



## About CoLab

The Community Innovators Lab (CoLab) is a center for research, teaching, and practice within the MIT Department of Urban Studies and Planning (DUSP). CoLab supports the development and use of knowledge from excluded communities to deepen civic engagement, improve community practice, inform policy, mobilize community assets, and generate shared wealth.

We believe that community knowledge can drive powerful innovation and can help make markets an arena for supporting social justice. CoLab facilitates the interchange of knowledge and resources between MIT and community organizations. We engage students to be practitioners of this approach to community change and sustainability. For more information, visit our website at: <http://web.mit.edu/colab/>.

## About this series

This guide is part in a series of publications on equitable economic development strategies for America's post-industrial cities, funded in part by the Barr Foundation. Other titles in this series include:

*Strengthening Local Economies and Civic Life: The Untapped Power of Small Businesses*

*City Scale Retrofits: Learning from Portland and Oakland*

*Network Power: Building Collaborative Partnerships for Energy Efficiency and Equity*

This series is written for community partners and urban planners who are working to build a more equitable and sustainable economy.



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# *Sustainable Economic Democracy: Worker Cooperatives for the 21st Century*

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# Research Model

## *Using teaching and research to inform practice:*

This series is one product flowing from a year-long collaboration among students, staff at the Community Innovators Lab, and Professor Lorlene Hoyt, all of whom participated in the pedagogical experiment called, “The Collaborative Thesis Project.”

The Collaborative Thesis Project was initiated by Professor Hoyt and emerged from her observation that many students find the thesis process harrowing and, to some extent, unsatisfying, in part because theses usually meet their end on the library shelves. In hopes of making the process less isolating and more rewarding, and of making the products more useful, Hoyt invited six students to pursue their research as a collaborative unit under her supervision.

Each student researched a different post-industrial American city or set of cities and their use or potential use of stimulus funds for regenerating local economies. The group met regularly throughout the academic year to share discoveries, learn across cases, and co-develop recommendations for action.

Beyond the required thesis document, the students agreed to create media products and practice-oriented guides that could be broadly distributed to community partners, policy-advocates, and policy-makers.

CoLab faculty, staff, and affiliates supported the project by brokering relationships with community partners, hosting reflective meetings, co-advising students, co-authoring and editing written products, providing media support, and co-organizing public presentations.

The Collaborative Thesis Project has been a great vehicle for directing institutional research capacity toward a deeper understanding of equity, environment, and entrepreneurship and their connection to democratic engagement. Through this project we’ve tried to mobilize academia for action and expand our range of impact. For more information visit our blog feed at: <http://colabradio.mit.edu/?cat=317>.

Now is the time for an alternative economic development framework. In the past two years we witnessed the near collapse of global financial markets and the highest national unemployment rate since the early 80s. In the wake of this crisis, we are challenged to find a sustainable and democratic way to generate wealth in cities. The kind of questions we need to answer are:

***What is an appropriate path to economic development for de-industrialized cities where the loss of a manufacturing economy has left many people adrift?***

***How can people who live and work in cities build robust local economies that are based upon democratic principles?***

***And, what role can rooted institutions play in helping to reorganize local economic activity so that communities have greater control?***

Worker cooperatives, when configured in a network with rooted institutions, can promote progressive, place-based, and endogenous economic development. In this guide, we explore the worker cooperative network as a neighborhood, municipal, and regional strategy for generating wealth. We present two examples: the well-established Mondragon Complex in Spain (Mondragon) and the nascent Evergreen Cooperative

Initiative in Cleveland, Ohio (Evergreen). Drawing from these two cases, we then put forth a general framework for building a scalable cooperative network in post-industrial American cities.

## ***What is economic democracy?***

Economic democracy is a socio-economic arrangement where local economic institutions are democratically controlled. These economic institutions include business, finance, research and development, and education sectors. Economic democracy does not reject the role of markets, but rather de-emphasizes the primacy of the profit-maximizing motive among economic decision makers.

One means to achieving economic democracy is through cooperative ownership of the local economy by all who participate. In this case, a wide ownership structure can force a realignment of interests that helps reconcile conflicts between the owners of productive assets and their laborers. Shared ownership of the local economy helps root wealth in communities, keeping resources from “leaking out” of the area. Cooperative businesses are one of the more natural firm types that fits within the model of economic democracy, be they worker, producer, consumer, or housing cooperatives.

## **What is a worker cooperative?**

Worker cooperatives are typically for-profit businesses that are jointly-owned and democratically controlled by the employees of the firm, often referred to as worker-owners. Cooperatives can range from small-scale to multi-million dollar businesses. Globally cooperatives employ more than 100 million people and have over 800 million members (1). Although the form of organization varies dramatically between firms, most worker cooperatives generally adhere to the Rochdale principles that were established by the British Rochdale Society of Equitable Pioneers in 1844. These principles outline a set of ideals to which all cooperative businesses should adhere.

### **Rochdale Principles of Cooperation (1844):**

- 1. Open membership.**
- 2. Democratic control (one person, one vote).**
- 3. Distribution of surplus in proportion to trade.**
- 4. Payment of limited interest on capital.**
- 5. Political and religious neutrality.**
- 6. Cash trading (no credit extended).**
- 7. Promotion of education.**

On its website, the International Cooperative Alliance traces the evolution of the original Rochdale principles to the adoption of the following seven in 1996:

### **International Cooperative Alliance Statement of Cooperative Identity (1996):**

- 1. Voluntary and Open membership.**
- 2. Democratic member control.**
- 3. Member Contribution to Capital.**
- 4. Autonomy and independence.**
- 5. Education of members and public in cooperative principles.**
- 6. Cooperation between cooperatives.**
- 7. Concern for community.**

The International Cooperative Alliance states that cooperatives are different than traditional enterprises in that they put people at the center of all their businesses, as opposed to capital. Because cooperatives are owned and democratically-controlled by their members, business decisions balance the need for profitability with the needs of their members and the wider interests of the community.

