

Bay Area Blueprint: Worker Cooperatives as a Community Economic Development Strategy

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The growing low-wage service sector in our economy, combined with overall wage and wealth gaps that are especially concentrated in communities of color, means many working adults don't make enough money to cover basic needs. Businesses that are owned and run by their workers offer a different way of doing business that benefits workers, businesses, and society. Worker coops are a key component of a "new economy," and as such, Community Economic Development efforts should incorporate worker cooperative development into their strategies. This paper describes a project in the Bay Area of California to create a local action plan for moving towards scale and impact of worker cooperative development by engaging multi-sectoral actors. It includes a framework for assessing the opportunities in a local region to increase worker coops to benefit low wage workers, and takeaways for other regions that want to apply a similar approach.

Introduction

Since the global financial crisis, people have been crying out for alternatives to business-as-usual. Our wage and wealth gaps have grown dramatically, and when seen through a racial lens, are even starker yet. Wages as a percent of gross domestic product are at their lowest level since 1948.¹ Our good-paying middle-class manufacturing jobs have been steadily replaced by low-wage service jobs.² Large-scale absentee ownership—in which the business owner neither personally manages nor lives in the community in which the business operates—abounds. Nationwide, nearly one in three working families struggles to meet their basic needs.^{3,4} When looked at by race, forty-four percent of working families with at least one minority parent were low-income in 2010, twice the proportion of white working families.⁵ Many urban areas also reflect this stark reality; for example, in Oakland, California, forty-five percent of working adults don't make enough to cover their family's basic needs.⁶

The wealth gap also continues to grow. According to the New York Times, the wealth gap between the country's top twenty percent of earners and the rest of America has "stretched to its widest point in at least three decades."⁷ Even since the economic recovery has taken hold, the racial wealth gap has widened. "The wealth of white households was thirteen times the median wealth of black households in 2013, compared with eight times the wealth in 2010... Likewise, the wealth of white households is now more than ten times the wealth of Hispanic households, compared with nine times the wealth in 2010."⁸

Small business ownership has historically been an important way for people to achieve social mobility and to build assets, and has been especially important for people with little formal education or limited access to capital.

But today, it is much harder for small businesses like retail or restaurants to succeed, as they increasingly need to compete with global corporations that have much deeper pockets.⁹

We are in search of a "New Economy" that can create prosperity for all, not just for those who are already wealthy or have access to high-paying jobs. We need an approach that does more than just treat the negative symptoms of today's broken economy. In 2004, Hilary Abell and I co-founded Project Equity in Oakland, California, to address these problems. We focus on worker-owned businesses as an important part of the solution to our broken economy. Project Equity's vision is a thriving local economy in which employee-owned businesses have played a key part in changing the economic equation for today's low-wage workers.

In 2014, Project Equity spearheaded an initiative in the San Francisco Bay Area with its two primary local partners (Sustainable Economies Law Center and East Bay Community Law Center) to develop a "Blueprint" for increasing worker-ownership in low-income communities. The Blueprint creates action plans within three pathways for growing the number and size of employee-owned businesses: small businesses, fast-growing young companies, and conversion of existing businesses to employee ownership.

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Cooperative business development as a CED strategy

A definition of community economic development (CED) that resonates with me is “action by people locally to create economic opportunities that improve social conditions, particularly for those who are most disadvantaged.”¹⁰ CED often includes efforts such as workforce training, job placement, or even entrepreneurship supports targeted at low-income individuals.

The challenge for the field of CED today is that the mainstream economy is increasingly made up of, frankly, pretty bad jobs. The jobs available today for low-skilled workers are overwhelmingly limited. These opportunities are not only low wage, but these workers have little possibility for advancement. Our recent economic “recovery” following the Great Recession was fueled mostly by the addition of more of these same poor-quality jobs.¹¹ Are CED efforts that prepare workers to enter the mainstream economy the best we can do?

I believe that community economic development efforts are more impactful when they focus on creating more quality jobs rather than simply integrating low-skilled workers into the existing employment landscape. We should seek to create jobs that pay a living wage with benefits, jobs in which workers can advance professionally, and where they build assets and share in the profit of the businesses they help to grow. Successful efforts like recent wins to increase the minimum wage in Seattle, San Francisco, Oakland, and in four states are critical to help hold a steady line against downward wage pressure.^{12,13} But how do we create an economy in which businesses make decisions on their own through the dual lenses of what is good for the bottom line and economic growth, as well as what is good for workers, families, and communities to ensure that our growing economy benefits us all?

Worker-owned cooperative businesses enhance economic prosperity for individuals and communities.

Worker-owned cooperatives are an innovative and powerful business model that can provide high quality jobs and shared entrepreneurship opportunities to low- and moderate-income (LMI) workers, as well as benefits to the broader economy. Cooperative businesses increase job quality, invest locally, and have demonstrable positive impact on job creation and on business retention.^{14,15} Job stability is also dramatically higher in worker coops, with low turnover rates and, often, pay above industry average.¹⁶

One highly successful example of a coop benefiting low-wage workers is Natural Home Cleaning, in Oakland, CA. Natural Home Cleaning is owned by low-income Latina immigrants and was incubated by the nonprofit WAGES (now called Prospera), that documented a seventy to eighty percent increase in family incomes for worker-owners.¹⁷ Another is Cooperative Home Care Associates in the Bronx, the largest worker cooperative in the United States with 2,300 employees. CHCA operates in a very low-wage industry (home health care), but has dramatically lower turnover than its peer companies; annual employee

Benefits of Worker Cooperatives

The following summarizes research presented in a recent publication, *Worker Coops: Pathways to Scale*, written by the author’s co-founder, Hilary Abell.

