest or "bank" some of this profit in its operations. Alternatively, all or some of the profits can be distributed as patronage dividends. The cooperative can even pursue a combination of these options. The cooperative may have written certain rules into the bylaws requiring a certain amount be reserved for the business. Alternatively, they may leave this decision to managers or members.

So if the cooperative would like to pay patronage dividends, how will they work? Remember, patronage dividends are distributed based on number of hours worked. Generally, they are calculated based on the following formula:

Patronage dividend = (hours worked by individual worker-owner/
hours worked by all worker-owners)
× total net profit

For the sake of simplicity, let us imagine all three women worked an aggregate of 5,250 hours for the year. Each individual worker's patronage share is calculated this way:

$$(1{,}750/5{,}250) \times \$12{,}000 = \$4{,}000$$

The cooperative can vote to distribute a patronage dividend of $4,000 to each worker at the end of the year. Ms. A, Ms. B, and Ms. C now take home an extra $4,000 in addition to their regular wages.[45]

42. Jessica Gordon Nembhard, *Benefits and Impacts of Cooperatives–White Paper*, *available at* http://www.coas.howard.edu/centeronraceandwealth/reports&publications/0213-benefits-and-impacts-of-cooperatives.pdf.

43. Kustov, *supra* note 26.

44. *Id.*

45. This is a very basic explanation of patronage dividends. For a fuller understanding, see Co-OpLaw.org, http://www.co-oplaw.org/topics-2/patronage/ (last visited Sept. 17, 2015).

In the above scenario the Snack Cooperative has not reinvested any money into the business. Ms. A, Ms. B, and Ms. C may have a business plan that recommends some reinvestment of profits to ensure sustainable growth. The Snack Cooperative may include in its bylaws that 50 percent of any net profit must be reinvested in the business before patronage dividends may be paid. This creates a new patronage dividend amount:

$$(1{,}750/5{,}250) \times \$12{,}000 = \$4{,}000$$

$$(1{,}750/5{,}250) \times \$6{,}000 = \$2{,}000$$

The initial net profit is $12,000, but only 50 percent of this amount ($6,000) is available for calculating patronage dividends. The remaining $6,000 of net profit is reinvested into the Snack Cooperative. Thus, the patronage dividends paid to Ms. A, Ms. B, and Ms. C are now only $2,000.

C. Entity Options and Tax Treatment

Practically speaking, the worker cooperative can be created through a variety of legal forms. A number of jurisdictions have worker cooperative association statutes.[46] These statutes enable the creation of cooperative enterprises as their own corporate form.[47] Generally, worker cooperatives are taxed under Subchapter T of the IRC.[48] Worker cooperatives are often formed also formed as LLCs, with carefully crafted operating agreements that reflect cooperative principles, including democratic leadership.[49]

As with any entity, there are benefits and limitations for worker cooperatives under the relevant jurisdiction's cooperative statute or as a LLC. As mentioned in the previous paragraph, cooperative statutes are available in some, but not all, jurisdictions. In some states, the statute may have particular requirements that may pose barriers. For example, a state statute may impose certain onerous requirements, such as restrictions on who can be members of the cooperative.[50] In contrast, LLCs can be formed in most jurisdictions and offer maximum flexibility in terms of taxation, governance, and membership.[51] However, this flexibility can compromise the security

46. Some of the states with cooperative association/organization statutes include California, Delaware, District of Columbia, Ohio, Iowa, Maryland, Colorado, Wisconsin, Maine, and New York. *See* MODEL UNIFORM LIMITED COOPERATIVE ASSOCIATION ACT, http://www.uniformlaws.org/shared/docs/limited%20cooperative%20association/ulcaa_amdraft_jun07.pdf.

47. *Thinking Outside the Boss: How to Create a Worker-Owned Business*, Sustainable Economies Law Center, at 8, (2013), *available at* http://www.academia.edu/1829531/Think_Outside_the_Boss_How_to_Create_a_Worker-Owned_Business.

48. *Id.* at 10.

49. *Id.* at 9–10.

50. Edward W. De Barbieri & Brian Glick, *Legal Entity Options for Worker Cooperatives*, 2:8 GRASSROOTS ECON. ORGANIZING (GEO) NEWSLETTER (2011), *available at* http://geo.coop/node/628.

51. *Id.*

and values of worker cooperatives. In an LLC, future member-owners can change the principles, structure, and commitment to the worker cooperative model easily by modifying the operating agreement and other documents. This can effectively undermine the democratic management principle central to worker cooperatives.

III. Role of Worker Cooperatives

A. Benefits to the Individual Worker

All people deserve a safe and dignified working environment. The labor movement arose as a response to low wages, dangerous working conditions, and undignified treatment of workers. Individual workers realized collective action was necessary to bargain successfully with company management. The worker cooperative builds on this principle, using collective action as a management technique rather than a bargaining method.

Earlier, I discussed some of the challenges vulnerable workers routinely face. Worker cooperatives offer these marginalized groups an opportunity for stable employment, wealth retention, and better working conditions.[52] Worker-owners can make affirmative commitments to allow workers to participate regardless of language proficiency, work status obligation, or former incarceration status. In addition to providing these workers with a stable and safe working environment, worker cooperatives often help their members receive training and educational opportunities.[53] These enterprises are committed not only to protecting the basic labor rights of their workers, but also investing in the continued growth and capacity-building of their worker-owners.

