Working Together to Create Jobs

A Guide to Worker-owned Cooperative Development

by

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Introduction

Why this guide was developed

> This guide developed out of the ILO's concern about structural adjustment, poverty, unemployment, and job creation and an awareness that worker-owned cooperatives can more actively address the pressing problems of unemployment in developing countries as well as the economic restructuring in Eastern Europe following the collapse of communism in 1990. "The ILO's task will be to promote policies and programs that encourage the enterprise spirit and the establishment and development of enterprises and cooperatives with a view to creating jobs." ILO, Director General's Report, 1992.

Studies by the World Bank and the ILO suggest that more than 1.1 billion people in the developing world, nearly one-third of the total population, live in absolute poverty, and nearly half the labor force in low-income countries is self-employed on average. To improve their standard of living, these people need jobs--better jobs, more job-creating support services, and additional income-enhancing opportunities.

At the present time, there are no visible solutions to the widespread unemployment and poverty problems in many developing countries. The formal economies cannot provide adequate employment and income-generating opportunities, especially productive new jobs, for the growing numbers of unemployed and under employed workers and for the redundant workers in privatized and state-owned enterprises. Public and private sector approaches for solving these pervasive problems have failed. Large-scale development efforts by the World Bank and other international donors, US$1.4 trillion in aid since 1960, have failed to significantly reduce these problems. The traditional economic development strategies that national and international agencies have used in developing countries have failed. These failures have generated searches for new ideas and a willingness to entertain innovative approaches to job creation.[1]

In response to the ILO's call to promote worker-owned cooperatives for employment creation and other development purposes, the ILO Regional Office for Asia and the Pacific adopted as part of its 1993-94 work plan, a project "to develop an approach for employment creation through worker-owned cooperative enterprises in the Asia Pacific region and a plan for the ILO's involvement in supporting such approach." Subsequently, a group of eight national experts from China, Indonesia, Thailand, India, Bangladesh, and the Philippines, one international expert, and the Regional Cooperative Advisor convened in Bangkok from November 30 - December 2, 1993. Three days of intense and productive discussion led to the conclusion that there is considerable need for new and innovative initiatives to generate employment and income in the Asia-Pacific region and that group entrepreneurship and worker-owned cooperatives hold considerable potential to accomplish this objective.

However, because group entrepreneurship programs using worker-owned cooperatives are not widely known or understood, the group concluded that a guide outlining the basic principles of worker-owned cooperatives and the essential mechanisms to launch them is necessary to successfully implement such a project, and that the ILO should help to widely publicize information about them and actively promote them. For these reasons, the authors of this guide, Gary Hansen and Ejvind Mogensen, wrote this draft to introduce group worker-owned cooperative entrepreneurship to development practitioners and potential users in the Asia-Pacific Region. (Following another workshop in Bangkok in late 1994 or early 1995, a published version of this guide will be prepared and distributed to the people who will actively promote the development of group worker-owned cooperative entrepreneurship in the Asia Pacific Region.)

Why worker-owned cooperatives should be promoted

Worker-owned cooperatives should be promoted because they have great potential to enable workers in both rural and urban areas in the Asia-Pacific Region to provide employment for themselves and income for their families and thereby help fulfill the ILO's mandate spelled out in the Declaration of Philadelphia -- "to achieve full and productive employment and raise the standards of living of all people, in particular the promotion of economic and social advancement in the least developed regions of the world."

> "Although co-operatives create and offer some type of employment (especially consumers' cooperatives), it is the [worker-owned] industrial co-operatives that have as their prime goal the creation of employment for their members." ILO, Report on Self-Employment, 1990

Although not widely understood or promoted, group entrepreneurs using **Production and Service Worker-owned Cooperatives (PSWCs)** have created and are creating considerable employment and income for their members and communities. For nearly 40 years, the worker-owned industrial cooperatives founded by a group of Basques in Mondragon, in northern Spain, have provided secure employment for over 26,000 worker-owners. Since the 1970s, worker-owned cooperatives and labor limited companies in other areas of Spain have generated jobs and income during periods of high unemployment, leading to the creation of 124,000 jobs (1990) for worker-owners and sales in excess of US$6.4 billion. In Poland, 1,200 worker-owned cooperatives are providing 200,000 worker-owners (1994) with jobs and income and generating 8 percent of the country's gross domestic product. In recent years, numerous groups of workers in France, Italy, Canada, Britain, United States, Japan, Latin America, and other developing countries have organized worker-owned cooperatives that have created and preserved thousands of jobs.