## Worker Cooperatives in the U.S.

Studies on the efficiency of worker cooperatives and their success rate vary considerably. Cooperatives emerged in the mid-19th century in response to the labor abuses and inequities that resulted from the industrial revolution. In the U.S., the economic recession of the 70s and 80s led to a renewed interest in cooperatives. In this era, the employee shared ownership program (ESOP) became the dominant business model for American firms that aspired to cooperative principles. However, despite its popularity, the ESOP model fell short in that it failed to hand over decision-making power to worker-owners.

Of the truly democratically governed cooperatives, few in the U.S. have reached significant scale in terms of number of firms created, people employed, or revenue generated. Those that have reached scale, such as O&O Supermarkets in Philadelphia and the plywood cooperatives of the Northwest, were not able to stay viable over the long-term and ultimately dissolved.

## Worker Cooperatives in Europe

In Europe, Italy's Legacoop and Spain's Mondragon multi-sectoral cooperatives have been able to both reach significant scale and demonstrate long-term sustainability. Legacoop, founded in 1886 in Milan, now has over 15,000 member cooperatives

and employs over one million people (2). Mondragon, founded in 1956, now holds 33.3 million euros in assets and employs over 85,000 people internationally (3). The questions arise:

*What can be learned from these European experiences?*

*Is it possible to achieve similar success rates in the U.S. context?*

The most important lesson from Legacoop and the Mondragon is the importance of developing an economically integrated network of cooperatives rather than a single cooperative. In a market based economy the cooperative business form suffers from several strategic challenges when operating independently. One worker cooperative on its own is most likely doomed to fail in a highly competitive global economy.

However, an ecosystem of several worker cooperatives and support organizations can create an infrastructure that leads to sustained growth and expansion (4). In Mondragon the cooperative network expanded from a single cooperative polytechnic school to a network of 256 industrial, retail, finance, educational, and research and development firms. In the next section of this guide we look at how they achieved this growth.

# Case One: Mondragon Basque Region, Spain

Mondragon is a city in the Basque region, a semi autonomous zone of Spain on the northern border, adjacent to the Southwest corner of France. A priest, Don Jose Maria Arizmendiarieta (Arizmendi), founded the Mondragon Cooperative Complex (5). Arizmendi arrived in Mondragon in 1941 after finishing seminary school where he had studied social movements.

In 1943 he organized a parents association that pooled together funds to create a technical school, Escuela Politecnica. The school was organized as a cooperative where each contributing individual (approximately 600 people in total) received one vote for electing members of a general assembly who in turn elected members of the school board. Escuela Politecnica acted as both a means for developing the local workforce and a venue for spreading Arizmendi's particular social vision (6).

Thirteen years later, in 1956, five graduates started Mondragon's first industrial worker cooperative. Ulgor, which initially manufactured paraffin stoves and has since expanded into making other appliances, heating equipment, and kitchen utensils, became the model for future Mondragon worker cooperatives.

In 1959, the Caja Laboral Popular, became Mondragon's first secondary cooperative. Starting with three worker cooperatives and a consumer cooperative as its principal members, the Caja was the first organization to connect Mondragon's cooperatives in a network. Structured as a credit union and

established for the principle purpose of creating and expanding worker cooperatives, the Caja acquired capital by providing savings deposit accounts for members and social security (7). The Caja now acts as an anchoring and coordinating force for maintaining the cooperative network. In order for a cooperative firm to use the Caja's financial, analytical, and business development services, the cooperative must enter into a contract of association, which gives the Caja oversight over the cooperative's internal organization. The Caja regulates the governance and internal organization of cooperative firms, dictating capital-to-debt ratio requirements and norms and policies regarding hiring.

During the 1960's the Mondragon complex leaders adopted a policy of creating a new spinoff firm whenever a product line in one firm reached self-sufficiency. Spinoff firms helped deter the emergence of bureaucratic, corporate-like structures. As this policy increased the number of firms, Mondragon's leaders instituted the cooperative group as an organizing mechanism among firms. The cooperative group shares a governance structure, pools profits and losses, and allows for the movement of worker-owners between its member firms. The first cooperative group was named ULARCO and was made up of the first cooperative firm Ulgor, as well as two other firms, Arrasate and Copreci, which made machine components and tools for Ulgor. Over time all cooperative firms in the Mondragon complex were organized into cooperative groups (8).

# Case One: Mondragon Basque Region, Spain

Founded in 1977, Ikerlan, an applied industrial research cooperative, added research and development capacity to the network. Supported by several industrial cooperatives and the Caja Laboral, Ikerlan has a managing board that is made up of employee representatives and representatives from the network's industrial cooperatives and participating secondary cooperatives, including the Escuela Politecnica. Arizmendi's rationale for developing R&D capacity was to remove the dependency from private capital and the need to import advanced technology. In 1982 the Basque government began providing funds to make Ikerlan's services available to traditional firms as well (9).