Many established worker cooperatives provide their workers with a variety of employment benefits. Cooperative Home Care Associates (CHCA), the largest worker cooperative in the United States, provides its workers with a high base salary and guaranteed hours. Workers earn $16 an hour compared to the industry standard of $10. CHCA also guarantees workers payment for thirty-six hours a week, compared to the industry average of twenty-five to thirty hours a week.[54] CHCA offers workers health care and dental benefits. It also provides retirement benefits for worker-owners.[55] Workers who face other life challenges such as child care, housing, immigration, or domestic issues have access to case managers. Case managers help connect workers to social services or programs that help workers secure affordable child care, housing subsidies, or legal assistance.[56]

52. CURL, *supra* note 32, at 3.
53. Krishna, *supra* note 19, at 81.
54. Flanders, *supra* note 14.
55. Nembhard, *supra* note 42.
56. PHI Best Practices: Cooperative Home Care Associates, http://phinational.org/consulting/resources/best-practices/chca (last visited Sept. 15, 2015).

B. Benefits to the Community

The impact of worker cooperatives extends beyond the benefits to individual workers, impacting the broader community as well. On the most basic level, a worker cooperative is a local business. These businesses tend to spend their dollars locally, creating a rippling effect in the local economy. For every dollar a person spends at a local business, there is a two-to-four multiplier effect on the local economy through hiring and purchasing.[57] Worker cooperatives further stimulate the local economy because they are vehicles for "community wealth building." Coined by the Democracy Collaborative Community, wealth building is defined as

> a fast-growing economic development movement that strengthens our communities through broader democratic ownership and control of business and jobs. It builds on local talents, capacities and institutions, rebuilding capital to strengthen and create locally owned family and community owned businesses that are anchored in place, that aren't moving.[58]

Worker cooperatives take a comprehensive approach to increasing the capacity of the community. Worker cooperatives focus on the people, places, and things in a community.

57. American Independent Business Alliance, http://www.amiba.net/resources/multiplier-effect (last visited Sept. 16, 2015).

58. Ted Howard, *What is Community Wealth Building & Why Is It So Important?*, Veris Wealth Partners, Dec. 6, 2014, http://www.veriswp.com/2014/12/06/what-is-community-wealth-building-why-is-it-so-important/?utm_source=Veris%20Master%20Contact%20List&utm_campaign=0c23fc439b-The%20Veris%20Blog%2015&utm_medium=email&utm_term=0_a961e90223-0c23fc439b-122842249.

1. People

The "people" impacted by worker cooperatives are workers, who are often also community residents. As local businesses, worker cooperatives already contribute to the local economy through local hiring. Many cooperatives go the extra mile by (1) creating an ongoing job training and employment pipeline for local residents, (2) creating a larger pool of employable residents, and (3) investing in the continued education and training of workers within the cooperative.

CHCA is an excellent example of the employment pipeline. CHCA provides free training and certification for home health care workers. Graduates of the training are also guaranteed employment through CHCA.[59] These graduates then contribute to a growing pool of employable people in the community, regardless of whether they choose to stay as part of the cooperative.

In addition to initial job training, worker cooperatives provide long-term, career-focused opportunities for workers. Often cooperatives offer members continuing educational opportunities, including training for additional certifications and management positions. The Island Employee Cooperative, the largest worker cooperative in Maine, has partnered with Eastern Maine Community College to provide free management training to interested workers.[60]

2. Place

Worker cooperatives are strongly connected to the physical place and community where they are located. Unlike faceless shareholders, the owners are drawn from the community and thus more committed to the neighborhood. Worker cooperatives are less likely to outsource labor or production, keeping jobs and dollars local. Worker cooperatives also enable individual worker-owners to build wealth through stable salaries and patronage dividends. As worker-owners are drawn from the community, this wealth is retained locally, strengthening economic and neighborhood stability.

3. Things

As for the "things" category, one of the cooperative principles is "concern for the community." Worker cooperatives encourage sustainable development efforts. This includes promoting the creation of local infrastructure, including financial institutions that provide opportunities for growth. Worker cooperatives advocate for new funding sources for

59. Community Health Care Associates, http://www.chcany.org/ (last visited Sept 16, 2015).

60. Press Release, E. Maine Cmty. Coll., EMCC to Provide Customized Business Management Training to Largest Worker Cooperative in Maine, Dec. 15, 2014, http://www.emcc.edu/news-events/news/emcc-provide-customized-business-management-training-largest-worker-cooperative-maine/ (last visited Sept. 10, 2015).

small, local businesses that are less appealing to traditional lenders.[61] Through partnerships with anchor institutions and nonprofits, cooperatives lend their voices to political campaigns and local initiatives designed to lure interest and capital into the community. Representatives from worker cooperatives have also testified before Congress and worked with other coalition members to advocate for living wage ordinances.[62]

IV. Current Models in the United States

Although worker cooperatives are innovative and flexible enterprises, three common models have emerged for incubating the modern worker cooperative: nonprofit incubator model, union coop model, and anchor institution model.

A. Nonprofit Incubator Model

Nonprofits committed to economic development often help organize and incubate worker cooperatives. These nonprofits engage in outreach, organizing, and education. They can help connect workers to experts and tools in key areas like business planning, accounting, and legal support.[63] Some of these nonprofits are dedicated primarily to incubating cooperatives, some are worker centers, and some are larger social service providers.