BENEFITS TO WORKERS

- Above-market pay and benefits
- Access to shared business ownership and asset building
- Skill building and professional development
- A voice in key decisions and enhanced control over working conditions
- Dignity

BENEFITS TO BUSINESSES

- Enhanced growth and productivity
- Reduced employee turnover
- Business longevity

BENEFITS TO SOCIETY

- Better business practices and social innovation
- Democracy training
- Access to business ownership
- Correlation with other social benefits including health, education, crime, social and political participation, improved self-advocacy skills

turnover at CHCA is only ten percent, compared with industry norms of forty to sixty percent.¹⁸

We need to unlock scale.

Because of their ability to provide quality jobs, keep profits local, and build stronger businesses and communities, employee-owned and democratically-governed businesses stand to play a critical role in the “new economy” we envision. Growing the number and size of worker-owned cooperatives should be a key component of any community economic development strategy.

Despite the power and potential of worker-owned cooperatives, there are only about 350-400 in the entire United States, according to data from the U.S. Federation of Worker Cooperatives, and they average 11 workers each.^{19,20} In other parts of the world—like Italy, Spain, and France—cooperatives have grown to employ five to ten percent of the workforce. For example, Mondragon, a cooperative corporation in the Basque region of Spain, has grown to encompass 257 finance, industry, retail, and knowledge-based companies that together employ more than 74,000 people.²¹

The question, then, is how do U.S. advocates of worker cooperatives get from today’s reality of a handful of highly effective efforts scattered across disparate geographies, to a targeted, local approach that creates impactful change within communities?²² We need to unlock scale. To do

that, we need local, coordinated efforts that align multiple actors and work towards a shared common goal.

The San Francisco Bay Area embarked on just such an effort, a year-long project to create an action plan in the form of the “Blueprint for Increasing Worker Ownership in Low-Income Communities.” The Blueprint approach, process, and learnings are the focus of the remainder of this paper.

The Local Ecosystem and Why It Matters

Before describing the details of the Bay Area Blueprint in more detail, it is important to position its process and action planning within a local ecosystem framework.

As Project Equity began to think about the multiple actors in our local economy—and their potential roles in a coordinated effort to unlock scale for worker coops in low-income communities, we looked to research about unlocking scale for “general” entrepreneurship (not worker cooperatives). Daniel Isenberg, from the Babson Entrepreneurship Ecosystem Project, has outlined six domains within the entrepreneurial ecosystem and how they interact with each other to ultimately lead to a tipping point at which the ecosystem becomes self-sustaining.^{23,24} As we look to create local action plans to reach the tipping point for worker coops, two key takeaways from Isenberg’s research are important to keep in mind. First, context matters: the path to the tipping point in a given city or region can be unique. Second, the ecosystem can be influenced by a small number of influential Actors. Some places have had their big “step change” catalyzed by the efforts of just a handful of individuals.²⁵

We go into this work with our eyes open about the need for a hands-on approach at this stage of the ecosystem’s development. We are working to scale a business structure (the worker cooperative) that is oft-misunderstood—or just completely overlooked. And we are supporting communities of workers who are most negatively affected by social, educational and economic inequality and injustice.

Collective Impact

Without realizing it, the Bay Area Blueprint has helped catalyze what could be the beginnings of a “Collective Impact” effort. Collective Impact is “[t]he commitment of a group of important actors from different sectors to a common agenda for solving a specific social problem.” It occurs when a core group of community leaders abandon their individual agendas in favor of a collective approach to addressing large-scale social change.²⁶

Experts on Collective Impact outline three conditions that must be in place to launch a collective impact initiative: an influential champion (or small group of champions), adequate financial resources, and a sense of urgency for change. Together, these preconditions create the opportunity and motivation necessary to bring people who have never before worked together into a collective impact initiative and hold them in place until the initiative’s

own momentum takes over. Our core project team (Project Equity, SELC and EBCLC) served as the small group of champions, our year-long Blueprint project was adequately funded, and the outpouring of community support we received when we first proposed the Blueprint project demonstrated the sense of urgency for change.²⁷

There are three distinct phases of getting a Collective Impact effort up and running (see sidebar). The Bay Area Blueprint put us at the starting point of Phase I (Initiate Action). Moving forward, we envision bringing in an even broader set of stakeholders to align their actions based on the recommendations coming out of the Blueprint.

The Bay Area Blueprint for Increasing Worker Cooperatives in Low-Income Communities

The Bay Area Blueprint is a year-long research and cross-sectoral engagement process. It maps out a local action plan for the San Francisco Bay Area to increase shared business ownership for low-income workers by increasing the number of new jobs in worker cooperatives that are accessible to today’s LMI workforce.