## Measures of success and growth

Mondragon's success can largely be measured through its growth and expansion. Sixty-five years since the founding of Escuela Polytechnica, in 2009,

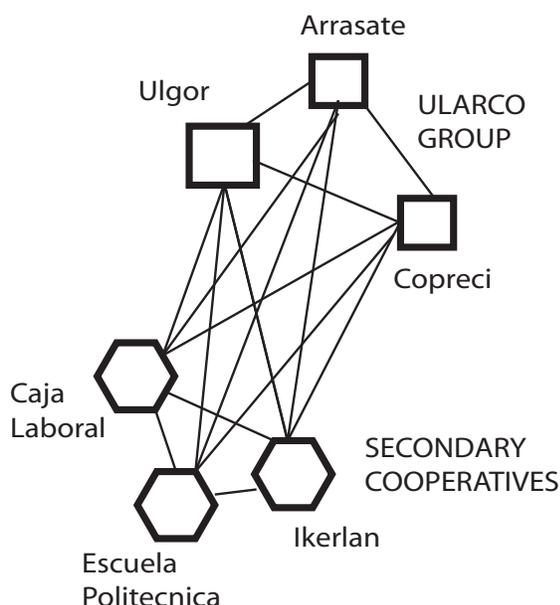
- Mondragon's educational centers enrolled 8,567 students,
- The Caja Laboral (the bank) administered 18.6 billion euros in assets,
- and the number of R&D technology centers had grown to 12, including Ikerlan (10).

Although the Mondragon complex has experienced several waves of growth, much of it has taken place over the last 20 years. According to their website, between 1989 to 2009,

- the Caja's holdings grew by almost ten times,
- industrial and international sales grew by almost six times,
- retail sales grew more than twenty-fold, and
- employment more than tripled;

In addition, Mondragon now operates firms in 18 countries outside of Spain, including the U.S.

## Mondragon Network Early Years



# Learning from Mondragon

## Reaching scale through a cooperative network

The experience of Mondragon suggests a network model that includes four components:

1. primary worker-cooperative firms in the industrial and retail sectors;
2. secondary worker-cooperatives that support the primary cooperatives;
3. spin-off cooperative firms that expand the cooperative network; and
4. cooperative groups that organize related cooperative firms, provide increased mobility, and pool risk and resources.

## Network firm categories

Mondragon divides the cooperative firms and secondary cooperatives into four categories:

1. Industrial, which has five subsectors:
  - capital goods,
  - consumer goods,
  - construction,
  - industrial components, and
  - enterprise services;
2. Retail, which includes:
  - livestock and vegetable farming,
  - agro-food distribution, and
  - food and specialty markets;
3. Finances, which includes:
  - banking,
  - social welfare, and
  - insurance;
4. Knowledge, which is split into two subsections:
  - research and development, and
  - vocational training and education

## Secondary cooperatives

In Mondragon, support organizations, or secondary cooperatives, were critical to early growth and expansion. Typically, secondary cooperatives focus on finance and business development. The Mondragon experience suggests the need for the following secondary cooperatives:

- finance and business development,
- education and training, and
- research and development.

In Mondragon, the Escuela Polytechnica preceded the development of worker cooperatives, but the Caja was the first secondary cooperative opened to directly serve firms and worker-owners. As both financier and governing entity, the Caja wields significant control as a secondary cooperative. However, the training centers and R&D centers are equally important to network and regional growth.

## Spinoff Firms and Cooperative Groups

Beyond the secondary cooperatives, complementary spinoff firms help grow the cooperative network. Spinoff firms promote innovation and diversification, capturing new economic activity and adding to the strength of the network and local economy. Mondragon created a new spinoff firm whenever a firm's product line reached the point where it could be marketed and manufactured independently.

To deal with the need for coordinating among an large number of spinoff firms, Mondragon uses cooperative groups. A cooperative group is a collection of firms that abide by a shared governance structure, pool profits and losses, and allow worker-owners to move between different firms within the group. The cooperative group allows for subdivisions within the cooperative network, promoting sub-networks that allow for more efficient operations and management.

In Mondragon, secondary cooperatives and cooperative groups create the larger cooperative network. It is the cooperative network that has given Mondragon its competitive edge, promoting steady expansion over the last sixty years.

## ***Transforming regional economies via import replacement & diversification***

Beyond the innovation of the cooperative network, Mondragon uses a growth strategy of import replacement, where firms produce goods and services that were previously imported into the region. This strategy has led to an ever expanding and increasingly diverse set of interrelated firms that can buy and sell from one another. One firm will figure out how to produce what another firm would otherwise import. This process then repeats itself many times over in order to create an increasingly complex and interdependent local economy. Together, the collection of firms creates a labor market with increasingly skilled workers in various sectors (11).

Beyond intra-dependency, diversification has also been a key element in Mondragon's sustained success. The cooperative network has expanded via differentiation and diversification, as opposed to increased specialization. The multi-sectoral approach has allowed for flexibility, a key principle underpinning the Mondragon cooperative structure (12).

In post-industrial cities, we have seen the rise and fall of highly-specialized, single-industry economies. Now that these industries have migrated overseas, administrators, leaders, and entrepreneurs must find new ways to grow wealth in cities where it has been drained. In our "forgotten" cities and neighborhoods, we face an open opportunity

for testing alternative models of economic development. Could cooperative networks of diversified, democratically-controlled enterprises offer a solution?

Many challenge the replicability of the Mondragon cooperative model arguing that its unique cultural, historical, geographic, and political context makes lessons non-transferable. Other critics assert that cooperatives can under no terms compete in the private American market. Yet, Mondragon's diversified cooperative network strategy has not been tested in the United States. American worker cooperatives have so far failed to reach network scale or transform regional economies. Having instead focused on single firm or single sector development, the majority of American worker cooperatives are small businesses (13).

However, in Cleveland, a Mondragon-inspired cooperative network has recently emerged that seeks to transform six neighborhoods and ultimately the entire city. Based on principles of community wealth building and sustainability, the Evergreen Initiative intends to launch ten 50-person worker cooperatives in a variety of sectors over the next five years. In the next section, we describe how Evergreen has translated the Mondragon model to fit the context of an American post-industrial city.

