



Learning to Think Outside the Boss:

An Introductory Workshop on the Legal Nuts and Bolts of Starting a Worker Cooperative

What is it? This workshop provides an introduction to the practical steps individuals and groups need to take to establish, build, and successfully run a cooperative enterprise. This introductory workshop attempts to bring forward basic legal and structural questions such as what is a cooperative, what is a legal entity, what rules govern fundraising and financing for cooperatives, and more. This workshop provides an overview of the content contained in SELC's [Think Outside the Boss: How to Create a Worker-Owned Business](#) manual.

Facilitators, it's important to read the [Think Outside the Boss](#) manual prior to facilitating this workshop!

Why Do it? This workshop is meant to provide an introduction for those looking to support cooperative development and for entrepreneurs and activists seeking to build a worker cooperative. By the end of the workshop, participants should be able to

- have a basic understanding of the cooperative form from a functional and principled perspective,
- understand the Cooperative Principles in practice,
- distinguish cooperatives from other business forms,
- distinguish between the different kinds of cooperatives,
- understand basic questions that should be asked when founding a worker cooperative,
- and think about cooperatives as they relate to the needs in community members' lives.

Method: Facilitators should use a combination of lecture (minimal), experiential learning, and popular education techniques to engage the group actively in the process of learning about worker cooperatives and cooperative business development.

Materials

- Slide deck for background visuals, if desired. [You can download the powerpoint here.](#)
- 5 Copies of the Participant Guide ([found here](#)). Before passing these out to skit participants, please **highlight** skit lines for each participant (i.e. highlighting all of Founder 1's lines in one copy, all of Founder 2's lines in the second copy, and so on).
- A white board, butcher paper, or other writing device to take notes, set agreements and/or expectations, and propose questions to be answered during or after workshop.
- Props for the skit, including
 - a shovel, bucket, and/or broom,
 - work hats, gloves, or other outerwear for the workers,
 - a top hat for the Big Bad Boss
 - Fake Money (for act 5, 6, and 7)
 - and a "Money" Jar (for act 5).
- A copy of SELC's [Think Outside the Boss: How to Create a Worker-Owned Business](#) manual.

DISCLAIMER

THIS GUIDE WAS PREPARED FOR A 2016 WORKSHOP ON STARTING A WORKER-OWNED BUSINESS. **THE CONTENTS OF THIS GUIDE AND ACCOMPANYING *THINK OUTSIDE THE BOSS* MANUAL SHOULD NOT BE RELIED ON AS LEGAL ADVICE.**

ALSO, SOME OF THIS INFORMATION COULD BECOME OUTDATED, AND **LAWS VARY FROM PLACE-TO-PLACE.** FURTHERMORE, ALTHOUGH WE TRIED TO COLLECT ACCURATE INFORMATION AND GIVE THE LAWS OUR BEST INTERPRETATION, SOME INFORMATION IN THIS GUIDE AND ACCOMPANYING MANUAL COULD EVEN TURN OUT TO BE INCORRECT OR SUBJECT TO OTHER INTERPRETATIONS BY COURTS OR REGULATORS! WE SURE HOPE THAT'S NOT THE CASE, BUT, WHAT CAN WE SAY? LAW IS COMPLICATED STUFF! **THAT'S WHY WE STRONGLY RECOMMEND THAT YOU CONSULT WITH AN ATTORNEY BEFORE USING THIS INFORMATION TO FORM OR OPERATE A COOPERATIVE.**

ACKNOWLEDGEMENTS

This facilitator's guide was originally prepared for the 2014 *JACKSON RISING: NEW ECONOMIES CONFERENCE* in Jackson, Mississippi. Their clarion call to build a broad based solidarity economy in the southern US led us to deepen our intention of making legal education accessible to those building economic democracy all around the country. With feedback from the worker cooperative community, allies, and others who use our resources, we have attempted to refine this facilitator's guide in order to increase its usefulness to the movement. We hope this guide can introduce cooperative entrepreneurs, practitioners, and cooperative developers to the basic legal concepts when starting and operating a worker-owned cooperative.

We'd personally like to thank Sushil Jacob, Esq., formerly with the East Bay Community Law Center, who co-created the original "Learning to *Think Outside the Boss*" guide. His leadership in elevating the level and access of legal services for worker cooperatives owned and controlled by people-of-color continues to build equity in communities marginalized by our economic system. It is only through collaborative and collective efforts that we will build the foundations for an economy that serves the needs of humanity, instead of humanity serving the needs of an inhumane system.

Sincerely,
Ricardo Samir Nuñez
Director of Economic Democracy
[Sustainable Economies Law Center](#)

Please send questions, feedback, or comments about this guide to ricardo@theselc.org.