Project Equity initiated the Bay Area Blueprint with its primary partners, the East Bay Community Law Center (EBCLC) and the Sustainable Economies Law Center (SELC). It was spearheaded in response to the HUD-funded One Bay Area Economic Opportunity Initiative, the goal of which was to define a regional approach for expanding economic opportunities for LMI workers.²⁸ The Bay Area Blueprint was awarded one of ten sub-grants

Quoting from an important article about Collective Impact, in which authors Fay Hanleybrown, John Kania, & Mark Kramer outline three phases of getting Collective Impact up and running:²⁷

Phase I, Initiate Action, requires an understanding of the landscape of key players and existing work underway, baseline data on the social problem to develop the case for change, and an initial governance structure that includes strong and credible champions.

Phase II, Organize for Impact, requires that stakeholders work together to establish common goals and shared measures, create a supporting backbone infrastructure, and begin the process of aligning the many organizations involved against the shared goals and measures.

Phase III, Sustain Action and Impact, requires that stakeholders pursue prioritized areas for action in a coordinated way, systematically collect data, and put in place sustained processes that enable active learning and course correcting as they track progress toward their common goals.”

Strategy	Importance of Strategy	Bay Area Blueprint Component
(1) Small businesses	Small businesses (500 or fewer employees) make up 99.7 percent of all firms with employees. They generate sixty-four percent of new jobs, and pay forty-four percent of the total U.S. private payroll. ³³ Overall, the lion's share of net new jobs are generated by firms with fewer than twenty employees. ³⁴	Pilot a Worker Coop Academy (WCA) to provide a training program for cooperative entrepreneurship, supporting LMI workers to launch worker-owned small business cooperatives in emerging industries.
(2) Gazelles: fast-growing young businesses	High-growth start-ups—referred to as gazelles—are the ones that create the most new jobs overall. “[T]he fastest-growing young firms (between the ages of three and five) account for less than one percent of all companies in the economy, yet generate ten percent of new jobs each year.” ³⁵	Create an Opportunity Roadmap to identify industry and business opportunities for creating scalable worker-owned businesses for LMI workers.
(3) Converting healthy, existing businesses to worker-owned businesses	Firms that are healthy and growing can convert to worker-ownership as an ownership succession strategy. Given the large number of retiring baby boomers, and the typical lack of succession plans for retiring business owners, we can focus on keeping healthy businesses in operation by selling to their employees.	Develop an Opportunity Roadmap for Coop Conversions to provide an analysis of the local opportunity and to design an outreach campaign for business retention via conversion to worker ownership, using Oakland as a case study.

under this initiative.

By design, the Bay Area Blueprint approach is multi-sectoral, involving partners from the business sector, our local community college, and nonprofits. Supporters include city economic development officials, our county social service agency, CBOs, and a leading B-Corp.²⁹ The Bay Area Blueprint enables multiple sectors to learn from and build on each other's progress, magnify each group's impact, and cultivate a common strategy of ecosystem-level change.

When we organized the Bay Area Blueprint effort in the fall of 2013, we didn't yet have an analysis of the existing local ecosystem. Instead, we intuitively knew that we wanted to bring together cross-sectoral actors to work on different parts of the problem to move the work forward faster and more effectively. We also knew we needed a shared plan of action, backed by solid, local, targeted research. Because of this, we embarked on a one-year project to create this action plan—which we call the Bay Area Blueprint for Increasing Worker Ownership in Low-Income Communities.

The Bay Area Blueprint focuses on the “Inner East Bay,” a part of the San Francisco Bay Area where LMI workers make up forty-seven of the workforce, significantly higher than the Bay Area average of thirty-five percent.^{30,31} The Inner East Bay is the corridor from Hayward to Richmond between the San Francisco Bay and the hills. The current Bay Area landscape has a solid baseline of existing worker cooperatives. It is home to fifty to sixty worker coops, the highest number of any region in the U.S., that employ an estimated 800-1,000 people and

provide better pay and benefits than industry standards.³²

As we embarked on the planning, we recognized that there are multiple pathways to increase the number of worker-owners in a region. As such, the project consists of one pilot and two actionable feasibility studies across the following three pathways:

- 1) Small business
- 2) Fast-growing young businesses
- 3) Business conversion to worker ownership

The Blueprint—incorporating research results, key findings, and “how tos”—will be open-source published across the Bay Area at the end of the one year research period to encourage other communities to adopt and localize the approach to their area. We describe each of the three pathways in more detail below.

Bay Area Blueprint Pathway #1: Small scale worker coop entrepreneurship

National examples of Worker Coop Academy efforts

In designing the Bay Area Worker Coop Academy (WCA) pilot, we looked to the small number of existing programs in other parts of the U.S., including the Green Worker Coop Academy in the Bronx,³⁶ the Cooperative Business Institute run by Cooperation Texas in Austin,³⁷ the Colors Coop Academy focused on restaurants or food businesses, run by ROC United,³⁸ and the Worcester Roots Coop Academy in Worcester, Massachusetts.³⁹ We looked at how each one structured their programs, how long the programs were, their curricular focus, and what resources, supports and connections were fostered, and where available, what outcomes were achieved.