WAGES, discussed earlier in this article, is representative of nonprofits dedicated to incubating worker cooperatives. It defines its mission as helping "low-income women gain economic security through business cooperative ownership." WAGES's primary activity is incubating worker cooperatives predominantly owned and operated by Latina immigrant workers in the San Francisco Bay Area. WAGES helps workers develop cooperatives by providing them with continued support through the lifetime of the business. Prior to the official creation of the worker cooperative, WAGES conducts outreach and helps organize interested workers. It helps workers identify and focus on a specific "business niche" for their cooperative. Next, WAGES provides education and training to help build the capacity of worker-owners. The initial training and education offers information on the cooperative model and operation. On-going training includes focusing on key business,

61. Hilary Abell, *Pathways to Scale, Democracy Collaborative* 14 (2014), *available at* http://democracycollaborative.org/sites/clone.community-wealth.org/files/downloads/WorkerCoops-PathwaysToScale.pdf ("The ability of co-ops to help bridge the well-documented racial wealth gap shows that cooperative businesses, co-op housing, and credit unions can diversify assets and enhance family stability for low-income people and people of color.").

62. Flanders, *supra* 14 ("Among the co-op members who testified was Yadira Fragoso, whose wages rose to $25 an hour—up from $6.25—after becoming a worker-owner at Si Se Puede, a cleaning co-op incubated by the Brooklyn-based Center for Family Life.").

63. Krishna, *supra* note 19, at 86.

management, leadership, and other areas designed to build the capacity of worker-owners. WAGES also provides professional management support for the cooperatives. This involves connecting the worker cooperatives to expert managers, accountants, or other specialized service providers.

Other cooperative incubators are programs of larger nonprofits. Worker centers have played an important role in developing worker cooperatives.[64] Most worker centers are nonprofits that engage in a variety of economic justice efforts on behalf of workers.[65] These organizations assist workers, including day laborers and restaurant workers, who fall outside the protection of labor laws because they are categorized as independent contractors or another exempt class or are difficult to organize under the traditional union framework.[66] On a macro level, these worker centers support these workers by conducting policy research surrounding unfair labor and wage conditions, creating advocacy campaigns to raise consumer and public awareness of workplace injustices, and lobbying on workplace issues. Worker centers also provide a number of direct services ranging from worker education and training, leadership development, and legal assistance in cases of wage theft or other unfair legal practices.[67] Worker centers view worker cooperatives as part and parcel of their larger economic development and workplace justice advocacy. They often incubate cooperatives as a means to "create non-exploitive jobs in an industry where workers are often taken advantage of and treated poorly."[68]

Large nonprofits that provide general social services have also successfully supported worker cooperatives. The Center for Family Life (CFL) in Brooklyn is a social services organization that provides a variety of safety net services, including family counseling, foster care, youth employment, summer camps for youth, school age child care, and adult employment programs, for families in Sunset Park. CFL has an extensive adult employment program that prepares community members for job readiness through resume and job search assistance, computer literacy classes, and ESL classes. Although the adult employment program was a helpful resource, CFL staff felt the problem was a shortage of well paying jobs in the community. They started a worker cooperative incubator as a means to create these jobs.[69] The incubator has successfully launched a number

64. Prominent worker centers include the Restaurant Opportunity Center, New Orleans Worker Center for Racial Justice, National Domestic Workers Alliance, and Centro de Trabajadores Unidos en Lucha.

65. Janice Fine, Worker Centers: Organizing Communities at the Edge of the Dream 11 (2006).

66. *Id.*

67. Krishna, *supra* note 19, at 72.

68. *Id.*

69. Vanessa Bransburg, *The Center for Family Life: Tackling Poverty and Social Isolation in Brooklyn with Worker Cooperatives*, 2:8 Grassroots Econ. Organizing (GEO) Newsletter (2011), *available at* http://geo.coop/node/636.

of worker cooperatives, including the Si Se Puede Cleaning Cooperative. Si Se Puede began in 2006 with fifteen founding members. As of March 2015, it has sixty-five members who earn an average of $20 an hour.[70] Much like WAGES, CFL helps interested workers organize worker cooperatives. It conducts initial training to educate workers about the cooperative model. It assists interested workers in designing and creating their business, securing funding, and building business literacy and skills. Additionally, it helps connect these workers to experts who can provide the enterprise with business and legal assistance. As a social services organization, CFL also provides workers with referrals and services they may need as individuals, including family counseling, ESL classes, etc.[71]

B. Union Coop Model

Labor unions are joining forces with worker cooperatives to generate sustainable employment opportunities and advocate for workers rights. The American labor landscape is shifting as the decline in manufacturing jobs, movement of production offshore, and passage of right to work laws and similar anti-union legislation have contributed to the rise of corporate clout and steady decline of union power.[72] In this climate, it is increasingly difficult for unions to battle reductions in benefits and stagnating wages.[73] Exacerbating the problem, unions represent only a fraction of the current workforce: in 2014, only 11.1 percent of American workers were union employees.[74] Unions have turned to worker cooperatives as another vehicle for helping workers. Recognizing the lack of viable employment opportunities, unions are supporting the development of sustainable worker-owned enterprises as a means to provide strong wages, benefits, and a safe and dignified working environment. In 2012, the United Steelworkers, Mondragon,[75] and the Ohio Employee Ownership

70. Si Se Puede, http://www.wecandoit.coop/about.html (last visited Aug. 31, 2015).

71. Center for Family Life Adult Employment Program, http://sco.org/programs/center-for-family-life/programs-services/#adult (last visited Aug. 31, 2015).