FACILITATOR GUIDE

[\(SEE PARTICIPANT GUIDE HERE\)](#)

Agenda for workshop: [Total time: 90 - 120 minutes]

[Introductions and Expectations \(5 mins\)](#)

[Introduce goal of and explain the exercise \(5 mins\)](#)

[Starting a Coop Exercise:](#)

[Act 1: Light Bulb](#)

[Discussion: What are Cooperative Principles \(15 mins\)](#)

[Act 2: Formation Problem?](#)

[Discussion: Legal Entity Formation \(10 min\)](#)

[Act 3: Ugh, who's in control? \(Governance\)](#)

[Discussion: Governance options for cooperatives \(10 mins\)](#)

[Act 4: Am I an Owner or an Employee in this Coop? \(Employment Law\)](#)

[Discussion: Employment Law \(10 mins\)](#)

[Act 5: Pooling Our Resources](#)

[Discussion: Financing \(10 mins\)](#)

[Act 6: Success! Wait, what about me?](#)

[Discussion: How Money Flows Through a Coop \(10 mins\)](#)

[Act 7: FINAL ACT - The Cooperative Difference](#)

[Available Resources: Locally and Nationally \(5 mins\)](#)

[General Closing Discussion \(remaining time\)](#)

[About the Sustainable Economies Law Center](#)

KEY

★ = Questions to ask the participants

➤ = Information for facilitator's reference (please read the [Think Outside the Boss](#) manual prior to facilitating this workshop)

Introductions and Expectations (5 mins)

FACILITATOR:

- At the very beginning of the workshop, ask for 5 participants from the audience. Give them each their **highlighted** script. Provide the boss with their top hat, monocle, or other prop to signify privilege/wealth and the workers with their landscaping props. Ask them to briefly skim their parts while you go through the intros and expectations.
- Go over the agenda and ask if there are any clarifying questions about the topics that you'll be going over today.
- Go around the room and ask the participants to introduce themselves (eg name, org, location) and one thing they expect to learn in this workshop. You can also ask people to call out why they are interested in the cooperative model.

- *Suggestion:* Write the expectations on a board or butcher paper as a reference for later in the workshop. Any points that were not covered adequately during the exercise can be brought up during the “General Closing Discussion” at the end of the workshop.

Introduce goal of and explain the exercise (5 mins)

FACILITATOR:

- Describe how we’re going to approach the different issues that arise when starting a cooperative. Specifically, that this workshop is an audience-interactive way to walk through the 101s of how to start a worker cooperative.
- It depicts the story of a group of landscape workers who want to escape their exploitative boss and form their own business. The workshop requires five audience participants to act out the skit. The script can be cut down or ad-libbed according to the workshop needs. This is where the audience participants will act out the different parts!
- Ask the 5 participants to come to the front of the room to begin the first act of the skit.
- If you are using the powerpoint slide, you should be at the slide that says, “**Act 1: Light Bulb**”

Starting a Coop Exercise:

The Green Commonwealth Landscaping Company

Cast

Narrator:

Founder 1:

Founder 2:

Founder 3:

Bad Bad Boss:

Act 1: Light Bulb

*Founders are scattered around stage **pretending to work** on a landscaping project. **Narrator** stands to the side of the “stage.” Founders begin moving and talking when **Narrator** begins speaking.*

[Narrator -]

One bright and sunny day in [city and state you are in], three landscape workers toil land that is not theirs, in a community they do not belong to. But today is going to be different! Today, these workers begin to develop an idea, an idea that will change their lives forever.

[Founder 1 -]

UGH! My back is killing me.

[Founder 2]

Ya! I've been working for 10 hours straight, no break, no water. I don't know how much longer I can take this!

[Founder 3]

(*COUGH! COUGH!*) This fertilizer is toxic! And the boss doesn't even give us gloves or masks to wear!!! (*COUGH! COUGH!*)

*Enter **Bad Bad Boss** Stage Right as if in a car.*

[Bad Bad Boss]

Hey! Hey! What are you doing over there? Get back to work! You guys are making me rich!!! I won't make any money off you if you're just standing around. You've got another job after this one, so get back to work!

***Big Bad Boss** pretends to drive off and exits Stage.*

[Founder 3]

(*Throws down tools.*) I am done with this! We are the ones who actually do all the work!! We should start our own landscaping business. A business that we own!

[Founder 2]

Ya! A business that won't make us sick! (*COUGH! COUGH!*) A "green" business.

[Founder 3]

A worker-owned, green business! Who's with me?

[Founder 1]

Me!

[Founder 2]

Me!

[Founder 3]

All right! I know! Let's call it the **Green Commonwealth!**

***Founders**, overjoyed by this new idea, exit stage left with their tools.*

[Narrator]

The owners of the Green Commonwealth will now embark upon a challenging journey. They must navigate through the murky waters of starting a business: choosing a legal entity, talking to lawyers and banks, and thinking about how to create a successful and sustainable business. You or your community may be in a similar position as these founders and we hope today to give you a broad overview of the legal needs around starting a cooperatively run, worker-owned enterprise.

-----END ACT 1-----

Discussion: What are Cooperative Principles (15 mins)

1.1 FACILITATOR: Introduce or remind participants that a cooperative is many things to many people. First, try and frame the discussion by introducing the main ways we can think about cooperatives. To do this, ask the following discussion questions:

★ **What does ownership mean to you?**

- *Suggestion:* This question is meant to evoke a discussion of what ownership means to different people in different contexts. For some, ownership means investing in a business or buying a share in a company. For others, it's about having autonomy and a voice in the business's day to day activities as a worker. And for others, it's more about having a decision in the long term, strategic direction of the company.

