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Feature Article
Coop Businesses: Ownership for the Disowned

Tyler Gurss

Halfway through the 20th century, Cleveland was a thriving industrial powerhouse.¹ Unfortunately, as in cities across the US, that industrial core has waned, leaving behind unemployment rates now reaching as high as 25 percent.² Despite its struggles, Cleveland has retained its world class universities, like Case Western, and hospitals, like the Cleveland Clinic.³ These institutions have become cornerstones of the Cleveland economy, spending billions of dollars each year.⁴ In most cities, that money goes to the cheapest outside contractor.⁵ In Cleveland, however, worker-owned cooperatives are providing those goods and services to anchor institutions, raising the low income communities of Cleveland out of poverty by putting that money directly into the pockets of local workers.⁶

WHAT ARE WORKER-OWNED COOPERATIVES?

Worker-owned cooperatives are business entities that are owned and controlled by the people who work in them.⁷ Cooperatives are not new, but economic development advocates in Cleveland have put a modern spin on the old construction by combining the resources of what would have been multiple smaller cooperatives.⁸ Traditionally, worker-owned cooperatives are small and very loosely connected.⁹ The new cooperatives in Cleveland are semi-autono-

¹ Carol Miller & Robert Wheeler, *Cleveland: A Metropolitan Reader* 58 (Dennis Keating, et al. eds., 1995)

² Gar Alperovitz, Ted Howard & Steve Dubb, *Cleveland's Worker-Owned Boom*, YES MAGAZINE (June 5, 2009), available at <http://www.yesmagazine.org/issues/the-new-economy/cleveland-workers-owned-boom>.

³ *Overview: Anchor Institutions*, COMMUNITY-WEALTH (April 13, 2015), available at <http://community-wealth.org/strategies/panel/anchors/index.html>.

⁴ *Id.*

⁵ *Id.*

⁶ *Cleveland Model: How Evergreen Cooperatives are Building Community Wealth*, April 13, 2015, available at <http://community-wealth.org/content/cleveland-model-how-evergreen-cooperatives-are-building-community-wealth>

⁷ Hilary Abell, *Worker Cooperatives: Pathways to Scale*, The Democracy Collaborative (2013).

⁸ *Id.*

⁹ Saioa Arando Et Al, *Efficiency in Employee-Owned Enterprises: An Econometric Case Study of Mondragon*, 68 ILR Review, 398 (2014).

mous businesses, each owned and controlled by its workers but part of a mutually supportive, worker owned and worker controlled association.¹⁰ One example of such a cooperative is the Evergreen Cooperative. The Evergreen Cooperative controls three businesses, each with a distinct purpose. The first of these, Evergreen Cooperative Laundry, provides environmentally friendly laundry services to hospitals, nursing homes, hotels and restaurants across the city.¹¹ The second organization Evergreen formed, Ohio Cooperative Solar, installs solar panels and weatherizes buildings.¹² Evergreens most recently formed business, the Green City Growers Cooperative, owns and operates the world's largest greenhouse.¹³ The produce farmed there reduces the pollution associated with shipping in other state's produce while also creating jobs and spurring wealth creation for Cleveland residents.

Each of the aforementioned businesses are run by workers from some of the poorest areas of Cleveland and offer above market pay and benefits.¹⁴ Those residents desperately need the opportunities the worker-owned cooperatives provide. Cleveland has the nations' third-highest level of childhood poverty with 47,000 children or 53 percent, living in poverty, double the national average. It is widely believed that the wealth generated from ownership will help raise the quality of living in those areas and generate further growth.

ANCHOR INSTITUTIONS: PROVIDING CONSISTENCY FOR THE DURATION

The likelihood of success for a cooperative business hinges on the clients that they are able to attract. "Emerging trends related to globalization – such as the decline of manufacturing, the rise of the service sector, and a mounting government fiscal crisis – suggest the growing importance of anchor institutions to local economies."¹⁵ Capitalizing on these trends is especially appealing to cooperative businesses. Large non-profits and not-for-profit organizations like universities and hospitals spend huge sums of money annually for services. US universities alone spend \$350 billion annually and have a total endowment

¹⁰ *Id.*

¹¹ Andrea Buffa, *Evergreen Cooperative Forge*, COMMON DREAMS (April 17, 2010), available at <http://www.commondreams.org/news/2010/04/17/evergreen-cooperative-forge-innovative-path-toward-high-quality-green-jobs>.