We also looked to our team’s Bay Area experience supporting start-up worker coops to determine what local needs we wanted to meet. Two of the project partners (SELC and EBCLC) had delivered workshops in both Spanish and English as well as legal advice clinics on starting coops to more than 480 LMI individuals in East Oakland and Richmond prior to joining the Bay Area Blueprint project. These previous workshop and clinic participants had articulated a need both for more structured training and for business and management coaching support.

Bay Area Worker Coop Academy Pilot

Based on these initial learnings, we outlined a three-phase WCA pilot:

- Phase 1:* Outreach. Targeted outreach via workshops, legal advice clinics, and individual conversations
- Phase 2:* Classroom. Cohort- and classroom-based cooperative business training
- Phase 3:* Coaching and Legal Counsel. Business / Worker Coop coaching and legal representation

We approached the pilot with a user-focused design philosophy: rather than first creating the program and then inviting applicants, we used the Outreach phase to assess interest level and program needs of potential participants. We also got feedback from participants throughout the classroom phase in order to adjust curriculum as we went along.

Participant Types

Even within small business, there are multiple pathways to worker ownership, so we decided to invite four

types of participant teams into the Worker Coop Academy. A typical team was made up of three to four individuals from the same business.

- *Start-ups:* Worker cooperatives that are in the pre-launch phase or the first year of operations
- *Growing coops:* Existing worker cooperatives that want to grow
- *Conversions:* Existing small businesses wanting to convert to worker coop from a more traditional business structure (e.g. sole proprietorship, LLC, S- or C-corp, partnership)
- *Developers:* Nonprofits that support the start-up and growth of coops within low-income communities⁴⁰

As a result of active recruitment, the applicant pool had more than three times the number of teams we could invite to participate. We selected participants based on those most likely to create new worker coop jobs that are accessible to low-skilled workers, and based on the growth potential of the business. The resulting cohort included seven teams: one start-up, two growing coops, two nonprofit coop developers and three conversions. One team was made up of both coop worker-owners and staff of the nonprofit developer that supports them.

Curriculum

We designed the pilot curriculum around the needs of the first cohort, integrating both our assessment and teams’ self assessments of the areas in which they needed support. We drew from curriculum “building blocks” featured in the sidebar. We will be making the curriculum broadly available later in 2015.

We made connections for teams that were interested in

WORKER COOP ACADEMY CURRICULUM BUILDING BLOCKS	
<p>BUSINESS Business feasibility and planning Business model and strategy Marketing Business financing Financial planning and management Growth planning Surplus, profits and taxation of coops Balancing business and social goals</p> <p>PEOPLE & CULTURE Constructive communication Conflict management Hiring, firing and evaluating workers Employee to worker-owner transition Building healthy organizational culture</p> <p>COOPERATIVES Cooperative principles History of coops in the U.S. and internationally Site visits to Bay Area coops</p>	<p>GOVERNANCE, MANAGEMENT & LEADERSHIP Management models, roles and processes Governance options Leadership issues in coops Decision making practices Effective meeting practices</p> <p>LEGAL Entity formation Raising capital Corporate governance Employment law issues Taxation of cooperatives</p> <p>COOP DEVELOPMENT Coop development cycle from feasibility to maturity Pros, cons & ethics of different development models Components of development process Defining roles and authority of developer and coop</p>

working with mentors from local worker cooperatives. We brought in guest speakers—many from local worker coops, others from local entrepreneurship programs and experts on worker coop financing—to help connect the teams to local resources, and to bring to life some of the concepts that we focused on in the classroom portion of the class. Finally, each team developed a Strategic Project, the goal of which was to make meaningful forward progress on an area of their coop business that would benefit from support from WCA instructors and mentors.

Our teams benefited greatly from the high density and number of Bay Area worker coops. Local coop worker-owners were involved in curriculum development, as guest speakers and as mentors. We spent a half day one Saturday sitting down with members of Alvarado Street Bakery, a highly successful, and long-established local worker cooperative that has reached scale of 120 workers, then touring their production plant. We also received important financial support from one of the largest local cooperatives, Rainbow Grocery. We believe that connecting existing cooperatives to our new teams was a crucial element of fostering the development of cooperative business.

We held the class sessions at our local Community College (Laney College in Oakland), which helped to raise the profile of worker coops among students, faculty, and the college administration. One of the key outcomes of the WCA pilot will be a future Community College course offering on worker cooperatives based on the WCA curriculum. Once approved, this course curriculum will be available statewide to community colleges that wish to offer it in their business programs.

Following the classroom phase, we offered additional, in-depth support in the form of business coaching from Project Equity staff and legal counsel provided by East Bay Community Law Center. We were able to continue working with a subset of the teams, chosen from the pool of interested applicants, on an individualized basis for three months. We included this more in-depth support in the design of our program knowing that classroom training isn't enough to support entrepreneurs in growing successful businesses.

