Worker Cooperatives Demystified

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The Concept

A business owned and controlled by its members for their common good
Key Worker Coop Characteristics

- Democratic Governance
- Returns to Labor
- Equitable Ownership
Governance in a Worker Cooperative

- Board of Directors
- Management
- Worker Owners / Members
Returns To Labor

- Profits allocated to members according to their patronage

  - First a fixed % of profit (usually 30-40%) is put in a Collective Account

  - The remainder is allocated to members according to hours worked

  - The allocation can be paid to members or put in their “Internal Capital Account”

  - Company losses are charged first against the Collective Account and then charged against members’ Accounts
The Internal Capital Accounts System

Diagram:
- Net Income
  - Individual Capital Allocation
  - Distribution Split
  - Collective Allocation
- Patronage Dividend
  - Notices of Allocation
  - Individual Capital Accounts
- Cash Payout
  - Individuals
Creating a new Worker-Cooperative

Key Activities

✓ Decide how the cooperative will work
✓ Elect a provisional Board to plan the coop
✓ Create a business plan
✓ Raise the financing
✓ Incorporate the cooperative
Key Cooperative Design Decisions

- Terms and conditions of membership
- Allocation of Profits
- Rights and responsibilities of Members, Board and General Managers
- Maintaining/enforcing quality standards
- Grievance procedures
- Rights of members who leave
- Form of Incorporation
Converting To A Cooperative

Three Basic Steps

- Determine if there is a deal
- Design the transaction
- Do the deal
Is there a Deal: Seller’s Perspective

- The Seller needs to decide exactly what is being sold.
- Time Frame For Completing Transaction
- If the Seller is financing part of the deal what safeguards will he get?
- If the Seller is leaving will there be a non compete agreement?
- Ongoing role in company
- Can the Seller and employee-buyers negotiate their differences?
Converting To A Cooperative

Is there a Deal: Workers’ Perspective

✓ The employees need to know what they are buying
✓ Do the employees want the Seller to stay on?
✓ Will Seller help finance the deal?
✓ Will Seller sign a non compete agreement?
✓ Does the Seller want a guarantee of future employment?
✓ Is a cooperative structure appealing?
Converting To A Cooperative

Designing the Transaction

- Develop Financial projections for the cooperative
- Identify financing need
- Decide on financing structure
- Write business plan
- Arrange Financing
- Agree on the Bylaws for the new cooperative
Converting To A Cooperative

Doing the Deal: Asset Purchase

- Legally Incorporate the cooperative
- Members buy shares in the cooperative
- Members hold first Annual Meeting
- Board Members, Sellers, Financing Sources and Attorneys meet to do the transaction
- The cooperative is now in business

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Converting a “C” Corporation Stock Purchase

Conversion Process

- Decide if there is a deal (same process)
- Put the Deal together (same Process)
- Do the deal
  - Seller exchanges all but one share for a note
  - Company bylaws changed to a worker cooperative
  - New members buy shares
  - Financing drawn down and seller’s note bought back immediately or over time.

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The BIG Issues

Safeguards for Seller financing
Leadership Transition
Price

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The BIG Issues

How Will Price Be Set?

✓ Must be supportable by the business
✓ Can hire an independent appraiser
✓ Some rules of thumb do exist
✓ Both parties must be happy
Design Issues

What are your objectives?

- Equal Ownership
- Everyone an Owner
- Sharing Governance
- Tax Advantage
- Remain in the Company
Considerations

- Tax Implications
- Cost of Implementation
- Ongoing Costs
- Administrative Burden
- Flexibility
- Health of Company
Coops: What’s Not To Like?

• Equal Ownership
• Shared Governance
• No Stake in Future Value Of Company
• Difficult to Attract Outside Equity
• Challenging to Incent Management
Other Worker Ownership Options

- Share Ownership
- Profit Sharing
- Section 423 ESPP
- Non Qualified ESPP
- Stock Grants
- Phantom Stock
- LLC