

Keys to Success

Each cooperative has unique aspects and faces different start-up challenges. However, there are common areas critical to the future success of the enterprise. Studies show the main reasons that new businesses fail are insufficient financing and lack of business expertise. In addition, worker co-ops that fail do so most often because they lack:

- shared objectives;
- an effective system for worker participation in decision making; or
- suitable ownership and equity structures.

By paying careful attention to these areas you can avoid many of the problems that shut down new businesses. The following are some key areas, learned from past worker-cooperative successes and failures, that help to ensure the success of a new worker cooperative.

1. Clearly Defined Purpose and Focus. *If you don't know where you're going, any old place will do.*

When a co-op's purpose is clear and understood by everyone involved, it is much easier to define the path (business plan) and achieve stated goals. To succeed, the co-op must begin with a viable business idea and a specific focus, such as producing a particular product or service. Equally important, members must share the same objectives.

2. Feasible Business Idea and Thorough Business Plan.

The business plan is a road map that details where your worker co-op is going and how to get there. All new businesses involve risk. The purpose of the business plan is to minimize the risk and maximize the chances of success through careful research and planning.

The business plan of a worker co-op should be so accurate and comprehensive that people feel secure investing large amounts of their own money. If the members do not have enough confidence in the plan to invest their own money, no banker will.

3. Suitable Ownership and Equity Structures.

Having a financial stake in a business, receiving a meaningful share of the profits, and actively participating in decision making are powerful incentives to succeed. There are several ownership and equity structures that can be used in the organization of a worker cooperative. Select ownership and equity structures that help to build a strong capital base for the enterprise and a positive financial incentive system for the cooperative members.



4. Adequate Financing. *Success is more a function of consistent common sense than of genius* (An Wang: Boston Magazine, 1986).

Co-op members are the key source of initial financing for the worker cooperative. Money is collected from the members through the sale of membership shares—the ownership certificates of the cooperative. Equity capital supplied by the members must be sufficient to provide enough collateral to leverage additional debt financing from banks or other lending institutions, or economic-development agencies.

5. Business Advisors and Consultants Knowledgeable about Worker Cooperatives.

Many failed worker cooperatives neglected to take advantage of business and worker cooperative consulting expertise. Advisors and consultants can save you time and money while helping your co-op avoid predictable pitfalls. Most workers are not business experts, and worker cooperatives are complex businesses. Utilize competent legal, accounting, lending, and business-development advisors—check references and get referrals from other worker cooperatives and businesses. Someone familiar with worker co-ops should review work completed for your group.

6. Clearly Defined Roles and Procedures for Decision Making.

Although the specific decision-making structures of worker co-ops vary, they share in common the need for clear roles and procedures. When the worker co-op operates as a collective and does not have managers, clear procedures for decision making are important. Clearly define what types of decisions can be made by individual workers, which can be made by specified work groups, and what kinds of issues should be addressed at meetings that include all worker members.

For legal purposes, each worker-owner of cooperative corporations that are operated collectively is automatically a board member.

When the worker co-op uses a management structure, workers and managers must clearly understand their respective roles and responsibilities. Appropriate structures must be established to promote and maintain worker participation and involvement in shop-floor and boardroom decision making. Many problems associated with worker cooperatives can be avoided by ensuring that all entities—the board of directors, management, and worker owners— clearly understand their respective roles and responsibilities.

7. Sound Business Practices. *Don't reinvent the wheel—use proven methods!*

Sound business practices include attention to finances and product quality, and recognition of the importance of the clients or customers. Develop quality-control standards to maintain consistency



for products and services. Use established systems of record keeping, accounting procedures, and financial controls to prevent financial problems down the road.

8. Ongoing Education and Training for Worker-Members, Directors, and Management.

While we live in a society that emphasizes individual achievement, worker cooperatives demand working and making decisions cooperatively. Education and training are critical to the long-term stability and strength of a worker co-op and to its success as a business. Our society does not teach groups of people how to own and operate a business cooperatively. This deficit must be overcome if the cooperative is to succeed.

Training in how to interpret a financial statement and to comprehend all aspects of business finance is essential for worker-owners to fully understand the financial side of their business. Worker-owners and management have important leadership roles. Owners set policy and vision, and managers use their expertise to implement policies and visions with the best possible results.

Because of the unique ownership and governance structures of worker co-ops, managers have to learn how to effectively work with the workers and involve them in decision making, and worker-owners have to learn how to effectively work with managers who have been selected to supervise their work and lead their enterprise. Making this process work requires a commitment to education and training.

Source: Hansen et al. *Steps to Starting a Worker Cooperative*. California: University of California Center for Cooperatives, 1997.