A 1984 review of ILO Operational Activities in the Field of Cooperation concluded that "jobs in the tens of thousands have been created by the cooperatives' expansion in some ten or more countries with which the Cooperative Programme has worked." Subsequent studies have demonstrated that all forms of cooperatives have contributed substantially to worldwide employment and that worker-owned industrial cooperatives, when systematically organized and promoted, have successfully generated substantial direct employment and income for their worker-members and communities. (ILO 1984, 1985)

In developing countries, small-scale enterprises and cooperatives, including worker-owned cooperatives: (1) are usually more labor-intensive than larger organizations; (2) generate more direct and, probably, more indirect jobs per unit of capital invested; (3) provide productive outlets for the talents and energies of enterprising, independent people; (4) flourish by serving limited or specialized markets that do not attract large firms; (5) provide a seedbed for entrepreneurial talent and a testing place for new industries; (6) supply dynamism and competition within the economy; and (7) enhance community stability, stimulate personal saving, and "generally raise the level of popular participation in the economy."[2]

What this guide contains and how it should be used.

This guide is designed to be a practical and useful handbook to help people and organizations learn about the principles and practices of group entrepreneurship using **Production and Service Worker-owned Cooperatives (PSWC)** and to organize the mechanisms needed to successfully organize a PSWC development program in their communities and countries.

Part I contains three chapters. The Introduction explains why this guide has been written, for whom it is intended, and gives a quick overview of how the PSWC development program works. Chapter 2 defines the terms "worker-owned cooperative" and "production and service worker-owned cooperative" and distinguishes them from other types of cooperatives. In addition, it explains the fundamentals of worker-owned cooperatives, including their organization, capital structure, and other essential elements. Chapter 3 explains the concept of group entrepreneurship using PSWCs, describes how and why the process is carried out, and identifies the necessary development mechanisms to effectively promote and incubate PSWCs on a large scale.

Part II contains three chapters which outline the step-by-step processes to promote and develop group entrepreneurship to create PSWCs. Chapter 4 outlines how to plan and organize a group entrepreneurship development mechanism to promote and incubate PSWCs. Several different approaches for organizing the PSWC program are explained. Chapter 5 explains how the entrepreneurial development mechanisms systematically organize and incubate PSWCs, including pre-startup activities, startup operations, and follow-up activities. Chapter 6, the final chapter, provides information about issues relating to consolidating and expanding the promotion and incubation operations to ensure that the PSWC entrepreneurship process continues to be successful. It also contains lists of selected materials on the subjects of group entrepreneurship for PSWC development and training resources and materials for use in developing and operating a group entrepreneurship and PSWC development program.

An overview of how the PSWC development program works

Starting PSWC development in Zamboanga

After attending a workshop in Jakarta and learning about the innovative PSWC program for achieving local economic development using group entrepreneurship to develop PSWCs, the director of the Milipines Cooperative Development Department (CDD) decided to learn how to launch the PSWC development program in the Milipines.

With the help of the ILO office in Bangkok, and a generous grant from an international donor, in mid-1994 the Milipines CDD began its PSWC development program, the ILO/Milipines PSWC project. A task force made up of some of the countries leading citizens was created to provide input and help conduct the feasibility assessment. Because of their work on the task force, several of the members volunteered to undertake the necessary work to implement the final report's main recommendation, the establishment of the Milipines CEED Foundation, a non-profit NGO, in Raratonga, Milipines, to promote PSWCs for employment creation and local economic development. The foundation was chartered in November 1994.

A second grant from the same international donor (who was impressed by the PSWC approach to job and enterprise creation and by the work of the task force) funded the organization of the Milipines CEED Foundation and its work during the next three years (1995-1998). The Milipines CDD also provided additional funds to help start the PSWC development work, and the ILO contributed some assistance because this PSWC project in the Asia-Pacific region held considerable promise.

One of the first activities the foundation undertook was to set up a pilot PSWC development organization in the Samar region of the country. It consisted of three units, a cooperative entrepreneurship team (CET), a cooperative financial institution (CFI), and a group entrepreneurship training center (GETC). After the recruitment and training of key staff, five experienced and professionally trained business persons and three recent university graduates (an engineer, MBA, and accountant), the CET began advertising the PWSC development program through the local media and offering courses in group entrepreneurship and PWSC development to the people in the communities of Tak, Zamboanga, and the surrounding area.

Soon, a number of people who had heard about the program and who had taken the introductory courses began to discuss at length the possibility of starting their own group PSWC to provide stable employment for themselves and improve their economic position. In February 1995, a group of Zamboangans who had taken one of the first CET courses on group entrepreneurship decided to actually start a new PSWC in Zamboanga. As a group, they went to the regional CET office located in the nearby city of Tak to discuss the possibility.