Bay Area Blueprint Pathway #2: Incubate or accelerate scalable cooperatives

Given that high-growth start-ups, often referred to as “gazelles,” are the ones that create the most jobs overall, we knew we needed to develop a strategy for creating businesses that grow.⁴¹ We defined a growth target as reaching a minimum 50-100 jobs, and defined a time frame of five to seven years.⁴² Our goal in this part of the Blueprint research was to identify industries or sectors that are promising for worker coop development with entry level workers, and to highlight a handful of promising business ideas to illustrate the possibility.

Business Fit Scorecard

We started by developing what we called a “Business

BUSINESS FIT SCORECARD ELEMENTS

Listed roughly in order of importance

JOB CREATION

Ability to create 50-100+ good jobs at maturity
Speed to 50 jobs
% of total jobs that are available ‘entry level’ to LMI workers

JOB QUALITY

Compensation level (wage, salary), relative to the actual cost to sustain a family locally
Other job quality factors
Permanent, full-time employment
Includes healthcare benefits
Equity-building opportunity
Other (describe)
Career laddering and professional growth potential
Potential for higher than industry average pay and robust asset sharing (when business reaches scale)

BUSINESS CHARACTERISTICS

Potential for mission-aligned or anchor institution business contracts
Start-up capital requirements

Fit Scorecard.” We articulated the elements of businesses that make them a good fit for developing growth-oriented worker coops with low-wage workers. We then ranked the elements and created a point system that would enable us to score a given business idea (see sidebar).

We also identified a number of other factors that we felt were important enough for consideration, but either added or subtracted points from the overall score based on answering these questions:

- Do we expect that having worker-owners will create a significant competitive advantage for the business, due to high engagement, democratic decision-making, or in other ways?
- Will the jobs created be accessible to workers with higher barriers to employment?
- Are there risks without clear mitigation strategies?
- Are there top management roles that are uniquely difficult to fill due to requirements for specialized experience or expertise?
- Are there other specific business characteristics that are positive, limiting, or negative?

Industry / Sector Assessment

Next, we focused on researching specific industries and business sectors. Our contacts with planners in local government and with local businesses helped put us in touch with key resources. We reviewed reports about the East Bay and Inner East Bay economies, produced by a range of organizations (regional economic development agencies, chambers of commerce, research groups associated with

industry clusters, and others), held conversations with nearly fifty individuals, and attended a handful of targeted industry-specific events.

The industries we considered included those that are most important in the Bay Area and the East Bay for future economic growth, and others that we believe will have high potential based on our Business Fit Scorecard. The industries and sub-sectors we researched include biotech, logistics & transportation, healthcare, manufacturing (including specialty food and other light manufacturing), renewable energy, green building services (including LED lighting retrofits), green infrastructure (including stormwater management), and technology networking / security / helpdesk services. Other regions of the country would have their own set of industries based on the local economy.

There are potential scalable worker cooperative business ideas that could be a strong fit in most of the industries and sectors. We highlight some additional considerations for identifying and prioritizing business ideas, for others considering similar research in their local area:

WORKER COOPERATIVES VS ESOPS

There is a form of employee ownership called ESOPs (Employee Stock Ownership Plans) that provide a partial piece of the puzzle: they provide a company's workforce with at least a partial ownership interest in the company.

For employee-owned businesses to be the transformative community economic development tool that they have demonstrated their ability to be, workers need to be empowered both through ownership and through democratic control. ESOPs typically are only partially employee-owned, and they do not include a governance requirement, meaning that there is no requirement that employees be involved in any business decisions.⁴⁶ Many ESOPs do practice strong participatory management (sharing of information and receiving input from employees), but many also do not. Worker coops are 'democratic workplaces' where the majority, or often all, of the board of directors is selected by a vote of the workers.⁴⁷

Efforts to scale worker coops can learn a lot from the ESOP field. ESOPs have a well-established field of technical assistance providers who assist business owners in selling a portion—or less often, all—of their company to an ESOP. The National Center for Employee Ownership is a national membership organization, and there are a handful of state employee ownership centers (see for example, in Ohio, Vermont, California). Nationwide, there are approximately 7,000 ESOPs, covering 13.5 million employees.⁴⁸

- Local job training programs: Particularly important in those sectors that require at least some basic skills for their entry-level jobs.
- Supply chain: Supply chain opportunities can be as important as core industry businesses. For example, even though biotech labs don't have many entry-level roles, there are some opportunities along the supply chain such as lab supply distribution.
- Mission focus: Prioritize businesses with an additional mission—such as environmental sustainability—to catalyze sustained interest among workers, funders, and investors.
- Existing local cooperatives: How can existing local coops support the development of new coops? For example, could supply chain needs of existing coops be met by new coops? Can larger, existing coops that do bulk buying help smaller start-up coops with purchasing? Can larger existing coops help with space, technical assistance, or loans?

Community Advisory Board

The development of worker cooperatives that create good jobs for LMI workers and grow beyond the typical threshold of five to fifteen worker-owners is complex work, requiring substantial resources, skills and time in order to deliver the deep impacts for workers, families and communities. A key next step for this work is the formation of a Community Advisory Board that will help us get broad input into the strategy and specific local approach to starting up new scalable worker coops, and will also catalyze a range of stakeholders to help garner support for this work.

