



# WORKER CO-OPERATIVES

## AN INTRODUCTION



## **CO-OPERATIVE PRINCIPLES**

There is no legal definition of a 'co-operative'. A co-operative is a system based upon the philosophy of equality, equity, and mutual self help. These principles of co-operation are outlined in the "Statement of Co-operative Identity".

## **REASONS TO FORM A CO-OPERATIVE**

1. Members experience a share in ownership and control of the business.
2. Conflict and strife are minimised because workers and owners are one and the same.
3. The stresses and responsibility of ownership and control are shared.
4. They frequently provide a higher quality product or service due to increased motivation.
5. They are usually more ethical businesses due to the members' sense of responsibility to the community and the environment.
6. They are not footloose and cannot be closed down at the whim of proprietors, who could, for example, be other businesses at a great distance.
7. Local people provide local services and keep jobs and money in the local economy.
8. As members are not "kept in the dark" but share information about their enterprise, the co-operative is a place where people learn a greater awareness of business, economics, personal responsibility, etc. Co-ops encourage learning and personal growth.

## **HOW WORKER CO-OPERATIVES ARE FORMED**

A group of people, often but not necessarily known to each other, come together to form a business owned and controlled by themselves. They may have particular skills - similar or complementary; they may be unemployed or threatened with redundancy; they do not necessarily need to already have all the skills, experience or finance necessary for the success of the enterprise.

Often the idea crops up in a tea break, in conversation over the shopping, or over a pint at the local. These ideas are sometimes lost because the next step is not clear. One of the uses of your local co-operative development agency (CDA) is to have someone to talk to about this.

People wanting to set up a co-operative business will need:-

- ⌘ A product or service (with grounds for believing that people will want to buy it).
- ⌘ The people
- ⌘ The resources to start up - finance, premises, equipment, etc.
- ⌘ The commitment to make the co-operative succeed.

## **HOW A WORKER CO-OPERATIVE IS ORGANISED**

Experience in Britain and other European countries has shown that the following conditions are vital for success

- COMMITMENT** It is essential for a high proportion of members to be committed to the long term success of the co-operative. As many employees as possible should be members of the co-operative.
- CONTROL** Control over policy decisions must be made upon the basic co-operative democratic principle of one member, one vote. Good communication is essential, and members should be kept fully informed at all times. They should participate constructively at regular meetings.

## **DIFFERENT ORIGINS OF WORKER CO-OPERATIVES**

No two worker co-operatives are the same, but amongst the great variety of organisations, the following can be distinguished:-

- NEW START** Most co-operatives are brand new enterprises which are set up to cater for an identified niche in the marketplace. The motivation comes from the members' commitment to co-operative principles, and their desire for mutual self-help.
- CONVERSION** Some well-established traditional companies have been converted into co-operatives because the proprietors wish to pass over or sell ownership to the workforce. This is often a far better solution to the need for a strategy for exit or retirement than liquidation or sale to a competitor
- RESCUE** Workers are frequently driven to attempt to defend their jobs by forming a co-operative to continue a business that has failed for some reason. To have a good chance of success a rescue co-operative must be able to identify the reason for failure and be sure that it has the solution.

**PHOENIX** It is sometimes possible to create a new business out of the ashes of an old failed one. The commitment of a highly motivated workforce is a resource that should not be lightly squandered. Often parts of a business which has collapsed are in themselves viable but are dragged under by the rest.

## **METHODS OF CO-OPERATIVE START UP**

It is advisable for the co-operative to carry out a feasibility study. This can be formally undertaken by the members, or professional help can be enlisted. The feasibility study simply checks out whether the business idea is likely to be commercially successful, and when completed, will form the basis of a business plan.

Producing the business plan will generate commitment within the group, and every organisation approached for help will need to be convinced by it.

It is very important that the cost of the setting up is analysed very early on. Below are detailed the areas to be investigated and budgeted for in the business plan.

Start up costs for a co-operative to be considered in relation to the Business Plan:- (a new group should itemise its needs under each category)

**PREMISES** Property, building, land  
Repairs, alterations, or extensions to the fabric  
Flooring  
Lighting  
Heating and insulation  
Decoration  
Security

**EQUIPMENT** Machines  
Tools and utensils  
Shelving and storage facilities  
Furniture  
Display facilities  
Cash register, safe or strong box

**OFFICE** Equipment (typewriter, photocopier, filing cabinets etc.)  
Furniture (desk, chairs, carpets, etc.)  
Telephone installation  
Stationery  
Office records system, e.g. books for financial control  
Sundries - pens, files, etc.

**PRODUCT DEVELOPMENT** Research  
Design and development  
Prototype manufacture  
Registering patents and copyrights

<b>MARKETING</b>	Market research Publicity material Stationery Advertising Presentations and displays Trade Fairs
<b>WORKING CAPITAL</b>	Opening stocks Spare parts Credit sales
<b>TRANSPORT</b>	Vehicles Road Tax Insurance
<b>STAFF COSTS</b>	Wages Employers National Insurance Pensions Expenses
<b>OFFICE COSTS</b>	Telephone Postage Stationery
<b>OTHER</b>	Legal advice and registration Accountancy and financial advice Training expenses Insurances

Before a co-operative can begin trading it is necessary to assess your sources of finance. Think about obtaining credit facilities, especially for purchasing stock. If not a short term loan or overdraft facility could be obtained.