★ **What comes to mind when you hear the word cooperative?**

★ **What is a cooperative?**

1.2 FACILITATOR: In the legal context, it helps us to think of cooperatives in four different ways:

- **Cooperatives as a specific legal entity:** “Cooperative” may refer to a specific type of corporation, i.e. a specific legal entity recognized under the law. *We'll get to this in the next section!*
- **Cooperatives as a legal structure:** Many organizations operate like cooperatives, but, for a variety of reasons, chose an entity other than a cooperative corporation. Prospera, a nonprofit organization that develops latina owned worker cooperatives in Oakland, CA., typically uses the LLC entity and incorporates cooperative principles into the Operating Agreement of the company. *We'll get to this in the next section, too!*
- **Cooperatives as a tax category:** The IRS has set forth three core factors that determine whether or not an organization is operating on a cooperative basis and can receive beneficial tax treatment as a cooperative. *We'll get to this later!*

- **Cooperatives as a set of practices and values:** Some organizations or groups call themselves “cooperatives,” without having formed a cooperative corporation, or for that matter, without having formed an independent legal entity at all. For example, workers at a non-profit organization or fiscally sponsored project, may elect to operate through cooperative, democratic principles.

1.3 FACILITATOR: Whether a legal entity, legal structure, or tax category, all “cooperatives” are based on the cooperative principles. Now, ask the following discussion questions:

★ **What are the cooperative principles?**

★ **How do cooperative principles practically affect a cooperative organization?**

- *Suggestion:* Highlight principles that might show the impact of democratic governance and equitable profit sharing (based on patronage) can have on workers, community, etc. As you move through the principles, ask for a specific example of how each is carried out in day to day operations of a coop.
 - Another area to highlight/discuss might be the importance of education of cooperative members (“upskilling,” in business lingo) and cooperation among cooperatives (business “networking,” a valuable way to expand knowledge, learn from the success of others, attain new clients, and tell others about the cooperative’s business).

➤ **FOR REFERENCE:** The 7 International Cooperative Principles

1. **Voluntary and Open Membership:** Cooperatives are voluntary organizations, open to all people able to use its services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.
2. **Democratic Member Control:** Cooperatives are democratic organizations controlled by their members—those who buy the goods or use the services of the cooperative—who actively participate in setting policies and making decisions.
3. **Members' Economic Participation:** Members contribute equally to, and democratically control, the capital of the cooperative. This benefits members in proportion to the business they conduct with the cooperative rather than on the capital invested.
4. **Autonomy and Independence:** Cooperatives are autonomous, self-help organizations controlled by their members. If the co-op enters into agreements with other organizations or raises capital from external sources, it is done so based on terms that ensure democratic control by the members and maintains the cooperative’s autonomy.
5. **Education, Training and Information:** Cooperatives provide education and training for members, elected representatives, managers and employees so they can contribute effectively to the development of their cooperative. Members also inform the general public about the nature and benefits of cooperatives.

6. Cooperation among Cooperatives: Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.

7. Concern for Community: While focusing on member needs, cooperatives work for the sustainable development of communities through policies and programs accepted by the members.

1.4 FACILITATOR: Now we're going to distinguish worker cooperatives from typical businesses and other types of cooperatives. Ask the audience the following questions:

- ★ **What are the principles of typical (i.e. capitalist) businesses?**
- ★ **How are cooperatives different from typical businesses?**
- ★ **What do you think the difference between worker cooperatives and other cooperatives are?**

- Cooperatives are member-owned, member-controlled organizations for the primary benefit of their members. *Throughout this guide, we use worker-member and worker-owner interchangeably.*
- One of the fundamental differences between cooperative and capitalist enterprises is the inversion, or flipped, relationship between capital and labor. In a capitalist firm, labor is a tool of capital (in order to create more capital returns, or profits, for the shareholders). In a worker cooperative, capital is a tool of labor, allowing the workers the potential benefits of worker-ownership, i.e. capturing the full value of their labor and sharing in the business' "profits."
- Because worker cooperatives are owned and controlled by and for the people who work there, they operate differently from traditional businesses in some key ways.
 - **Joint Ownership:** In traditional for-profit businesses, the owners are sole-proprietors or shareholders whose *main interest is in generating a profit*. Similarly, worker cooperatives are interested in making money, but they are also invested in making sure that the business meets the needs of its members - mainly to secure their stable employment.
 - **Sovereignty of Labor:** In a typical business, decisions are made by a BOSS or by INVESTORS who cast votes based on the number of shares they own (capital in the business). In contrast, in a worker cooperative labor makes the decisions. Some people call this the "sovereignty of labor". Unlike in a traditional capitalist business where labor is viewed as an "expense" to be minimized, in a worker cooperative, capital is what is controlled. Decisions are made directly by the workers, on a one-member, one-vote basis, not on a share ownership basis. No member has a larger or more influential vote because she invested more money in the business AND the cooperative remains accessible to everyday people who buy-in to the coop.