Bay Area Blueprint Pathway #3: Business conversion to worker ownership as a business succession strategy

A 2004 study by the U.S. Small Business Administration found that only fifteen percent of family businesses succeed to the second generation, and only five percent succeed to the third generation.⁴³ Those that don't close are often sold to out-of-state buyers or private equity firms that may relocate jobs or the entire business. In the absence of succession planning, not only do we lose jobs, we lose jobs that are more likely to be locally owned and controlled, taking two steps back against Community Economic Development goals. What if, instead, we took a giant step forward by helping retiring business owners sell to their employees?

The impending "silver tsunami" of retiring baby boomers makes this issue very timely. In the U.S. today, seventy-six percent of private sector employment is in companies not traded on the stock market ("closely held companies"). And, according to the census, baby boomers own sixty-six percent of businesses with employees, leading to Businessweek's forecast that "[t]rillions of dollars of business value are going to change hands in the next ten to twenty years."^{44,45}

What do business owners think?

In numerous conversations with business owners, both in focus group settings and one-on-one, we listened to how they talked about what they want for their businesses when they retire. Business owners want their business to continue to be successful, their customers and employees to be well taken care of, their business to remain in the communities where it is already present (even if it grows to other locations, too), and of course, the financial ability to retire comfortably.

For those businesses with an explicit mission, it was extremely important for their mission to live on. Owners fear that a sale of their business to another (usually larger) company would result in its mission being overshadowed or cut out altogether, local offices or stores closed down, employees laid off and long-term, local customers deprioritized. Given the concentration of mission-driven companies in the Bay Area, we see this to be an important group of owners to start with, who are potentially predisposed to considering worker ownership.

Has this been done before? What can we learn?

Project Equity interviewed a range of businesses that have completed conversions to employee ownership in order to understand business owner and employee motivation, process and timeline, and resources and technical assistance needed. Oakland-based Sustainable Business Alliance, our local affiliate of BALLE—the Business Alliance for Local Living Economies— and the U.S. Federation of Worker Cooperatives were very helpful in identifying potential businesses and in making introductions. A resulting series of a dozen business conversion case studies is available on Project Equity’s website.⁴⁹

Some key takeaways from the case studies and research are that most people don’t know much, if anything, about the option of selling a business to their employees. If they do know something about employee ownership, they are more likely to be familiar with ESOPs than with worker cooperatives. A good entry point for education about employee ownership and worker coops is succession planning or retirement, because it captures people when they are already thinking about a sale of the business. We have an opportunity in front of us now to kick off aggressive outreach through strategies that focus on educating business owners, professional service providers (lawyers, CPAs, etc.), and investors about worker cooperatives.

Some key “readiness factors” for businesses considering a transition to worker ownership include being on strong financial footing and having existing or a planned transition to participatory management. It’s important to plan for education and support during the transition for both owners and employees so that they can make a well-informed decisions.

Next Steps

The Blueprint itself—the research results and action recommendations—will be created and open-sourced through the Bay Area near the end of March 2015. It will summarize the findings, learnings and recommendations for action. Some likely recommendations include:

Organize for Collective Impact. Maintain involvement by the stakeholders who were participated in developing the Blueprint, and animate other actors within the local ecosystem to help unlock scale across the three pathways. The Ecosystem project previously mentioned will inform this approach, and Project Equity will continue to play a key role in convening concentric circles of key stakeholders to move the projects forward.

Pathway #1: Small-scale worker coop entrepreneurship. Continue offering the Worker Coop Academy. Ensure that the community college class is offered and well-received.

Pathway #2: Incubate or accelerate scalable worker cooperatives. Develop a Community Advisory Board and begin to map out how to fund and support the development of a series of larger scale worker cooperatives.

Pathway #3: Business conversion to worker ownership as a business succession strategy. Initiate outreach campaigns to identify businesses that are candidates for conversion; support those business owners as they consider employee ownership and take the steps to transition their businesses. Project Equity plans to take a leading role in this effort.

Takeaways for other regions interested in applying the Blueprint approach

Action steps for implementing a similar Blueprint approach in your city or region would include:

1. Create a core collaborative with a small number of organizations who bring complementary capabilities and resources to the project.
2. Involve a broader group of actors to participate at various levels, to ensure that multiple sectors’ points of views, resources, and capacity are being tapped.
3. Develop an analysis of your local Ecosystem for Scaling Worker Cooperatives that outlines key actors, their roles, and what action should be catalyzed to unlock scale.
4. Co-create a strategy that incorporates multiple pathways to worker ownership.
5. Implement pilot project(s) in which several stakeholders collaborate, ideally representing different actors and roles, and ideally across multiple pathways.
6. Create/publish a localized Blueprint that articulates the strategy and maps a future plan of action.
7. Ignite coordinated Collective Impact action by sharing the Blueprint more widely to generate excitement and engage cross-sectoral actors in implementation.

NORTH CAROLINA SNAPSHOT

There are some important efforts already underway or in development in North Carolina that integrate worker cooperatives as a community economic development strategy. Here are some examples:

Opportunity Threads, located in Morganton, NC and a founding member of the Carolina Textile District is a cut and sew worker coop with 20 workers. It brings together North Carolina's textile heritage with new technology that enables "crafted production"—smaller runs and customization but also the ability for scale and volume. Opportunity Threads is focused on working within the textile industry to strengthen the local economy for workers.