72. Rob Witherell, *An Emerging Solidarity: Worker Cooperatives, Unions, and the New Union Cooperative Model in the United States*, United Steelworkers of Am., at 2 (2013), *available at* http://www.ilo.org/wcmsp5/groups/public/---ed_dialogue/---actrav/documents/meetingdocument/wcms_234173.pdf.

73. *Id.* at 1.

74. Press Release, Bureau of Labor Statistics, Union Members Summary, Jan. 23, 2015, http://www.bls.gov/news.release/union2.nr0.htm (last visited Sept. 10, 2015).

75. The Mondragon Corporation is a network of worker cooperatives that began in the Basque Region of Spain. The first Mondragon Cooperative was created in 1956. The network has grown to include over 100 businesses, employing over 70,000 workers. A key part of Mondragon's success is creating institutions that support the development and growth of cooperatives businesses by providing

Center unveiled its template for developing union cooperatives.[76] Adapted from the Mondragon Corporation, workers in a union cooperative are unionized in addition to being worker-owners.

How does the union coop model work? As worker cooperatives grow in size and complexity, the union coop model serves as an important vehicle for protecting the rights of workers. In a small worker cooperative, workers can play the roles of worker, owner, and manager. Daily management and operations decisions can be democratic with equal participation from all worker-owners. This often becomes unwieldy in larger enterprises. For these larger cooperatives, it is more prudent from a business and operations standpoint to delegate management to a board of directors elected by the worker-owners. The board then hires outside experts to oversee the daily operations and management of the business. The illustration below may help better understand these layers:

business expertise, financial support, and even research and development services. Caja Laboral, started in 1959 by existing Mondragon cooperatives, was structured as a credit union and designed to help create and expand worker cooperatives by providing financial assistance. Caja Laboral now serves as the primary coordinating organization between the various cooperatives in the Mondragon network. Cooperatives receive "financial, analytical, and business development services" from Caja Laboral. In return, the worker cooperatives give Caja Laboral "oversight over the cooperative's internal organization" and allow Caja Laboral to set certain standards, including "dictating capital-to-debt ratio requirements and norms and policies regarding hiring." This ensures all the cooperatives in the Mondragon network are bound by certain financial and governance standards designed to promote solvency and preserve the values of the worker cooperative model. *See* Mondragon, http://www.mondragon-corporation.com/eng/.

76. Flanders, *supra* note 14.

The connection between worker and management in this scenario more closely mirrors a traditional corporation. Managers may make changes to wages, hours, and other terms and conditions of employment, all of which may directly impact individual workers. If workers have concerns or grievances with management in this larger cooperative, how can these be addressed? By unionizing, the workers in larger cooperative now have a vehicle to negotiate with management. The collective bargaining agreement codifies core values, principles, and promises such as wages and benefits. Without the collective bargaining agreement, workers would need to pressure the board of directors to replace management. During the interim, management could enforce any number of policies and decisions that negatively impact workers.

The union coop model protects the rights and interests of cooperative members in their role as *workers*. In their capacity as *owners*, cooperative members still receive the same benefits as their peers in smaller worker cooperatives. These include patronage dividends and voting rights in a one member, one vote ratio; additionally, they are able to vote on major decisions such as electing the board of directors and dissolving the organization.

The union coop model provides numerous benefits to both worker cooperatives and unions. For unions, worker cooperatives provide another avenue to support workers, create better employment opportunities, and build their membership base. Equally important, worker cooperatives can help reverse the dilution of labor rights by building new partnerships and coalitions, reaching beyond the workforce currently represented by unions.[77] Likewise, unions provide worker cooperatives with the necessary resources to educate workers about the cooperative model as well as skills training. Unions can also provide technical assistance and funding to help worker cooperatives launch or grow to scale. A successful worker cooperative will need to conduct market and feasibility studies and engage in business planning when launching a new enterprise or converting to an existing manufacturing or other large business. Unions can help connect worker cooperatives to experts in the field and help provide initial capital or other financial support.[78]

One example of the Union Coop model is Our Harvest, a worker-owned farm and food hub in Cincinnati launched in April 2012.[79] Our Harvest operates two farms, supplying local grocery stores, retailers, and selling directly to the public through community supported agriculture

77. BLS Press Release, *supra* note 74.

78. Witherell, *supra* note 72, at 3.

79. Cincinnati Union Coops, http://www.cincinnatiunioncoop.org/our-initiatives/ (last visited Sept. 10, 2015).

subscriptions.[80] The cooperative is the first of many planned businesses launched by the Cincinnati Union Cooperative Initiative (CUCI), a nonprofit incubator dedicated to creating union worker cooperatives.[81] CUCI sees union cooperatives as a means to create higher-paying, stable jobs in Cincinnati, replacing the once plentiful union manufacturing jobs that served as the backbone of the local economy.[82] CUCI launched Our Harvest with support from the United Steel Workers and the United Food and Commercial Workers. Both unions provided capital for market and feasibility studies as well as staffing during the incubation stages.[83] Some larger cooperatives have incorporated this union structure as they have continued to grow. Although Community Health Care Associates did not start as a union coop model, its workers are currently represented by the Service Employees International Union.[84]

The architects of the union coop believe this model can be replicated for future development, creating viable replacement jobs and industries after the loss of high earning manufacturing jobs. The union coop model envisions creating a network of cooperatives and related institutions, similar to Mondragon, to support the growth and development of cooperatives.[85] This network will create a new economic eco-system, one that is anchored locally and dedicated to the continued reinvestment and growth of local communities.