- **Subordination of Capital** - means that, generally, worker cooperatives do not allow absentee investors, i.e. people who do not work for the cooperative, but only invest money in it, own or control the business. When worker cooperatives bring in outside investors, they are usually treated as loans, not shares- this means that outsiders don't own the business, they are just lending money to it. This relationship with outside capital is called "subordination" because it maintains the workers in control. We'll discuss this a bit more in our section on raising investments.
- **Member Benefit:** In an investor-owned business, profits are distributed based on how many shares each person owns. Worker cooperatives instead distribute surplus earnings based on their labor contribution, meaning how many hours they worked or how much wages they earned. The overarching purpose is not to maximize profits for shareholders, but to reward workers for their work! This is a radical departure from the way traditional corporations work!

1.5 FACILITATOR: After moving through the cooperative principles, ground them in actual needs of community members. Ask the participants the following questions:

- ★ **What are the needs of the communities you live in or work with?**
- ★ **What is the practicality of starting worker cooperatives as a means of achieving those needs?**
- ★ **How do you think worker coops can help overcome worker exploitation in various industries?**

1.6 (if time allows/if appropriate) FACILITATOR: Ask the participants about working with outside organizations to develop worker cooperatives.

- ★ **How is a cooperative affected when they work with other organizations during the start-up or incubation phase?**
- ★ **What are some positive and negative consequences of working with an outside org to incubate a worker cooperative?**
- Working with outside organizations such as nonprofits, CDFIs, economic developers or unions that bring resources for business planning and financing for the worker coop can be beneficial but also have negative consequences.

Act 2: Formation Problem?

The workers stand on stage, looking excited.

[Founder 1]

So... are we a co-op now?... Orrrrrr do we need to do something to make it official?

[Founder 2]

Like a special co-op handshake?!

[Founder 3]

Ooo, I like that idea! *[Founder 2 and 3 start trying to make special handshakes]*

[Founder 1]

Hmmm... Or maybe we need a coop oath!

[**All Founders**]

“I pledge allegiance to the coop...”

[Founder 2]

Actually, we might need to create some document, like with small legal print, and our mission statement, and take it to some government office or something....

[Founder 1]

Ya! Like something that protects us if we get sued.

[**All Founders**]

Hmmmm, HOW DO WE DO THAT?

-----END ACT 2-----

Discussion: Legal Entity Formation (10 min)

2.1 Facilitator: To begin the discussion, ask the audience,

- ★ **Has anyone here formed a legal entity? If so, why did you do it?**
- ★ **Why should cooperatives, or any enterprise, incorporate at all?**

- Crowdsource answers onto a large paper, screen, or other visual aid. Make sure to cover the bulleted points below in your discussion, especially if one or more of the points are missed.
- Explain to the participants that the goal of Act 2 is to have everyone understand *why we incorporate at all*. Some people might not know, but there are a few main reasons to form a legal entity.
- After hearing from participants why they think groups of people or businesses decide to incorporate or form a legal entity, reaffirm the following:
 - ***Legal entities limit the liability of the workers:*** This is in case the coop gets sued, it will be the legal entity that gets sued, and the entity's assets will be at risk, but not the assets of the individual workers themselves;
 - ***An entity provides a means to pool the workers resources into a separate legal structure:*** This will help the coop members when they are putting money, time, and labor into the business while trying to comply with complex labor, employment, and securities (financing) laws.
 - ***It allows for creating a separate taxpayer from the workers***
 - ***Forming a legal entity helps preserve the mission of the cooperative over time:*** If the coop incorporates as a non-cooperative legal entity, there are ways to protect the mission of the cooperative by writing into the Operating Agreement (LLCs) or ByLaws (Corporations) very restrictive measures around democratic control, worker-ownership, and other coop principles.
- Also, in many states, cooperatives are often *distinct legal entities* that codify or enforce the cooperative principles within the legal entity itself. Many states, such as California, have cooperative corporations that worker and many other types of cooperatives use to form their legal entity. Other organizations use LLCs, or traditional corporations, and organize them as cooperatives.
 - ***Forming as a cooperative corporation allows workers to use the name "cooperative" in their business:*** Some states require that if a company or organization wishes to use the word "cooperative" in their name, they must form under a specific cooperative legal entity.
 - If you form under a cooperative statute in your state, this also ensures that the business does not convert into a typical business when the group of founders turns over or leaves the coop.

2.2 FACILITATOR: Ask the audience these potential discussion questions:

- ★ **Can anyone share what type of legal entity their coop chose, and why they chose that type of legal entity?**

- ★ How difficult was it to incorporate?
- ★ Who did you seek support from and why?

Act 3: Ugh, who's in control? (Governance)

The workers walk onstage with their tools all ready to work, and just stare at each other blankly.

[Founder 1]

So....what do y'all want to do?

[Founder 2]

I dunno, what do you wanna do?

[Founder 3]

I dunno, what do YOU wanna do?