Carolina Common Enterprise is a cooperative development center focusing on North Carolina and Southern Appalachia. Among other work, CCE will be developing a network of worker- and consumer-owned grocery store coops.

Solution Generators Network is in the early stages of LEAF Durham, a project that plans to connect new worker coops with the procurement purchasing needs of Durham anchor institutions.

These projects build on North Carolina's and the South's rich heritage of mutualism, as exemplified in the African American community and other rural communities across the state.⁵⁰

Conclusion

Expanding worker cooperatives in low-income communities can be a powerful, deeply impactful community economic development strategy. Worker coops provide quality jobs, keep profits local, and build stronger businesses and communities. We need to unlock scale and grow the number and size of worker coops for their impact to be felt by more people, and to have ripple effects into families and the broader community.

A coordinated effort that aligns multiple actors and works towards a common goal of scale has the potential to create greater impact. The San Francisco Bay Area—representing the largest worker cooperative economy in the U.S.—is one important place to focus on scaling. It is important to incorporate multiple pathways for increasing worker ownership within a local economic ecosystem, to know which local actors are most interested in each, and to tap the supports they can provide.

The "Blueprint" process and approach is a powerful way to make progress towards magnifying the impact of any single effort or organization, and in the right local conditions can lead to the creation of a Collective Impact Action Plan. We learned through our year-long project that a small core group with strong leadership can be very effective in pulling in involvement from different stakeholders.

I welcome thoughts, comments, and suggestions, and hope that many other cities or regions can learn from and apply this Blueprint approach.

For more information and resources visit www.project-equity.org/bay-area-blueprint/.

Endnotes

¹ <http://www.nytimes.com/2014/04/05/business/economy/corporate-profits-grow-ever-larger-as-slice-of-economy-as-wages-slide.html>

² <http://www.theatlantic.com/business/archive/2012/01/where-did-all-the-workers-go-60-years-of-economic-change-in-1-graph/252018/>

³ <http://www.prb.org/Publications/Articles/2012/US-working-families.aspx>: "Despite working hard, nearly one in three working families are struggling to meet basic needs," [said Brandon Roberts, Working Poor Families Project manager]. "In America we assume that work pays, but for these families, jobs are not providing the rewards necessary to get by, much less build any economic security." PRB defines "low income"—those who struggle to meet basic needs-- as below 200 percent of the federal poverty limit, which is a very low threshold in some parts of the country with high costs of living, like the San Francisco Bay Area.

⁴ <http://www.prb.org/Publications/Articles/2012/US-working-families.aspx>

⁵ [http://www.workingeastbay.org/downloads/State of Work in the East Bay and Oakland 2012.pdf](http://www.workingeastbay.org/downloads/State%20of%20Work%20in%20the%20East%20Bay%20and%20Oakland%202012.pdf)

⁶ <http://www.nytimes.com/2014/12/18/business/economy/us-wealth-gap-widest-in-at-least-30-years-pew-study-says.html>

⁷ <http://www.pewresearch.org/fact-tank/2014/12/12/racial-wealth-gaps-great-recession/>