# Case Two: Evergreen Cleveland, Ohio

The City of Cleveland has followed a pattern of decline typical among American post-industrial cities. Having lost roughly half its population since its golden age in the 50s, Cleveland has been hard-hit by the loss of heavy industries and middle-class flight to the suburbs (14). After the notorious Cayuga River fire in 1969, Cleveland has fought to shake its derisive nickname, “the mistake by the lake,” but downtown redevelopment and stadium building have not stemmed economic woes and outmigration. In 2009 Cleveland ranked second in lowest median income among American Cities, behind Detroit, Michigan (15).

Yet, despite these challenges, Cleveland’s University Circle area has continued to grow. Thirty minutes east of downtown, the University Circle is characterized by a concentration of major cultural, educational, and medical institutions, including:

- Case Western Reserve University,
- Cleveland Clinic,
- University Hospitals,
- Veterans Administration Hospital,
- Cleveland Botanical Gardens, and
- Cleveland Museum of Art, among others.

As Cleveland’s largest employers, their billion-dollar facilities sit adjacent to some of the poorest neighborhoods in the City. East Cleveland, Wade Park/Heritage Lane, Eastern Hough/Upper Chester, Eastern Fairfax, Buckeye/Shaker, and Little Italy have

a combined median household income of \$18,500 and a poverty rate of 30% (16).

During 2004-2006, the Cleveland Foundation convened leaders of University Circle anchor institutions in order to develop a strategy for neighborhood development. With support from the Democracy Collaborative, a non-profit at the University of Maryland, the foundation and institutions founded the Greater University Circle (GUC) Initiative. The GUC Initiative takes on collaborative projects and programs that address issues such as: transportation, housing, open space, and economic inclusion (17).

Within the realm of economic inclusion, the Evergreen Initiative (Evergreen) is striving to leverage institutional capacity to build community wealth via worker-cooperatives. By capturing billions of procurement dollars that would otherwise go to non-local firms, the Evergreen cooperatives direct institutional investment into surrounding neighborhoods.

## **Cooperative Firm Types**

The first firm to open through the Evergreen Initiative was the Evergreen Cooperative Laundry. Opened in the fall of 2009, the laundry is the region’s first LEED certified industrial laundry facility (18). It has the capacity to meet the needs of medium to large institutions. In the first year, nursing homes made up a large share of clientele.

The second cooperative, Ohio Solar, was launched a few months after the laundry. Ohio Solar installs solar panels onto the roofs

## Case Two: Evergreen Cleveland, Ohio

of large institutions. The cooperative buys the panels, leases institutional roof space, and sells the energy back to institutions at a guaranteed rate. At the end of the lease period, the institution can opt to buy the solar panels. Ohio Solar also provides home weatherization services.

By the end of 2010, two more cooperatives will open. A five-acre hydroponic greenhouse will sell lettuce and herbs to food vendors that have contracts with large institutions. In addition, a bi-weekly community newspaper will report on hyper-local events around GUC. With the goal of building ten firms in five years, Evergreen anticipates other new cooperatives will offer the following kinds of services:

- rehabilitation,
- recycling,
- home care,
- janitorial services,
- records retention,
- medical kit assembly, and
- a consulting firm focused on cooperative development (19).

### **Support organizations, governance, and finance**

Like Mondragon, the Evergreen Initiative is attempting to create a diverse network of firms that can share services and abide by mutual governance and operational agreements. However, it will likely take many years to build the network infrastructure for secondary cooperatives, spinoff firms, and cooperative groups. In the meantime, the Evergreen network relies on support from non-profits to deal with coordination, governance, finance, business development, and workforce training.

#### **The Evergreen Eco-System:**

**Conceptual Development, Convening, Coordination and Consensus Building:** Cleveland Foundation and Democracy Collaborative

**Shaping Governance and Developing Operational Norms:** Kent State Ohio Employee Ownership Center (OEOC)

**Financing:** Shorebank Enterprise

**Business Development:** Kent State Ohio Employee Ownership Center (OEOC) and Shorebank Enterprise

**Workforce Training and Recruitment:** Towards Employment

All of the above organizations have representatives on Evergreen's core leadership team that handles daily management and short- to medium-term planning. Additional core leadership team members include a business consultant and a human resources/diversity specialist.

Beyond the core team, there is a secondary leadership team that includes representatives from the City and anchor institutions. Plus, there is also a tertiary group that is made up of community development corporations, affordable housing developers, and local civic and non-profit organizations. This tri-level organization of leaders is likely to change or evolve over the next ten years.

In terms of financing the growth of firms and the cooperative network, the City, the Cleveland Foundation, and anchor institutions contributed seed capital to create the Evergreen Development Fund. Shorebank Enterprise manages the \$10-12 million fund that will potentially leverage around \$40 million (20). As Evergreen cooperatives become profitable, a portion of their profits will cycle back into the fund.

### **Measures of success and growth**

Although the Evergreen Initiative started only recently, it has already experienced some growth and anticipates more.

- As of August 2010, not one year since opening, the Evergreen Laundry and Ohio Solar each employed more than twenty residents.
- Based on first year growth, Ohio Solar is expected employ more than 100 people in the next 3-4 years, doubling the original projection.

If Evergreen reaches its five-year goal of launching ten firms with 50 employees each, then 1% of all GUC residents will be an Evergreen worker-owner. However, Evergreen's long-term goal is to build at least 100 firms, so that the scale of impact is ten-fold.

### **Becoming a worker owner**

Initially, each worker is hired for a six-month probationary period. After a successful performance review, the employee is offered the opportunity to become a part-owner of the firm. The cost to "buy in" to the firm is \$3,000 and is paid through a 50-cent per hour levy in their upgraded worker-owner salary. As a worker-owner they receive full health insurance, a vote in governance, and a share of the profits. After eight years, employees are expected to own about \$65,000 in assets.