C. Anchor Institution Model

Large anchor institutions like hospitals, universities, and municipal governments have always played a key role in local economy. Worker cooperatives have recently started collaborating with the anchor institutions to develop and launch worker-owned businesses that create jobs and retain wealth in the community.

The most well-known examples of this model are the Evergreen Cooperatives. Located in Cleveland, the Evergreen Cooperatives were founded in 2008 as a joint effort among the Cleveland Foundation, Cleveland Clinic, Case Western Reserve University, the City of Cleveland, and University Hospitals with assistance from the Democracy Collaborative and the Ohio Employee Ownership Center.[86] The cooperatives targeted the

80. Our Harvest, https://ourharvest.coop/default.aspx (last visited Sept. 10, 2015).

81. Cincinnati Union Coops, *supra* note 79.

82. *Id.*

83. *Id.*

84. Flanders, *supra* note 14.

85. See note 75 for a full discussion of the Mondragon Corporation's network of cooperatives and support institutions.

86. Evergreen Cooperatives, http://evergreencooperatives.com/about/mission-goals-and-principles/ (last visited Sept. 10, 2015).

Greater University Circle neighborhood, an economically depressed neighborhood with a high unemployment rate surrounded by a number of key anchor institutions like the Cleveland Clinic.[87] These anchor institutions contracted with vendors outside the City of Cleveland for a variety of goods and services, collectively spending over $3.5 billion a year.[88] The Evergreen Cooperatives designed businesses that could compete with and replace outside vendors, creating sustainable employment opportunities that captured and retained anchor institution spending within the University Circle neighborhood.

The Evergreen Cooperatives launched the first worker cooperative, the Evergreen Cooperative Laundry, in 2009. The business is an environmentally friendly, commercial laundry service provider that currently employs fifty workers who will eventually own 100% of the business.[89] The network has since launched two other smaller cooperatives, Evergreen Energy Solutions, a solar panel installation business, and Green City Growers, a hydroponic greenhouse growing leafy greens for commercial consumption.[90] All the Evergreen Cooperatives are "green" businesses, committed to environmentally friendly and sustainable business practices.[91]

Like the Mondragon Cooperatives, the Evergreen Cooperatives strive to create a network of support organizations.[92] This network has three primary goals: (1) facilitating the continued growth of existing cooperatives, (2) incubating new cooperative ventures to sustainable local employment opportunities, and (3) ensuring that all enterprises remain committed to a larger vision and values of the Evergreen Cooperatives. The figure on the next page illustrates the structure of the Evergreen Cooperatives.[93]

In order to meet the three goals listed above, the Evergreen Cooperatives created a 501(c)(3) umbrella organization called the Evergreen Cooperative Corporation (ECC). The ECC serves as the coordinating body for the various cooperative businesses, providing access to training, education, funding, technical assistance, and other resources. Worker cooperatives receive continued business development support and human resources services from Evergreen Business Services, a wholly owned

87. Bill Bradley, *Cleveland's Evergreen Cooperatives Finding Better Ways to Employ Locals, Keep Cash Flow in Town*, NEXT CITY, June 12, 2013, http://nextcity.org/daily/entry/clevelands-evergreen-cooperatives-finding-better-ways-to-employ-locals-keep

88. Erik Reece, *The End of Illth*, HARPER'S MAG. BLOG (Oct. 4, 2013 2:30 PM), http://harpers.org/blog/2013/10/the-end-of-illth/2/.

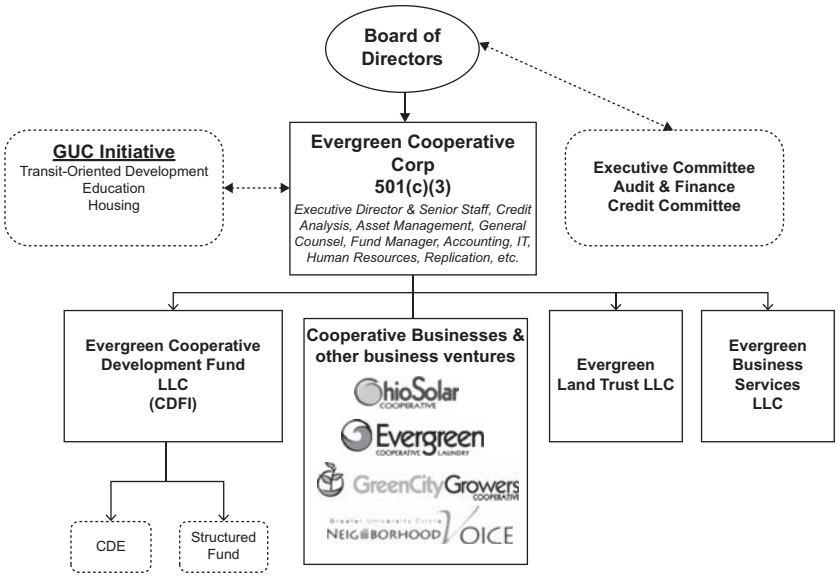
89. *Id.*

90. Capital Inst., *Evergreen Cooperatives Field Study* 7 (2015), http://www.capitalinstitute.org/sites/capitalinstitute.org/files/docs/FS2-Evergreen%20full%20article.pdf.