- ⁸ The face of local business has changed dramatically in recent decades as chains have replaced neighborhood businesses. See the Institute for Local Self Reliance: <http://ilsr.org/key-studies-walmart-and-bigbox-retail/>
- ⁹ http://ccednet-rcdec.ca/en/what_is_ced
- ¹⁰ http://www.nytimes.com/2012/08/31/business/majority-of-new-jobs-pay-low-wages-study-finds.html?_r=0
- ¹¹ <http://www.sfgate.com/bayarea/article/Higher-minimum-wage-in-SF-leading-easily-in-early-5871304.php>
- ¹² <http://www.dailykos.com/story/2014/11/05/1342067/-Minimum-wage-wins-show-the-power-of-organizing#>
- ¹³ “Measuring the Social and Economic Impact of Food Co-ops” 2012 report by Strongertogether.coop
- ¹⁴ Carol Murray, British Columbia Co-operative Association, “Co-op Survival Rates in British Columbia,” June 2011 (p. 2). Five-year survival rates for coops were 64-67% compared to other studies showing comparable rates for conventional startups at 40-50%.
- ¹⁵ Worker Cooperatives: Pathways to Scale, by Hilary Abell found at <http://www.project-equity.org/worker-cooperatives-pathways-to-scale/>
- ¹⁶ Conversation with Hilary Abell, who was Executive Director of the nonprofit WAGES that developed Natural Home Cleaning for the 8-year period during which Natural Home Cleaning was launched and grew to nearly 40 worker-owners. WAGES re-branded to Prospera in late 2014. Hilary Abell and the author are co-founders of Project Equity.
- ¹⁷ Peggy Powell of Paraprofessional Healthcare Institute, in conversation with Hilary Abell on 11/12/13
- ¹⁸ <https://www.usworker.coop/about/what-is-a-worker-coop>
- ¹⁹ <http://www.yesmagazine.org/issues/the-end-of-poverty/how-america-s-largest-worker-owned-co-op-lifts-people-out-of-poverty>
- ²⁰ http://www.canadianworker.coop/sites/canadianworker.coop/files/CWCF_Research_Paper_International_16-6-2010_fnl%5B1%5D.pdf
- ²¹ <http://www.mondragon-corporation.com/eng/about-us/economic-and-financial-indicators/highlights/>
- ²² According to Worker Cooperatives: Pathways to Scale, by Hilary Abell, as of 2013, there were 14 worker cooperatives with 50 or more members. Of these, seven have between 50-100 employees, two have between 100-200, four between 200-300, and one outlier—Cooperative Home Care Associates—has 2,300. See: <http://www.project-equity.org/worker-cooperatives-pathways-to-scale/>
- ²³ <http://www.babson.edu/executive-education/custom-programs/entrepreneurship/Pages/entrepreneurship-ecosystem.aspx>
- ²⁴ <http://www.forbes.com/sites/danisenberg/2011/05/25/introducing-the-entrepreneurship-ecosystem-four-defining-characteristics/>
- ²⁵ Ibid.
- ²⁶ Collective Impact by John Kania & Mark Kramer. Stanford Social Innovation Review, Winter 2011, p 36-41.
- ²⁷ Channeling Change: Making Collective Impact Work. By Fay Hanleybrown, Jhn Kania, & Mark Kramer. Stanford Social Innovation Review. January 26, 2012. Found here: http://www.ssireview.org/blog/entry/channeling_change_making_collective_impact_work
- ²⁸ The Association of Bay Area Governments (ABAG) and the Metropolitan Transportation Commission (MTC) received a grant from the U.S. Department of Housing and Urban Development (HUD), a portion of which went to the Economic Opportunity sub-grants, including the Bay Area Blueprint.
- ²⁹ See <http://www.project-equity.org/bay-area-blueprint/> for more detail on local project partners
- ³⁰ Our definitions of low- and moderate-income come from research led by SPUR in the SF Bay Area. Low-income is 80 percent of the region’s median wage, which equals \$18 per hour. Middle-wage jobs are those that pay between \$18 and \$30 per hour. SPUR selected \$30 per hour as the upper end of the middle-wage job spectrum because it is a natural breakpoint on the wage scale. See: <http://www.spur.org/publications/spur-report/2014-10-01/economic-prosperity-strategy>
- ³¹ Terplan, Egon. “Bay Area Economic Prosperity Strategy: Presentation to the Steering Committee.” May 10, 2013.
- ³² Including Alvarado Street Bakery, Missing Link and Rainbow Grocery (all decades old), as well as Arizmendi Bakery and Natural Home Cleaning, which have retained high quality jobs and served thousands of East Bay Consumers for more than 10 years.
- ³³ <http://smallbusiness.chron.com/important-small-businesses-local-economies-5251.html>
- ³⁴ The Role of Small and Large Businesses in Economic Development, By Kelly Edmiston, Federal Reserve Bank of Kansas City: <http://www.kansascityfed.org/publicat/econrev/pdf/2q07edmi.pdf>
- ³⁵ http://www.kauffman.org/~media/kauffman_org/research%20reports%20and%20covers/2010/04/highgrowthfirmsstudy.pdf
- ³⁶ <http://www.greenworker.coop/coop-academy/>
- ³⁷ <http://cooperationtexas.coop/about-us/programs/cooperative-business-institute/>
- ³⁸ <http://rocunited.org/michigan-2/colors-co-op-academy/>
- ³⁹ <http://www.worcesterroots.org/2012/11/28/co-op-academy/>
- ⁴⁰ Nonprofits have played a key role in some of the largest worker cooperatives in low-income communities including, for example, WAGES (rebranded to Prospera), Cooperative Home Care Associates in the Bronx, and the Evergreen Cooperatives in Cleveland.
- ⁴¹ Ibid.
- ⁴² Based on the sizes of the largest existing worker cooperatives, see previous note.
- ⁴³ According to the Ohio Employee Ownership Center, see: <http://www.oeockent.org/exif-planning>
- ⁴⁴ <http://www.axial.net/forum/baby-boomers-deal-flow/>
- ⁴⁵ <http://www.businessweek.com/ap/2013-05-15/retiring-boomers-driving-sales-of-small-businesses>
- ⁴⁶ According to the National Center for Employee Ownership, A Statistical Profile of Employee Ownership, Updated June 2014, it is estimated that only 30-40% of ESOPs are 100% employee owned. See: <http://www.nceo.org/articles/statistical-profile-employee-ownership>
- ⁴⁷ Note that larger worker cooperatives more typically have hierarchical management structures—versus flat management structures, within the democratic governance framework.
- ⁴⁸ As of 2014, according to the National Center for Employee Ownership: <http://www.nceo.org/articles/esop-employee-stock-ownership-plan>
- ⁴⁹ See <http://www.project-equity.org/case-studies-business-conversions/>
- ⁵⁰ Gordon Nembhard, Jessica. *Collective Courage: A History of African American Cooperative Economic Thought and Practice.*