# Learning from Evergreen

## ***Leveraging anchor institutions***

Whereas the Mondragon model grew from a cooperative vocational-technical school that developed the human capital to create industrial firms, Evergreen's firm development strategy is shaped around anchor institution procurement needs. The public resources that flow through the University Circle anchor institutions create the financial base to build neighborhood cooperative enterprises. Worker-owned businesses meet the consistent institutional demand for specific goods and services. The network expands by capturing larger and larger segments of anchor institution expenditures. This growth strategy is essentially an import-replacement strategy, where Evergreen firms replace the need for importing goods and services.

## ***Leveraging non-profits and public agencies***

Evergreen took the Mondragon cooperative network model and adapted it to take advantage of existing local capacity. By relying on community foundations, the City's department of community development, and a host of non-profits, Evergreen has been able to quickly erect a network of support entities. One foundation leads, another agency funds, one non-profit builds governance, and another handles finances. A set of formerly independent local organizations has re-oriented their individual activities to the common goal of launching cooperatives.

This reorganization of local non-profit and government capacity to meet cooperative needs has given Evergreen many advantages as a startup.

## ***Dealing with the challenge of philanthropic leadership***

Evergreen Initiative is a relatively new effort and does not claim to have perfected their model in terms of addressing complex issues like race, class, power, and the role of organized labor. Presently, Evergreen is led by outsiders—leaders of organizations that are not based in the Greater University Circle neighborhoods. As a result, the local community was excluded from taking early positions of leadership. This contrasts with the Mondragon experience, which was driven by internal community leaders.

Though Evergreen's worker-owners are predominantly low-income African-Americans, current managers and the core leaders are predominantly middle- to upper-class whites. The leadership team has been successful in building high levels of mutual respect between management and worker-owners; however, they admit needing to address the challenge of recruiting skilled managers of color and creating clear promotional pathways for worker-owners into leadership positions.

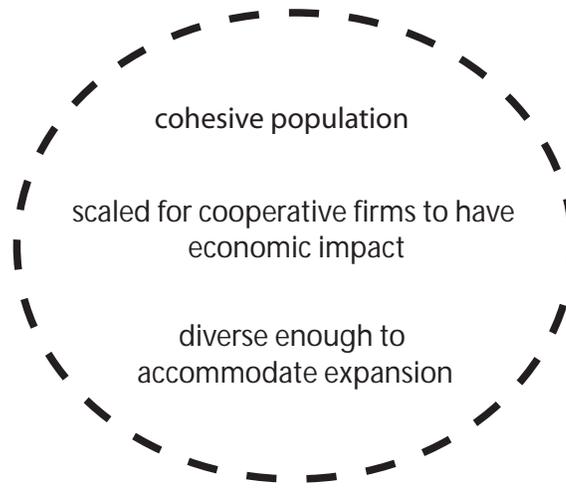
# Analysis: Key Differences between Mondragon and Evergreen

		<b>Mondragon</b>	<b>Evergreen</b>
<b>Geographic Area</b>	Scale of Impact	City of Mondragon at first; later the entire Basque Region and nation.	Six neighborhoods surrounding University Circle.
	Culture	Homogeneous in terms of ethnicity & culture. Nationalist orientation. Tradition of political radicalism.	Racially, culturally, and economically diverse. Tradition of capitalism and big industry.
	Economic Climate	Underdeveloped economy with low-skill workforce.	Varies: Acute distress in neighborhoods. Large institutions are profitable.
	Assets	Catholic Church, Strong Labor, Long-standing Cooperative Tradition.	Anchor Institutions: Universities, Healthcare facilities, and Cultural facilities.
<b>Network</b>	Education & Training	Escuela Politecnica (Polytechnical School) was first cooperative.	Job-readiness training and placement services provided by Towards Employment (non-profit).
	Finance	Caja Laboral Popular (Credit Union) is first secondary cooperative. Built upon member savings and social security.	Evergreen Fund managed by Shorebank Enterprise (non-profit). Capital from City, foundation grants, and anchor institutions.
	Business Development	Caja Laboral Popular (Credit Union)	Ohio Employee Center at Kent State, plus individual business consultants
	Technology R&D	Ikerlan launched roughly 20 years after first cooperative.	None at this time
	Configuration	Primary and secondary cooperatives are organized in cooperative groups.	Individual cooperatives selling unrelated products are networked with anchor institutions, non-profits, and city agencies.
	Leadership	Efforts driven by community leaders. Cooperative leadership elected by member- and worker-owners	Core leaders not indigenous to neighborhood. Secondary and tertiary leaders are neighborhood stakeholders.
	Governance	Caja Laboral Popular (itself a cooperative) sets governance	Core leadership governs. Plans to shift to an elected holding company.
<b>Strategy</b>	Diversification	Earliest industries: Knowledge, Capital and consumer goods. Later Industries: Industrial components, Finance	Earliest industries: Services Laundry and Renewable Energy, Urban Agriculture, Media

It is unfair to compare the four-year-old Evergreen Initiative to the fifty-plus-year-old Mondragon Complex. Nevertheless it is important to understand how Evergreen has translated Mondragon's cooperative development model in the Basque region to suit the Greater University Circle Area in Cleveland. The table above helps to illuminate key differences in how the two cooperative networks were conceived and initiated.