[Founder 2]

DUH!! We're a cooperative, which means we all need to decide together! Right? OK. Let's sit down, meditate for a few hours, and then talk about how our guru's insights have led us to this moment, then we can talk about how we feel about global capitalism, *then...*

[Founder 3]

Whooooa! Wait a second. Why do you get to make all the decisions? Who made you the boss?

[Founder 1]

Let's all calm down for a moment. Hmmmm, I think we need to come up with some policies for how we make decisions and govern this co-op. Sound good?

[Founders 2]

Ya! Let's figure this out!

-----END ACT 3-----

Discussion: Governance options for cooperatives (10 mins)

3.1 FACILITATOR: Next, we'll ask the participants for examples of management and governance structures in a worker coop.

- ★ **Does anyone in the room have experience with coops (even if it's not a worker coop)? If so, how was their coop governed or managed?**
- ★ **How do you distinguish *governance* and *management*? How does this look in a worker-owned business?**
- Typically, *governance* refers to accountability of the business entity to the worker-owners because ultimate control is vested in the workers themselves. Traditionally, this is represented by a board of directors that is elected on a one-member, one-vote basis by the workers, *or* by a “collective board” when all of the worker-members are on the board of directors.
 - *Governance* also usually deals with long-term, strategic decision-making and decisions that affect the fundamental nature of the cooperative, such as the membership, capital, or debt structure. These decisions can be reflected in annual meetings of the members and periodic meetings of the board.
- Typically, *management* can refer to those decisions that deal with the day to day operations of the business. *Management* in a traditional workplace can be reflected by supervisor relationships between different groups of workers. In a worker cooperative, it can take the form of participatory *self*-management that must be cultivated by the cooperative with its members.
- A goal of this act is to show that cooperatives are based off of democratic member control, i.e. one-member, one-vote basis. For cooperatives to function properly, transparent systems need to be created to show **who is making the decisions, how they are making decisions, and how those decision makers are held accountable.**
- A main takeaway from this discussion should also be that worker cooperatives are not the same thing as collectives, and as evident from Mondragon, can be large, complex, corporate structures. We can and should scale cooperatives in the US!

3.2 FACILITATOR: If there is time and interest, here are additional questions to ask the participants:

- ★ **What is the role of the Board of Directors, Officers, and Management in a Coop?**
- ★ **What are some examples of the decisions made by a board versus a manager?**
- ★ **Can anyone know share examples of how existing worker cooperatives govern and/or manage themselves?**

- Ultimately, the board of directors, officers and management in a worker cooperative are accountable to the worker owners, since they have the power to vote the Board out of office. This is an inversion of the power relationship from a conventional, capitalist corporations.
- This is also an opportunity to introduce ideas of horizontal/flat, and/or collective governance, such as sociocracy, holacracy, etc. If you are aware of successful governance models within actually existing cooperatives, please share them and ask for participants to share their best practices when it comes to cooperative decision making.

Act 4: Am I an Owner or an Employee in this Coop? (Employment Law)

*The workers are landscaping. **Founder 1** stops working, looks around, and then speaks. The others stop working as well after Founder 1 speaks.*

[Founder 1]

Damn, I'm tired. Aren't there rules for having employees?

[Founder 3]

Yeah . . . don't we need make sure we take breaks and have insurance or something?

[Founder 2]

Wait, I thought we were the owners . . .

[Founder 1]

I thought we were employees...

[Founder 3]

So are we employees or owners or what?

[Founder 1]

GAA! I'm so confused!

-----END ACT 4-----

Discussion: Employment Law (10 mins)

4.1 FACILITATOR: To start the conversation about who employment law protects, ask the participants:

- ★ **Can you name examples of people working for an organization who are not employees?**
 - ★ **What rights and obligations to the employee does employment law provide to employees?**
 - ★ **Why do you think employment laws exist?**
-
- Some examples of people working for an organization who are not considered employees include interns, volunteers, independent contractors, and partners in an LLC.
 - Examples of rights and obligations created through employment laws are the right to minimum wage, to reasonable work hours, to a safe and healthy workplace, to protection from discrimination, to compensation for workplace injuries, etc.
 - A goal of this section is to have people understand how workers become employees and what employer's obligations are to their employees, even if they are their own employees!
 - Employment laws have mostly been created to balance the relationship between “*master*” and “*servant*.” Employment laws recognize that employees are vulnerable because they are dependent on and work under the control of employers.

4.2 FACILITATOR: Now, let's apply the same rationale of why employment laws came about to worker-owned, democratically governed businesses, i.e. worker cooperatives. Seed the discussion with the following questions:

- ★ **How do you think employment laws apply when someone forms a cooperative to work *with* others, rather than *for* others?**
 - ★ **True or False: Coops do NOT have to worry about employment laws. (That is, do employment laws apply to worker cooperatives?)**
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- You might think employment laws no longer apply, but, actually, they often do! Employment laws are designed *to cover as many people as possible*, so that no workers are left unprotected by a loophole. The safest thing to do is to assume that everyone working for a cooperative is an employee, and then work backward from there to see if you can find any exceptions.
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- ★ **Should they apply?**
 - ★ **Can you think of ways that employment laws made to protect a “servant” from their “master” benefit worker cooperatives? How about ways that these laws might create barriers for worker cooperatives?**
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- Many cooperatives that are founded by a small group of people working intimately with each other, have equal ownership in the company, and make decisions democratically find

employment laws to be ill equipped for their workplace. Therefore, the regulations, such as minimum wage, overtime, meal breaks, etc. might create a barrier to cooperatives even getting off the ground.