¹² *Id.*

¹³ Buffa, *supra* note 11.

¹⁴ Hilary Abell, *Worker Cooperatives: Pathways to Scale*, The Democracy Collaborative, 11 (2013).

¹⁵ *Supra* note 3.

of over \$300 billion.¹⁶ Nonprofit hospitals own more than \$600 billion in assets and have annual revenues exceeding \$500 billion.¹⁷ Funneling those funds towards community wealth building through utilization of cooperative businesses would make a massive economic impact in cities across the country.¹⁸ In addition, they are among the least likely organizations to leave a city, making them the ideal long term clients.¹⁹

BREAKING THE CYCLE OF POVERTY

Sustainable economic growth is elusive for those of low socioeconomic status.²⁰ Impoverished communities struggle to sustain economic growth because there is a lack of wealth within the community and therefore little reason for those who have wealth to invest in that community.²¹ The resulting lack in wealth creation means little to no progress is ever made in moving the community up into the middle class.²² A program aimed at correcting this market failure must create economic and social opportunities which allow residents to rise up along with their neighborhood.

FUTURE PROMISE OF WORKER-OWNED COOPERATIVES

The mission of the worker-owned cooperative movement is to establish permanent, stable businesses in low-income locales to strengthen their economy.²³ Cities across the country have begun implementing plans that harness the power of their major institutions to bring wealth to the locales with the highest need.²⁴ It is difficult to argue against the expansion of cooperatives as a developmental tool after considering the numerous associated benefits: Worker-owned cooperatives tend to have higher creation rates and lower failure rates than their capitalist counterparts, greater integration between the employee and the organization, and expanded use of environmentally friendly

¹⁶ *Id.*

¹⁷ *Id.*

¹⁸ Hilary Abell, *Worker Cooperatives: Pathways to Scale*, The Democracy Collaborative, 34 (2013).

¹⁹ COMMUNITY-WEALTH, <http://community-wealth.org/strategies/panel/anchors/index.html> (last visited April 13, 2015).

²⁰ Samuel Bowles, *POVERTY TRAPS*, 1 (Princeton University Press, 2006)

²¹ *Id.* at 204.

²² *Id.*

²³ *The Evergreen Co-op Model*, GRASSROOT ECONOMIC ORGANIZING, available at <http://www.geo.coop/node/515> (last visited April 15, 2015).

²⁴ Arando, *supra* note 9 at 398.

structures and industry.²⁵ In addition, cooperatives achieve all these things while offering better pay to their workers.²⁶ Many have raised concerns that the cooperatives do not pay workers high enough above the industry standard to make a significant difference.²⁷ However, as cooperative scholar Jessica Gordon Nembhard highlights in her work, cooperatives provide social services for their members in addition to high wages, helping to create a sense of social cohesion, and community engagement.²⁸

EASING WORKER-OWNED COOPERATIVE FORMATION

According to John Duda of the Democracy Collaborative, “there are a number of points of friction” for those forming worker-owned cooperatives. The points of friction include a “lack of awareness and technical knowledge of worker-owned cooperatives among legal practitioners” as well as a lack of a formal definition in many states for what a worker-owned cooperative actually is. In addition, like with any business, worker owned cooperatives sometimes struggle to find the capital necessary to establish their business and run it until it can become profitable on its own. A lack of capital has a significant detrimental impact on the economic viability of the cooperative.²⁹ Other requirements for success include sector-wide cooperation, friendly public policies and tax incentives and the facilitation of conversions of existing businesses into cooperatives.³⁰ The Evergreen Cooperative in Cleveland was able to meet these needs through the help of grants and a beneficial, although limited tax program.³¹ However, most will not have as easy of path to formation as Evergreen. The grant that they received was essential as leverage for a larger loan from a traditional bank. Without it, their initial financing would have fallen far short of what was needed. Future cooperatives have the opportunity to learn from existing cooperatives about the likely hurdles they will face, and have the advantage of being able to prepare for them in advance.