91. *Id.*

92. *See supra* note 75.

93. *Evergreen Cooperatives Field Study*, *supra* note 90, at 14.



subsidiary of ECC. The cooperative businesses also receive financial support from the Evergreen Cooperative Development Fund.[94]

The ECC also protects the mission, vision, and sustainable development goals of the Evergreen Cooperatives by requiring stakeholder participation in its corporate structure. The board of the ECC includes a member from each anchor institution, the Cleveland Foundation, as well as representatives from the worker cooperative businesses, promoting engagement and preserving the vision over time. Equally important, the ECC serves as an accountability tool for individual worker cooperatives. The ECC holds a seat on the board of directors for each cooperative business and owns 20 percent of each cooperative business. Additionally, the ECC has the right to veto "any cooperative's attempt to exit the Evergreen system."[95] At first these measures may seem restrictive, but they serve an important purpose. The success of the Evergreen Model relies on creating sustainable businesses that continue to hire and reinvest locally. Toward that end, the Evergreen Cooperatives create a system of services, resources, and dedicated funding to support these ventures. If these businesses were permitted to divest from the community once they became profitable, they would undermine efforts to build jobs and retain wealth in these communities.

94. *Id.* at 15.
95. *Id.* at 14.

Critics of the Evergreen Model say the cooperatives have failed to make enough impact for the amount of money, time, and effort invested. The Evergreen Cooperatives have faced challenges since their inception, falling short of their original lofty goals of establishing ten businesses and providing 500 jobs by 2014.[96] At present, some of the businesses have fallen short of estimated financial solvency and worker-ownership goals. Originally, worker owners in the Evergreen Cooperative Laundry (ECL) were expected to build $65,000 in equity after seven years.[97] The laundry business was expected to be generating a profit and repaying its start-up loans by year seven as well, but it has proved not to be as profitable as predicted.[98] The promised pipeline of business between the anchor institutions and the cooperative was difficult to establish. The anchor institutions had existing contracts with outside vendors for a much lower cost. ECL suddenly needed to drum up new business or operate at well below capacity.[99] As a result, it has been difficult transitioning employees to worker-owners. In 2013, ECL employed thirty-eight people but only fifteen were also owners. Likewise, Green City Growers (GCG) has faced similar problems with securing business. Their target consumers were the cafeterias of local hospital and universities supplied by firms in California. GCG provided an eco-friendly, local alternative but could not compete with the low prices offered by existing out-of state-vendors.[100] In 2013, GCG employed twenty-one workers, only three of whom were also owners.[101]

Another challenge has been reinvesting in the Greater University Circle neighborhood. The Evergreen Cooperatives were designed to hire from the neighborhood and encourage worker-owners to remain and reinvest in the neighborhood as means for local economic development. A study conducted in 2013 found only 21 percent of cooperative employees lived in the Greater University Circle neighborhoods, although almost all the employees lived in the City of Cleveland.[102]

96. Jacquelyn Yates, *Evergreen Coops Are Taking Root and Growing*, OWNERS AT WORK 19 (2011), http://www2.kent.edu/CAS/oeoc/upload/Evergreen-Coops-Growing.pdf.

97. Steve Friess, *Can the Co-op Save Us?*, TAKE PART, May 30, 2014, http://www.takepart.com/feature/2014/05/30/co-op-businesses-in-the-us-evergreen-cooperatives.

98. *Id.*

99. *Id.*

100. *Id.*

101. Candi Clouse, Ziona Austrian & Kathryn W. Hexter, *Living Cities: The Integration Initiative in Cleveland, Ohio–Greater University Circle Community Wealth Building Initiative: Programs and Projects Report, Year 3*, at 21 (2014), *available at* http://engagedscholarship.csuohio.edu/urban_facpub/1262.

102. *Id.* at 16.

Advocates argue that these obstacles are growing pains and that the model has seen some success. Evergreen Energy Solutions (E2S), the second cooperative launched in 2008, has received a number of contracts from anchor institutions as well as other local businesses.[103] It also diversified its business model to ensure continued profits, providing general handyman services in addition to energy-related services. In 2013, E2S employed eight individuals, all of whom were also owners, earning an hourly wage of $15.65. The business was expected to return profits to worker-owners in 2014.[104]

Despite the hurdles, all of the Evergreen Cooperatives do provide benefits to their employees, many of whom "were formerly in the ranks of the long-term unemployed."[105] All businesses provide wages of over $10 and hour and have access to a number of support services, including free health care, credit counselors, and courses in personal finance. Employees can also use the Evergreen Housing Program and Evergreen Car Programs, which help them purchase homes and cars.[106] Both ECL and E2S were committed to hiring individuals regardless of past incarceration or criminal records. As of 2013, more than half of ECL workers and a third of ES2 employees were formerly incarcerated or had criminal records.[107] This was particularly meaningful, as Ohio did not pass "ban the box" legislation until 2015.[108] As a vehicle for offering opportunities for vulnerable workers, personal stories among employees do testify to the positive impact of the Evergreen Cooperatives during a time when they felt unemployable.[109]

V. Common Challenges and Obstacles Faced by Worker Cooperatives

While worker cooperatives can be an important and effective tool for empowering vulnerable workers, they face a number of challenges. Some of these obstacles are the same as any entrepreneur or small

103. *Id.* at 19.