- Worker cooperatives and cooperative developers seeking to build living wage, equity building job opportunities for our undocumented brothers and sisters may find employment law to be a barrier to their mission.

Act 5: Pooling Our Resources

The workers are standing in a semi-circle on stage. They're having a group meeting.

[Founder 2]

If we are going to get this business off the ground, we're going to need some more money. Since we're all members of the coop, we should all pool our money. What do you guys have?

Everyone pulls out a coins and fake money and empties it into a jar.

[Founder 1]

I've got a couple bucks...

[Founder 3]

Ya, here's what I got.

[Founder 2]

Ok. That's a start....

They all stare at it for a moment

[Founder 3]

I think we're going to need a little more than this... I think we're going to need a lot more money than this.

[Founder 1]

Well, how does a worker owned business raise money?

[All Founders]

Hmmmm...

-----END ACT 5-----

Discussion: Financing (10 mins)

5.1 FACILITATOR: Now, let's move into how worker-owned businesses (businesses controlled not by capital but by workers) raise the necessary money to start their business. Seed the discussion with the following questions:

- ★ **How do typical businesses raise money when they start up?**
 - ★ **How do/can coops raise money to start their business? (if applicable) How did your coop raise money?**
 - ★ **What is member equity in worker cooperatives? Why is it important in cooperatives?**
- A main goal of this section is to think strategically about the options available to cooperatives when they are trying to raise capital to start or expand while maintaining control of their business.
 - There are actually a lot of options when seeking capital to start up a cooperative business. Below are a list of some of the most common capital raising strategies used by cooperatives.
 - **Member equity** is an important and essential source of capital for all coops, even if the members are low-income. You can describe how the beginning of the act, when the members all put their money together, is one way of raising capital in a cooperative. This might not be a significant amount of money, but member equity and buy in is a crucial component to each cooperative. Every coop defines the minimum amount each person will have to invest to become a member.
 - Even for those low-income members, **buy-in amounts can be financed over time**, such as through payroll deductions for worker members. Common examples of this include the Evergreen Cooperatives in Cleveland or Mondragon Cooperatives. In Mondragon, for example, the worker member capital contribution can be about \$19,000, which may take several years to pay off.
 - **Loans** are a very common way businesses try to get off the ground. Another name for raising capital for a business through loans is “debt financing.” You might explain that there is a common misperception that many trying to start or build cooperative businesses believe banks and financial institutions are fundamentally opposed to coops. It is true that the lack of information and education of traditional lenders is a big problem for cooperative entrepreneurs,

but a primary problem of obtaining a loan from traditional lenders is typical with many start-up businesses. Typical questions traditional lenders want answers to include:

- *What is the debt to equity ratio?*
 - *Is there a business plan?*
 - *Is there a track record of success and knowledge of the industry?*
 - These are questions that cooperative entrepreneurs should be asking themselves when they are launching their businesses and approaching traditional lenders for loans.
 - **NOTE:** There are a number of growing number of alternative lending institutions, such as The Working World that provides non-extractive capital to worker cooperatives, Kiva, and Community Development Financial Institutions (CDFI's).
- **Alternative financing** is growing in familiarity with the general public due to the growing number of online platforms and portals the public can give through. Common donation-based crowdfunding platforms include IndieGoGo and Kickstarter.
- Less well known strategies of alternative financing are
 - Bartering,
 - Pre-selling (although this might be considered a “security”), and
 - Using alternative (such as digital) or local currencies.
- **Outside investors** can an appealing option to start or expand a business, but cooperatives must be careful when bringing in *outside*, such as non-worker or non-patron, investors into the cooperative.
- In these situations, cooperatives must decide how much power to give outside investors when they are buying “equity” (an ownership stake) in the cooperative. Giving outside investors voting power in the cooperative can be in conflict with cooperative principles of democratic member control.
 - This is a good place to remind the participants that cooperative enterprises relate differently to capital than conventional businesses. Remember, one of the fundamental differences between cooperative and capitalist enterprises is the inversion, or flipped, relationship between capital and labor.
 - In a capitalist firm, labor is a tool of capital (in order to create more capital returns, or profits, for the shareholders).
 - In a cooperative, capital is a tool of labor, allowing the workers the potential benefits of worker-ownership, i.e. capturing the full value of their labor and sharing in the business’s “profits.”

Act 6: Success! Wait, what about me?

Founders are all excited about all the money they're making!

Founder 2 holds all of their money.

[Founder 2]

Wow! Our business is so successful!

[Founder 1]

Grabs money from Founder 2's hands.

We have so much money....we can do ANYTHING we want with it! ANYTHING! MUAHAHAHA!

[Founder 3]

Grabs money from Founder 2's hands.

HEY! Wait a second, that's my money!

[Founder 2]

No way, it's my share!