# A Cooperative Economic Development Framework

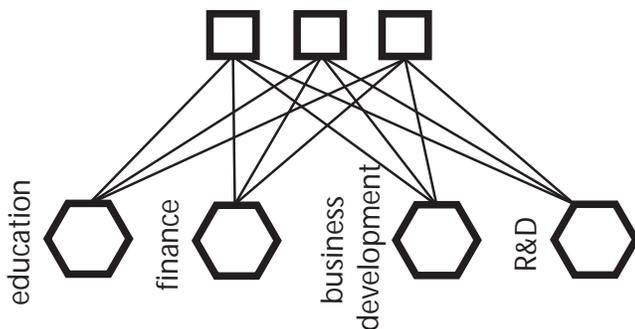
## Defined Geographic Area



## Cooperative Network

### primary cooperatives

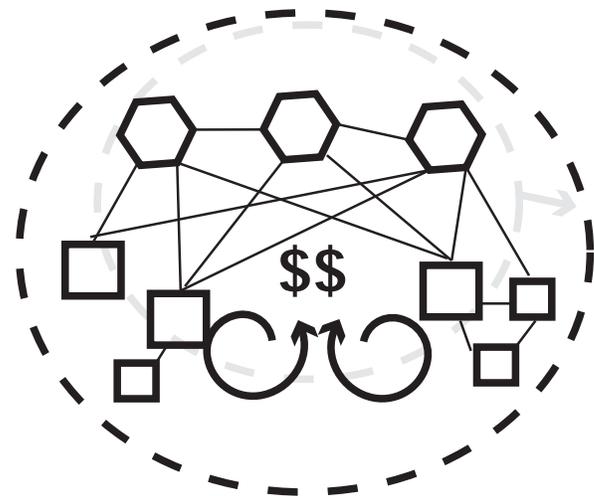
provide goods and services previously imported from outside the geographic area



### secondary cooperatives or institutions

support the primary cooperatives by providing educational, financial, research and development and business development services.

## Endogenous Economic Development Model



Cooperatives provide goods that were previously imported into the area. The cooperative network grows through diversification.

# A Cooperative Economic Development Framework: Defining a geographic area

In this section we present a framework that outlines a process for developing cooperative economic development strategies for neighborhoods, cities, or regions. The framework is based upon researching a set of cooperative models including Spain's Mondragon and Cleveland's Evergreen (21).

The framework is distilled into three interconnected parts, all of which should be pursued simultaneously:

- an appropriately defined geographic area,
- the cooperative network ("the ecosystem"), and
- an endogenous (internally driven) economic development model.

## **(1) Defining an appropriate geographic area**

In identifying an appropriate geographic area for cooperative based economic development, one must consider three issues: scale, economic climate, and assets and challenges within a defined space.

### **What is the right scale?**

In order to determine the ideal geographic scale for launching a cooperative network, one must consider three elements:

- population cohesion - the area ought to have some cohesion based on shared history, identity, and governance;

- distribution of impact - the area ought to be small enough that the firms' resources can impact the local economy; and
- expansion potential - the area ought large and diverse enough to accommodate growth and expansion.

### **What is the economic climate?**

Beyond size, one must look closely at the economic situation of any targeted geographic area. Highly developed local economies and weak local economies require different strategies. In post-industrial cities, weak economies are often the norm.

- Highly developed economy - cooperative strategy targeted to develop certain sectors in a local economy.
- Weak economy - cooperative development strategy focused on both developing the local economy and creating job opportunities for residents.

### **What are the local needs and assets?**

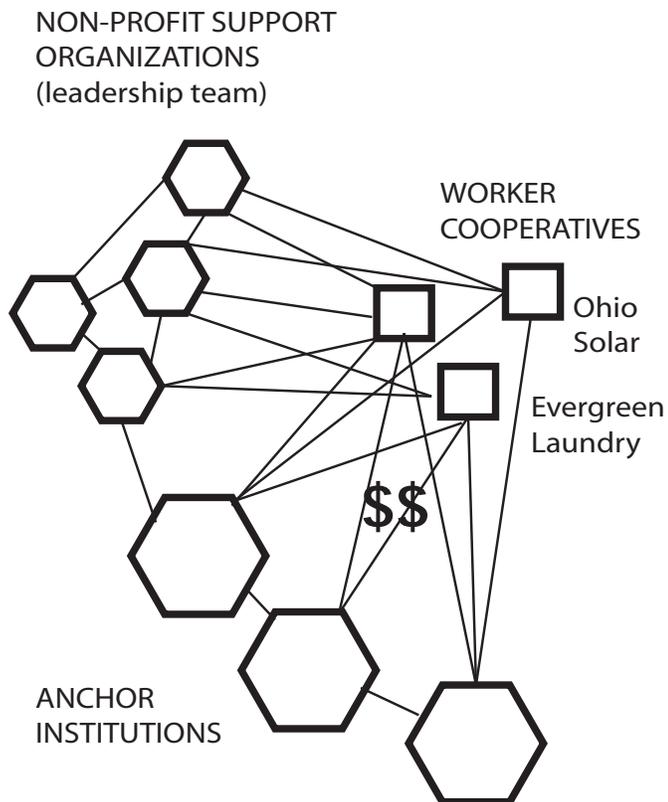
When defining a geographic area for a cooperative network, one must look carefully at the needs and assets in place. The area should contain a diversity of:

- workforce skills,
- incomes,
- educational attainment, and
- potential partner organizations.

# A Cooperative Economic Development Framework: Building a cooperative network

The Evergreen Cooperatives link the needs of Greater University Circle institutions with the needs of the communities in which they are situated. Whereas the institutions demand certain services, the community demands better work opportunities. Here, the relationship is mutually beneficial where both parties experience gains. The diversity within the Greater University Circle area allows for this arrangement.