104. *Id.* at 20.

105. *Evergreen Cooperatives Field Study*, *supra* note 90, at 18.

106. *Id.* at 17.

107. Clouse et al., *supra* note 101, at 20–21.

108. Fatima Hussein, *Ohio Adopts Ban the Box Policy*, CINCINNATI ENQUIRER, June 2, 2015, *available at* http://www.cincinnati.com/story/money/2015/06/02/ohio-adopts-ban-box-policy/28383485/. "Ban the Box" refers to a campaign promoting fair treatment of ex-offenders in hiring practices. The campaign advocates for the removal of the check-box on employment applications requiring individuals to disclose whether they have a criminal record.

109. Friess, *supra* note 97 ("I explained to him that I just need a chance. He reached out to me and he said, 'You deserve a chance. You're not a bad guy; you just made some choices.' So he gave me that opportunity, and I've been there ever since.").

business confronts and some are unique to the cooperative model. The section below briefly touches on some of the key challenges faced by worker cooperatives.

A. Education and Training on the Worker-Ownership

Training workers to become worker-owners can be challenging. Take the example of house cleaners. As noted earlier, these workers often work alone or intermittently as part of a temporary agency. In a worker cooperative, they are expected to suddenly operate and manage a business collaboratively with others. They are no longer individuals collecting a paycheck, but need to be invested in the continued growth and development of the enterprise. Understandably there is a learning curve during this transition from employee to worker-owner.

Successful worker-owners need to understand and embrace the worker cooperative model. They need to engage in collaborative decision-making and teamwork. Additionally, they need to build the skills necessary for any successful entrepreneur, including business and financial literacy skills.[110]

Worker cooperative organizers have stressed the importance of educating potential worker-owners as key to the launching of a successful cooperative. In its early training and education efforts, the CFL noted "some women left the cooperative because they realized being a business owner was not for them, or because they felt that the process of creating the cooperative was taking too long, and they need to generate income more rapidly."[111]

B. Selecting a Profitable Business Model and Building to Scale

As businesses, worker cooperatives must be able to compete in the free market. Even worker cooperatives that are praised for their innovation and commitment face many practical business hurdles. The Evergreen Cooperative Laundry launched with the expectation that worker-owners would have earned $65,000 of equity after seven years of operation. These projections turned out to be far too optimistic as actual profits were lower than initial projections as discussed in Part IV.[112]

Selecting the correct business is key to providing stable employment for the workers and continued growth for the cooperative. One criticism of the Evergreen Laundry and Green City Growers is that both enterprises required huge initial capital investments for infrastructure and similar expenses without an adequate revenue stream.[113] Both ventures required new, green facilities and anticipated a steady stream of business from anchor institutions, providing them with a stable customer base. As discussed in Part IV, the anchor institutions were not a reliable source of

110. Abell, *supra* note 61, at 25.
111. Bransburg, *supra* note 69.
112. Friess, *supra* note 97.
113. *Id.*

income for a number of reasons, including the inability of the cooperatives to compete with low prices of existing vendors.

The early struggles of the Evergreen Cooperative model reinforce the fact that cooperatives are ultimately businesses. It is important for worker cooperatives to take the same business planning steps as any for-profit venture, including crafting business plans and even conducting feasibility studies. Likewise, it is important for worker cooperatives to have reasonable profit margins and growth expectations.

C. Funding Concerns

No business can succeed without adequate capitalization. Worker cooperatives are less likely to court venture capital as one of the founding principles in prioritizing the value of labor over invested capital. While some investors may find the socially responsible core of worker cooperatives compelling, it is unlikely we will ever see them on an episode of *Shark Tank* or receive funding from a traditional venture capital firm.

Some worker cooperatives have experimented with issuing non-voting shares as a means for raising capital.[114] Others have turned to traditional forms of small business funding, including loans and crowdfunding. The Evergreen Cooperatives have designed a complex fund for member cooperatives, pooling grants, low-interest loans, and other funding sources. They are even exploring creating a socially responsible mutual fund, although the ventures currently are still heavily subsidized by foundation money.[115]

One exciting new development in New York City is the creation of a dedicated funding source for worker cooperatives. Inspired in part by the success of CHCA, and led by a coalition of cooperative advocates, the City Council allocated $1.2 million to worker cooperative development for the 2015 budget.[116] This marks the largest investment in co-ops by any municipal government to date and represents an endorsement of worker cooperatives as a means of creating quality jobs and businesses in local communities.[117]

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114. BreadHive Bakery in Buffalo and the Worker's Diner in New York City have both pursued this option. *See* Nina Misuraca Ignaczak, *It Takes an Ecosystem: The Rise of Worker Cooperatives in the US*, SHAREABLE, July 16, 2014, http://www.shareable.net/blog/it-takes-an-ecosystem-the-rise-of-worker-cooperatives-in-the-us; Joe Marraffino, *Workers Diner in NYC to Offer Non-voting Preferred Shares to Investors*, CO-OPERATIVE NEWS, Mar. 12, 2012, http://www.thenews.coop/32960/news/business/workers-diner-nyc-offer-non-voting-preferred-shares-investors/.