[Founder 1]

Come on, calm down, everybody! Isn't there a way we can *split* the money so that its fair? To everyone?

[Founder 2]

I don't know anything about *splitting* the money, but what about what the taxes we owe? Don't we have to pay the government some of this money?

[Founder 3]

Hmmmm... Maybe we should be keeping track of this stuff.

-----END ACT 6-----

Discussion: How Money Flows Through a Coop (10 mins)

6.1 FACILITATOR: How money flows through a cooperative is very different than conventional businesses, and it can get very complicated very quickly. As a start, let's define some terms that cooperatives use when referring to money flowing through their enterprise and how they differ from those terms in typical businesses. Let's start with some basics and ask how each one could affect their cooperative.

- ★ **What is profit in a conventional business?**
- ★ **Can anyone describe what profit is in a cooperative?**

- Profit in a conventional business is the total revenue (money coming into the business) minus the total expenses (including wages, taxes, etc.).
 - i.e. $REVENUE - EXPENSES = PROFIT$.
- Profit in a worker cooperative is a bit similar with one distinct and important feature. Profit in a cooperative business is the the total revenue minus the total expenses for the business that is attributable to *non-member labor*.
 - i.e. $REVENUE GENERATED BY NON-MEMBER LABOR - EXPENSES = PROFIT$
 - Cooperatives typically have workers who are non-members during their candidacy period (on their path to membership) or for those individuals who choose not to become worker-members. These “non-member” workers are typical employees, and should be accorded all the rights they would be in a capitalist enterprise.

- ★ **What is “surplus” in a cooperative?**

- Hint: If “profit” in a cooperative is the net income *attributable to non-member labor*, then surplus might be...
 - $REVENUE GENERATED BY MEMBER LABOR - EXPENSES = SURPLUS$
- Surplus is the net income for the business that is *attributable to member labor*. This is important for two big reasons.
 - First, the IRS has decided that cooperatives should get a tax break, and they do this by not taxing surplus (although worker-members still have to pay personal income taxes when they receive this money).
 - Earnings in a regular corporation are double-taxed—the corporation pays income tax on the net earnings, and then the shareholders pay income tax when they receive dividends on those earnings. In contrast, under Subchapter T of the Internal Revenue Code (the part of the tax code that governs coops), a cooperative can avoid some of the traditional corporate double-tax. Assuming the cooperative meets all the requirements set forth in the Code, patronage dividends are generally tax-deductible for the cooperative if at least 20% of each patronage dividend is paid out in cash. 20% is given so the members can pay taxes on their patronage dividend.
 - Cooperatives still have to pay taxes on profit.
 - Second, at the end of each year, worker-owners are paid a portion of the surplus money the business makes after expenses. It can be distributed based on hours worked, seniority, or other criteria. This distribution also has a special word in coops.

★ **Can anyone describe what patronage is in a cooperative?**

- Patronage is a members “dividend,” or the distribution of a portion of a company's earnings. This is sort of like the worker-member’s annual bonus. Worker cooperatives distribute surplus based on factors such as hours worked or value of work provided.
 - Surplus distribution is thus based on labor input, *not on capital contribution*.

★ **After hearing about profit, surplus, and patronage dividends, why do you think is it important to identify a bookkeeper and accountant *early* in the process?**

Act 7: FINAL ACT - The Cooperative Difference

[Narrator]

Let’s fast forward and time travel past all the tumultuous ups and downs of the coop, the weeks and months where they don’t know if their business is going to “make it,” and see how their doing. After a year (or three), the Green Commonwealth’s business is booming! Let’s see what happens next.

Green Commonwealth members are standing off to one side of the stage holding wads of money. Bad Bad Boss stands enters the opposite side of the stage.

[Bad Bad Boss]

Waaaaait a second... where are all of my employees?

Looks out into the crowd, then notices the group, which is standing in a huddle to the side of the stage, holding the wads of money from their successful landscaping business, smiling and laughing.

[Bad Bad Boss]

Points to the group, and then walks over to the group.

There they are! How did you do it? How did you make the Green Commonwealth so SUCCESSFUL?

[Founder 1]

We worked together!

[Founder 3]

We pooled our resources!

[Founder 2]

We learned to think outside the BOSS!

[Founder 1]

Hey Boss, we were wondering something, too. Do you want to join our cooperative?

[Bad Bad Boss]

I don't know . . .

[Founder 2]

Yeah! Come work with us!

[Big Bad Boss]

Hmmm... Maybe. If I'm not going to be the boss anymore, can I still be an owner?

[All Founders]

Yes! A WORKER OWNER!!

ALL FOUNDERS start high fiving!

[Narrator]

The Green Commonwealth goes on to be a very successful business. We hope the same for you and the businesses you support and cultivate.

-----FIN-----

Available Resources: Locally and Nationally (5 mins)

FACILITATOR: Please explain that anyone trying to start or develop a cooperative is not alone! There are passionate, committed, and competent professionals working to build economic democracy all over the country.