## Evergreen



## (2) Building a Cooperative Network - "the ecosystem"

Support organizations are critical for growing an expansive network of cooperatives. Most cooperative networks create a finance organization as a first support organization. However, in Mondragon, they built a school years before they built a bank. This was a strategic choice that responded to the overall low educational attainment in the Basque region. Cooperative leaders must be strategic about the timing and sequencing of investment when launching secondary cooperatives. In any case, certain types of support organizations should be included in any network. These include:

- **Education and Training** - provide skill-based training, develop managers, orient workers to concept of workplace democracy, nurture a culture of collective ownership and solidarity. Can act as entry point to cooperative network.
- **Finance** – secures capital, manages investment. Can be organized as member credit union or outside entity.
- **Business Development** - help firms expand. Develop and evaluate business plans, conduct market research, and assess finance schemes. Can help identify, propose, design, and incubate startups.
- **Research and Development** - identify areas for firm expansion and appropriate technologies to import into the region. Crucial for manufacturing or advanced industry sector.

# A Cooperative Economic Development Framework: Building a cooperative network

Roles	Community-Based Organizations			Anchor Institutions		Local Government	Organized Labor	Foundations
	CBOs	CDFIs	CDCs	Universities	Community Colleges			
Education and Training	X			X	X		X	
Finance		X	X	X		X	X	X
Business Development		X	X	X	X	X		
Research & Development				X				
Leadership & Coordination	X		X	X	X	X	X	X
Policy Advocacy	X		X	X	X	X	X	X
Buying Power	X		X	X	X	X	X	X
Community Organizing	X		X	X	X		X	
Labor Recruitment	X		X		X		X	

## Recruiting Institutional Partners to Support the Network

In Mondragon, all of the support organizations are secondary cooperatives. However, in Evergreen, local institutional partners, foundations, and non-profits act as the support organizations for cooperatives.

Potential cooperative network institutional partners fall into five broad categories:

- community based organizations (CBOs), includes local non-profits and associations, community development corporations (CDCs) and community development financial institutions (CDFIs);
- anchor institutions (health, education, and cultural institutions);
- government (city agencies);
- organized labor (unions and trade associations); and
- foundations.

Each partner can bring significant political and financial capital to support the cooperative network. Large institutional partners are generally risk averse, so cooperative leaders must carefully steward those relationships. For each partnership, the cooperative leaders must consider the interest of the institution, the plausibility of the proposal, and a realistic role that the institution can play.

# A Cooperative Economic Development Framework: Organizing and governing a network

## Organizing and governing the network

A cooperative network is generally understood to be composed of: worker cooperatives, support organizations (often organized as secondary cooperatives), and a central leadership institution.

One challenge in governing a cooperative network is the need to balance power between worker owners and efficient management. In the case of Mondragon the leadership role was filled both by the Caja Laboral (the financial institution secondary cooperative) as well as the overarching governing bodies established by the Mondragon Cooperative Complex (MCC). In Cleveland, Evergreen's core leadership team tightly controls and manages the network.

In developing an organizational structure, some questions to consider are:

- Who are the decision makers?
- How are firms governed?
- How is the network governed?

### Who are the decision makers?

The leadership team is the core entity that guides early cooperative development efforts and acts as an anchoring body for the network. It provides a sense of longevity, capability, and capacity that is critical for building partnerships with larger institutions. The members of the leadership team need

a diverse set of skills and a range of cross-sectoral relationships. Skills needed among the leadership team:

- economic development finance and planning,
- business development and planning,
- cooperative firm development,
- workforce training,
- business management,
- community organizing, and
- policy advocacy.

Relationships needed among the leadership team:

- anchor institutions,
- community organizations,
- the banking community,
- foundations,
- the business community,
- government, and
- organized labor.

# *A Cooperative Economic Development Framework: Organizing and governing a network*

## **How are firms governed?**

Establishing a governance structure for cooperative firms is important for establishing clear roles and relationships among employees, members, managers, representative boards, and leadership teams.

At the firm level, the governance structure needs to establish:

- how managers are selected,
- how board members are selected, and
- who has decision authority over issues regarding
  - operations,
  - management,
  - hiring,
  - firing,
  - compensation,
  - membership and ownership,
  - promotion,
  - investments, and
  - strategy.

In the start up phase, a careful balance must be struck between ensuring democracy and efficiency. One method for balancing these two goals is to break the governance strategy into phases. In a startup phase, worker-owners would have less decision making authority, and more authority would belong to management and support organizations. After a period, authority would be transitioned to the firm owners. One challenge to this approach is that it may compromise the collective sense of worker ownership. However, this is one way to lift a new cooperative.

# A Cooperative Economic Development Framework: Organizing and governing a network

## How is the network governed?

Beyond the individual firm, the network must also create a governance structure that defines principles and practices to which the network adheres. Protocols are needed for:

- creating a representative board,
- clearly defining the board's jurisdiction, and
- defining how the leadership team and other support organizations will participate in decision making over time.

At some point, leaders who drive the start-up phase of a network must eventually either join the cooperative or devolve their decision-making power to the members and worker-owners. This transition should be carefully orchestrated. One solution is to allow non-cooperative network leaders to run for positions on the member-elected board.

Network leaders must also set other protocols including:

- pay differentials between highest and lowest paid workers;
- permitted percentage of wage laborers;
- profit and loss sharing;
- debt to capital ratio; and
- contributions to
  - member capital accounts,
  - a common loan fund, and
  - a social programs fund.

The network might also mandate firms' adherence to baseline cooperative principles set out by the International Cooperative Alliance.

Because the network dictates norms, practices and policies for individual firms, it is critical that the network is strongly democratic for worker-owners. Otherwise the effort will create a false sense that individual workers have real control of their firms when they do not. This would undermine the creation of a culture of collective ownership.

## (3) Endogenous development model

An endogenous economic development model explores the following growth strategies:

- import-replacement
- diversification, and
- leveraging internal assets and macro-trends.

### Import-replacement

As explained earlier in this guide, import-replacement happens when a firm finds an economically feasible way to produce a previously imported good or service. If local production is feasible, the import is replaced and the local economy grows as the firm begins exporting to other markets.