Longer term loans or investment will be required to provide for capital items such as improvements to premises, machinery and fixtures & fittings.

Clearly the amount of money you need will be dependent on the timing of all the outgoings and when you receive income. The technical term for this is cash flow. Cash flow projections need to be generated for at least the first three years.

## **HOW A WORKER CO-OPERATIVE RAISES FINANCE**

Worker Co-operatives generally raise their finance from a combination of the following sources:-

- (a) Members own resources. What each member can contribute from savings or borrowings is one important way of raising money. Other lenders will be reassured if co-operative members have a personal stake at risk too. It is very important that proper loan agreements are drawn up between members and the co-op. See your CDA about this.

- (b) Friends, relatives, community groups, churches, trade unions and other sympathisers may be able to provide loans or act as guarantors.
- (c) Banks. It is worth approaching the local manager of any of the High Street banks for a loan. They are becoming increasingly used to worker co-operatives.
- (d) ICOF Ltd. (Industrial Common Ownership Finance Ltd) is an organisation specifically set up to provide finance to co-ops. It also provides help with monitoring and improving financial performance. Contact through your CDA.
- (e) Special lenders. There may well be some ethical investment organisation which would be prepared to support your particular venture. Ask your CDA.

## **THE RESPONSIBILITIES OF CO-OPERATIVE MEMBERSHIP**

A co-operative is not a soft option. No-one should join a co-operative as a passenger. They must be prepared to take responsibility and to participate fully.

Like many of the better things in life, co-operation requires dedication, commitment, and hard work, if the potential to enrich the quality of life in the workplace is to be achieved.

When starting a co-operative people obviously have a number of hopes and reservations about the step they are contemplating. For example -

**HOPES**

- Workers' control over business
- Responsibility
- Ethical ideas being put into practice
- Turning a viable hobby into long-term employment
- Job satisfaction
- No hierarchy
- Skill sharing/role swapping/learning new skills
- Wider community co-operation
- Support from other members during setbacks

**FEARS**

- Finances
- Of failure
- Personal decision making
- Conflict between commercial and social ideals
- Lack of commitment and motivation

## FOR THE INTERESTED INDIVIDUAL

If you have an interest in becoming a member of a co-operative and wish to locate your potential co-operators you should consider the following options:-

- €# Through your local Co-operative Development Agency. They have a skills register for potential co-operators.
- €# Advertising in local Job Centre or Unemployed Workers' Centre.
- €# Advertising in local papers.
- €# Taking note of "Employment wanted" notices in local papers.
- €# Social links - friends, colleagues.

It is a good idea for the group to share information about their personal hopes and fears about the venture as each will have different views to air. Each individual can write down a list of what they can offer the co-operative and what they expect from the co-operative.

e.g.

*"What can I offer?"* Skills and Experience

- (a) Technical
- (b) Administrative
- (c) Practical

Interests

Resources

- (a) Money
- (b) Equipment
- (c) Premises

*"What I want*

*from the Co-op"*

- Pay (min/max)
- Hours (min/max)
- Type of work
- Involvement in decision making
- Long-term aims
- Conditions at work
- Social aims of the co-operative

Once each member has this, the information on each list should be compared to identify the areas of common ground, and also areas where differences exist.

It is important to deal with these issues and differences at an early stage so they can be sorted out. It is important to do this before the co-operative gets off the ground because there will be less time when the business is running.

## **LEGAL FORMAT**

A co-operative can be established as a partnership. There are model partnership agreements which can be used to ensure that the partnership is established on a fair and co-operative basis with the rights and responsibilities of each partner clearly defined.

Most co-operatives are established as companies limited by guarantee. This legal format allows for limited liability for the members, democratic management structures, and for a mixture of commercial and social objectives. There is a range of model Memoranda and Articles of Association to reflect the precise needs of individual co-operatives.

Larger co-operatives can register as Industrial and Provident Societies. This also allows for limited liability.

Advice on the appropriate legal format to use and a full registration service is available through your CDA.

## **EMPLOYMENT RIGHTS IN A CO-OPERATIVE**

Co-operatives employ their members directly and a co-op member has all the rights that any other employee might have - the right to a contract of employment; full Trade Union rights; the right to use the Industrial Tribunal system, etc; plus the right to bring up any issue that might arise at a co-operative meeting.

Pay is received in return for performance of the contract of employment, not as director's drawings. No-one can suggest that it should be returned in the event of commercial failure. It is paid through the PAYE system, with tax and National Insurance dealt with on that basis. No tax liability is built up. In the event of the business not sustaining itself, members can be made redundant and have the right to redundancy pay and immediate access to unemployment and social security benefits.

**Information about services available to develop worker co-operatives can be obtained from**

**Avon CDA  
The Coach House  
2 Upper York Street  
Bristol  
BS2 8QN**

**Tel: 0117 989 2536  
Fax: 0117 944 5661**

**E-mail: [info@avoncda.coop](mailto:info@avoncda.coop)**