- ★ **Does anyone know of local resources, such as accountants, bookkeepers, attorneys, or organizers that specialize in cooperatives generally, or worker cooperatives specifically?**
- ★ **(if applicable) What resources did your coop reach out to and/or receive when developing your worker coop?**

- If you know if local resources available, such as those provided through the US Federation of Worker Cooperatives, or regional and local groups, please share them as the facilitator. One of the most important things you can do is provide a connection to resources to the participants.
- The Sustainable Economies Law Center trains attorneys on cooperative law from around the country, and might know law groups or legal professionals working in your area. Don't hesitate to reach out!
- Here are other resources that are found locally and nationally:
 - **(ONLINE) Download the [Think Outside the Boss: How to Create a Worker-Owned Business manual](#)** (SELC): Download a free copy of the manual at www.thesecl.org/legal-guide. We also have longer videos on youtube that go over each section of the manual!
 - **(ONLINE) Visit Co-opLaw.org** (SELC): At Co-opLaw.org, we continue to grow our online resource page that provides legal information, best practices, and supporting tools for cooperatively owned businesses and organizations. Don't forget to check out the state-by-state legal guides for cooperative enterprises and download sample by-laws and operating agreements!
 - **(ONLINE) Read [Worker Cooperatives: Pathways to Scale](#) by Hilary Abell** (Project Equity): *Pathways to Scale* aims to help build the field of U.S. worker co-op development by providing a current view of the cooperative landscape and by analyzing factors that inhibit or promote cooperative development.
 - **(ONLINE) Visit Prospera's [Coop Resources page](#)** (Prospera): Prospera provides a variety of [technical assistance tools](#) to individuals and organizations interested in learning about their high-impact coop incubation model. On Prospera's resources page, you'll find information and support regarding cooperative incubation.
 - **(ONLINE/NATIONAL) Visit the [US Federation of Worker Cooperatives' resource page](#)** (USFWC): The USFWC, along with its affiliated organization, the Democracy at Work Institute, is the hub for worker cooperatives, the professionals who serve them, and the organizations that support them. The Federation also maintains a large library of model and working documents from worker cooperatives, as well as academic and practitioner research.
 - **(NATIONAL) Make a [request for technical support from the Democracy at Work Network](#)** (US Federation of Worker Cooperatives): DAWN's team of peer advisors has a

variety business and cooperative knowledge to call on. From feasibility studies to designing a customized future worker owner training program, DAWN is available to expand the capacity of your cooperative so that it can grow and thrive.

- **(SF BAY AREA) Visit the [Resilient Communities Legal Cafe](#)** (SELC): Held three times per month, the Legal Cafe provides donation-based legal advice from attorneys who specialize in cooperative businesses and organizations. Please visit theselc.org/cafe for more details.
- **(SF BAY AREA) Attend a [Think Outside the Boss workshop](#)** (SELC): Attend a 4 hour training on the nuts and bolts to starting a worker owned coop. The goal of *Think Outside the Boss* is to help community members start and maintain worker-owned businesses, and to understand the relationships between cooperatives, employment, and community wealth-building.
- **(SF BAY AREA) Apply for the Worker Coop Academy** (SELC, Project Equity, EBCLC): The Bay Area Worker Coop Academy is a 16 week business accelerator course for startups and existing businesses to convert to a worker owned business, or to strengthen or grow their worker owned businesses. We host an Academy at least once per year. You can [find more information about the Academy online here](#) (www.theselc.org/wca).

General Closing Discussion (remaining time)

FACILITATOR: Please allow for time to respond to questions that surfaced during the workshop. Also, lead a discussion of the feasibility of creating a cooperative like this in the participants community's.

- ★ **Are there any outstanding questions or areas not covered from the expectations set out in the beginning of the workshop?**
- ★ **What are the next steps for starting coops in their community?**

About the Sustainable Economies Law Center

The Sustainable Economies Law Center is a 501(c)3 nonprofit that provides legal education, research, advice, and advocacy for just and resilient economies. Our mission is to cultivate a new legal landscape that supports community resilience and grassroots economic empowerment. We provide essential legal tools - education, research, advice, and advocacy - so communities everywhere can

develop their own sustainable sources of food, housing, energy, jobs, and other vital aspects of a thriving community.

SELC exists to bridge the gap in legal expertise needed to transition from destructive economic systems to innovative and cooperative alternatives. Our many programs work together in identifying key leverage points in our existing economic and legal systems, removing strategic legal barriers, and creating replicable models for community resilience. We work to:

- ❖ *Envision* more just and resilient economic and legal systems;
- ❖ *Identify and advocate* for public policies that remove legal barriers to resilient communities while maintaining and strengthening worker, consumer and environmental protections;
- ❖ *Empower* community-based entrepreneurs and innovators to create replicable legal structures that will form the blueprints of the new economy;
- ❖ *Educate* communities and law-makers about the potential of new economic strategies; and
- ❖ *Train* the next generation of community-based lawyers to meet the burgeoning legal needs of resilient communities everywhere.

SELC is a nonprofit organization and are dependent on our community to continue building the legal roots of resilient economies. We are immensely grateful for any contributions you are able to give so we can continue this vitally important work.

Please visit www.theselc.org/donate to give today!