# A Cooperative Economic Development Framework: Endogenous development model

## Diversification

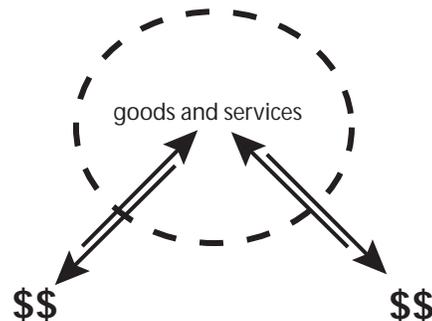
Beyond local production, another key element to endogenous development is “increasing numbers of firms that buy from and sell to one another” (22). As the process of import replacement continues over time, the result is a diversification that leads to “increasingly skilled workers and technical and professional people” (23). Diversification allows for flexibility, a key principle underpinning sustainability (24).

## Leveraging internal assets and macro-trends

Though an endogenous development strategy is configured around local assets, it is also important to capitalize upon changes in the national and global economy. Local assets can create opportunities for developing firms, as was the case in the Evergreen Laundry. However, macro trends can also provide new opportunities for firm growth. For instance, the green movement encourages local sourcing and reduced energy consumption. Ohio Solar responds to these normative values, by offering locally produced energy from renewable sources. As the green economy continues to expand, new industries might lead to manufacturing opportunities in cities.

## Endogenous Economic Development Model

1. Identify goods and services imported from outside the **defined geographic area**.



2. Seed **primary cooperatives** to replace those **imports**.



3. Support cooperatives' growth and **diversification** through **secondary cooperatives and supporting institutions**.

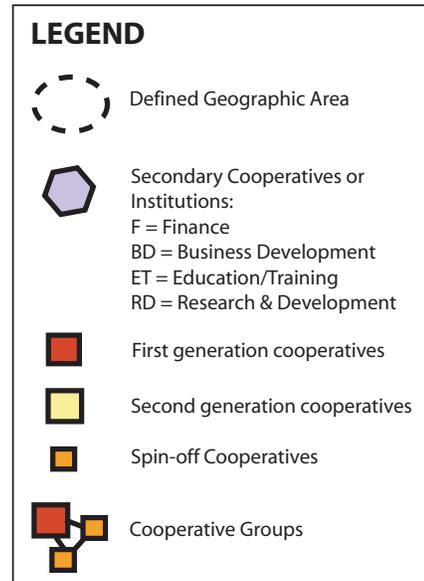
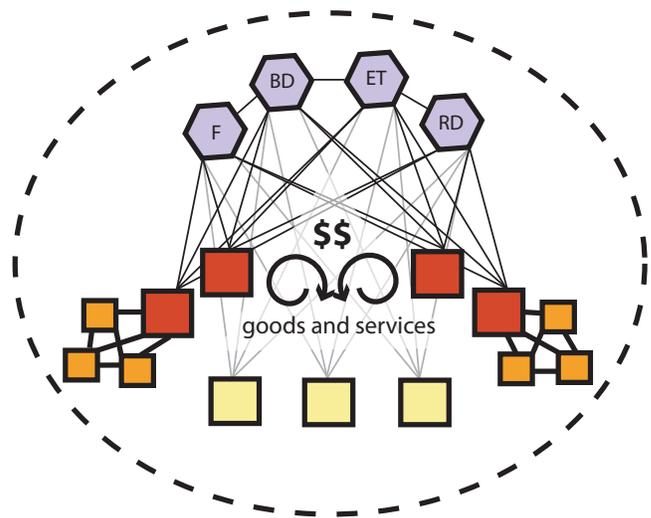


# Conclusion

In this guide, we explored the idea of cooperatives and cooperative networks as an alternative and sustainable way to build wealth in cities. We presented the Mondragon Cooperative Complex and Evergreen Initiative as examples of economic democracy, showing how shared ownership structures can help root wealth in communities and transform local economies. Drawing from these and other cases, we presented a framework for cooperative economic development. This framework is distilled into three major components:

1. an appropriately defined geographic area
2. the cooperative network (“the ecosystem”)
3. an endogenous (internally driven) economic development model

## Cooperative Network Model of Endogenous Economic Development



# Final Considerations

In the United States, and particularly in our post-industrial cities, cooperative development has the potential to help mitigate the negative effects of growing income inequality and acute economic distress. While the Evergreen Initiative is still young, it is a promising example of how to leverage the emerging green economy, local assets, and public support for greater equity and sustainability.

In closing, we offer the following considerations for community organizers, policy advocates, entrepreneurs, civic leaders, and urban planning professionals:

## **Leadership must be effective and democratic.**

Cooperative developments require support from people with certain skills and certain relationships. They also require institutional partnerships. However, leaders must know when to hand over control to worker-owners and be mindful of perpetuating relationships of dominance and subservience that can undermine democratic intentions.

## **Cultivate the Values of Local Ownership and Solidarity.**

It can be challenging to nurture a culture of collective ownership in a highly individualistic context. Leaders must be committed to developing leadership within the firm regardless of worker-owners' prior educational attainment. In addition, cooperatives should be socially committed to the greater community in which they are situated and provide means for meaningful interchange.

## **Education Builds Network Capacity.**

Though resource intensive, education is critical for a cooperative network's long-term sustainability. Some think of education as job readiness and skill training, but in a cooperative setting it is key for leadership development, management training, workplace democracy acculturation, political education and promoting a social vision.

## **Cooperatives are Organizing Entities.**

Beyond job creation and economic growth, cooperative development initiatives can play a role in larger social movements. Cooperatives can help organize a community across ethnic and racial divides to advocate for economic solidarity.

# Notes

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