115. *Evergreen Cooperatives Field Study*, *supra* note 90, at 15.

116. *New York City Invests in Worker Cooperatives*, U.S. Federation of Worker Cooperatives, June 25, 2014, http://www.usworker.coop/news/new-york-city-invests-worker-cooperatives-0.

117. Press Release, NCBA CLUSA, New York City Invests $12 Million in Worker Cooperatives, June 27, 2014, http://www.ncba.coop/ncba-media/press-releases/610-new-york-city-invests-1-2-million-in-worker-cooperatives.

Garnering support from other local governments will be key in the continued success of worker cooperatives. Local governments often offer tax credits and other incentives to lure traditional businesses into downtown areas. Similar funding could be provided to the development of worker cooperatives, which in turn would reinvest in the local community through jobs, purchasing, and building the individual capacity and wealth of residents.

VI. Conclusion

This article advocates for cooperatives as a vehicle for protecting and empowering vulnerable workers, like those in New York's nail salons. Some may argue that worker cooperatives are unnecessary and that advocacy groups and legislation would be just as effective. California has a nonprofit, the California Healthy Nail Salon Collaborative (CHNSC), which is dedicated to advocating for healthy working conditions for nail workers.[118] The organization is composed of key stakeholders in the nail salon industry, including individual manicurists, environmental organizations, researchers, reproductive justice groups, and government agencies.[119] CHNSC created a "healthy nail salon"[120] certification as an incentive for owners to create and maintain safe and healthy workspaces.[121] The certification is a marketing tool, indicating to customers that the business operates ethically.[122] While currently effective and certainly commendable, there are shortcomings to this approach. The certification primarily addresses primarily health and safety, not wage or employment, issues. Additionally, the certification is dependent on the continued interest and commitment of the salon owner in order to be successful.

Worker-owned nail salons would be a more permanent solution and provide greater protection for workers. A worker cooperative nail salon

118. The collaborative is fiscally sponsored by Asian Health Services. *See California Healthy Nail Salon Collaborative Three Year Strategic Plan*, *available at* http://www.cahealthynailsalons.org/wp-content/uploads/2010/07/Collab-2012-14-Strat-Plan-FINAL.pdf.

119. The organization's mission is "to improve the health, safety, and rights of the nail and beauty care workforce to achieve a healthier, more sustainable, and just industry." CHNSC engages in research, policy advocacy, and direct outreach and education for workers and salon owners to create better working conditions. California Healthy Nail Salon Collaborative, http://www.cahealthynailsalons.org/about/mission-history/ (last visited Sept. 17, 2015).

120. To qualify for the certification, owners must meet certain standards. *See* http://www.cahealthynailsalons.org/what-is-hns/about-healthy-nail-salons/ (last visited Sept. 17, 2015).

121. Eleanor Goldberg, *How California's Ethical Nail Salons Can Teach New York to Clean Up Its Ac*t, HUFFINGTON POST, May 22, 2015, http://www.huffingtonpost.com/2015/05/22/help-new-york-city-nail-salons_n_7355360.html.

122. San Mateo Healthy Nail Salon Information for Customers, http://smchealth.org/healthynails (last visited Sept. 16, 2015).

not only has a vested interest in providing the highest standards in health and safety, but also in wages and wealth retention. The worker cooperative nail salon goes beyond certification and becomes a true social enterprise, positively impacting workers and reinvesting in the community. A business like that could join the ranks of social ventures like Tom's shoes[123] and Manicube.

Social enterprises are gaining in popularity among consumers and investors because they produce attractive products and services that also appeal to the values of consumers. This type of socially conscious business does not need to have an international focus; it can thrive and create change in our own backyards. Stable, wealth building employment opportunities are vital to help vulnerable workers and their communities. Worker cooperatives can play an important role in creating these jobs and rebuilding economically distressed localities.

Despite their rich history both in the United States and internationally, worker cooperatives are now starting to gain momentum with local power players as a legitimate local economic development strategy. New York City, Austin, and Madison have all passed municipal efforts to explore and even fund the development of cooperatives as a means to reinvest in the community and build broad-based wealth.[124] These beginnings may seem small and humble, but have the potential for creating a ripple effect as cities often look to their peers when exploring new policies and strategies for growth. As municipalities and states begin to look to worker cooperatives as vehicles for growth, they can continue building networks of cooperatives that foster local and even regional growth. The worker cooperative is in a prime place to prove there is nothing more contagious than a good idea.

123. Tom's Shoes is a social enterprise that operates on a one-for-one model. Tom's began as a shoe company that donated a pair of shoes to a child in need for every pair sold. In 2014, Bain Capital acquired 50 percent ownership of Tom's Shoes. Tom's Shoes has maintained its commitment to its philanthropic mission. It is interesting to note that social ventures like Tom's operate within the traditional corporate framework of shareholder primacy, thus still allow for lucrative returns for private equity groups and other investors. This is one of the key differences between worker cooperatives and other types of social ventures, and why worker cooperatives are less appealing to these types of investors. *See* www.toms.com (last visited Sept. 17, 2015).

124. Local Coalitions, *The Democracy Collaborative*, http://institute.usworker.coop/local-coalitions (last visited Oct. 1, 2015).