²⁵ Susan Rhodes & Richard Steers, *Conventional vs. Worker-Owned Organizations*, 34 *Human Relations*, 1013 (1981).

²⁶ *Id.*

²⁷ Hilary Abell, *Worker Cooperatives: Pathways to Scale*, The Democracy Collaborative, 36 (2013).

²⁸ *Id.*

²⁹ Telephone Interview with John Duda, Communications Coordinator, Democracy Collaborative (April 15, 2015)

³⁰ Hilary Abell, *Worker Cooperatives: Pathways to Scale*, The Democracy Collaborative, 36 (2013).

³¹ *Id.*

Part of this preparation involves changes to policies that are detrimental to cooperative businesses. In order for a broader range of potential cooperatives to meet their capital needs, the New Markets Tax Credit program could be modified to make it easier to apply the program to job-creation projects.³² Though this program assisted Evergreen in starting their businesses, it only did so because they qualified for assistance as a real estate project.³³ The program must be expanded to apply to job-creation projects rather than exclusively to real estate projects. Another potential form of assistance would be the continued and expanded use of Federal renewable energy tax credits.³⁴

If mainstream financing is unavailable, major cities may have other financing available to those with poor credit. John Duda asserts that “a portion of funds that local municipalities spend on business generation should be guaranteed towards worker owned cooperatives.” In New York City, as of 2015, \$1.2 million has been set aside in the municipal budget for the development of worker-owned cooperative businesses, “the largest investment in the sector ever made by a city government in the United States.” Other cities should follow the lead of New York City and increase the support available for the formation of worker-owned cooperatives.

If the financing needs are met, the other critical aspects of the organization can be addressed. One of the biggest issues facing the expansion of worker-owned cooperatives is a lack of technical knowledge among legal practitioners.³⁵ Put simply, not enough lawyers know what worker-owned cooperatives are, let alone how to assist clients in forming them. Even something as simple as training more lawyers on the technical aspects of organizing a worker-owned cooperative would have a major impact on the utilization of cooperatives.

Part of the reason technical knowledge is lacking, is due to a “lack of a formal definition for worker-owned cooperatives”³⁶ at the state level. Remedying that is an easy, yet critical, step towards advancing cooperative viability in the United States.

There is a high likelihood that the same workers who are lacking in credit also have limited amounts of education, cultural capital and experience run-

³² Buffa, *supra* note 11.

³³ *Id.*

³⁴ *Id.*

³⁵ Telephone Interview with John Duda, Communications Coordinator, Democracy Collaborative (April 15, 2015)

³⁶ Telephone Interview with John Duda, Communications Coordinator, Democracy Collaborative (April 15, 2015)

ning or working in such a unique business environment.³⁷ If the organization is not provided with assistance and oversight for most of its formation and far into viability, there is a good chance that a preventable mistake could damage the firm's ability to thrive.³⁸ This oversight should be provided by lawyers trained in protecting and advancing the interests of worker-owned cooperatives as they do all other forms of businesses.

CONCLUSION

An expansion of worker owned cooperatives as a business model can be achieved with 3 steps. First, a formal definition of "worker-owned cooperatives" needs to be applied in all states. Second, lawyers need to be given the technical training necessary to assist cooperatives in formation and operation. This can be done by raising awareness of worker owned cooperatives as a business model. If education and business connections are made available for worker owned cooperatives, it will be possible to raise communities out of poverty. This would be done by supporting stable and dependable businesses which can act as community staples and allow members of the targeted community to rise from poverty into the middle class. The anchor institutions upon which the initial cooperatives depend can be relied on for decades into the future, providing a sense of security for the workers who have rarely had it.

³⁷ Jon Pierce, Stephen Rubinfeld & Susan Morgan, *Employee Ownership: A Conceptual Model of Process and Effects*, 16 *The Academy of Management Review*, 121 (1991).

³⁸ EVERGREEN COOPERATIVES, *Vision and Broad Goals*, <http://evergreencooperatives.com/about/mission-goals-and-principles/> (last visited April 15, 2015).