The Zamboangan group appeared to have a cooperative spirit, a good leader/manager, and a plausible business idea, so the CET staff helped them conduct a feasibility study. The feasibility study was favorable to the further development of their proposed PSWC venture so the CET drew up a contract of association with the Zamboangan group and agreed to assist them during the business planning and promotion period. *[If a group did not have a logical leader/manager, the CET staff, in conjunction with the prospective group entrepreneurs and the CFI, would select a leader/manager who had the backing of both the group and the CET.]*

The Zamboangan group had sufficient collateral in the form of some land owned by several members and a building they hoped to use to house the business. The CET used their property as collateral to obtain a loan from the CFO to finance the salary of the manager selected to run their business. *[If the group lacks adequate collateral, the CFO makes a deferred-interest loan to the startup group to finance the manager's salary during the promotion and business planning period.]*

With the help of the CET, the group registered as the Zamboangan PSWC under the laws of the Milipines (a progressive country with cooperative laws that support the organization of PSWCs). The registration of the PSWC meant that an entity existed to receive the promotion loan and to pay the manager's salary during the promotion/launching period. The Zamboangan group's promoter/manager, Mr. Vanatu, was assigned a CET advisor and provided with an office and other support services in the CET office in Zamboa. The CET advisor worked with Mr. Vanatu and the Zamboangan PSWC group to oversee the planning, promotion and launching of the Zamboangan PSWC and continued in that oversight role for a year or two after the startup.

Because the Zamboangan PSWC group had their own product idea, a restaurant featuring native cuisine to cater to the growing tourist industry in their region of Milipines, the CET advisor and Mr. Vanatu, along with the group members, performed the initial screening of their proposed product or service using the predetermined selection criteria: market trends, sales per worker, capital per worker, etc. After a careful review of the screening criteria, they all agreed that the restaurant was a good opportunity.

[If the group's idea does not pass the screening, the group selects another idea from the CET's product bank of feasibility studies. Then, working with the CET advisor, promoter/manager, and group members, they update the feasibility study for a specific enterprise producing a specific product or service. If the review of the updated feasibility study is positive, the writing of a business plan is undertaken.]

Because the Zamboangan PSWC business idea passed the screening test, the CET and other participants proceeded with the development of the formal business plan. *[The business plan must include enough detail to answer all relevant questions about the venture that a third party could ask.]* Once the Zamboangan PSWC business plan was completed and approved by the organizing group and CET, they submitted it to several banks in the community and the Milipines CFO for the necessary funding to start the business.

The 15 persons who comprised the Zamboangan PSWC organizers put up 10 percent of the cost as equity capital, amounting to M$15,000. The Milipines CFO loaned them 40 percent of the funds needed (M$60,000), and the Milipines Small Industry Development Bank loaned them 50 percent ($M75,000). With the necessary money to start their business, the promoter/manager and the group of PSWC entrepreneurs worked with the CET and CFO to organize their new PSWC restaurant.

With the help of the CET and their manager/promoter, they refurbished the building to house the restaurant, purchased and installed the necessary furnishings and equipment, obtained suppliers for the food and other items needed, and obtained training for their members to fill the various positions in the new restaurant. Within five months of approaching the CET for help, they held the grand opening of their PSWC, "Zamboanga's Finest Food," and began serving the tourists flocking to the beautiful sandy beaches nearby. Because of the high quality of their food and service, the new restaurant soon overflowed with customers.

Within three months of operation they were making a healthy profit and paying off on their loans ahead of schedule. At the end of the first fiscal year, the board of directors declared a patronage dividend above that allocated for wages, and the group members received a sum based on their labor during the previous year. Some profits were also set aside for the PSWC's collective reserve, and a portion was allocated to each member's individual capital account. (The money cushions the enterprise in the event of any slack periods and to buy some new equipment needed to expand their business.)

Because all group members were fully employed and there was considerable untapped market potential, the cooperative considered taking on some additional members to expand the restaurant.

[If the CFI agrees to finance the new startup or funds are obtained from other lenders, financial arrangements are made to obtain the equity capital from the worker-members and to systematically draw on the money, the debt and equity capital obtained from all sources, to launch the enterprise in a timely manner. The worker-members' equity in the new enterprise is determined as a part of the business planning and financial negotiating processes. (This may be several hundred or several thousand U.S. dollars for each member, depending on the type of enterprise and job creation costs)].

[During the first year or two of operation (i.e., the launching and consolidation period until break-even), 70 percent of the startup costs (including the PSWC manager's salary during the promotion period) are capitalized as an asset which is depreciated over a period of ten years so that the founders of the PSWC do not bear a greater portion of the startup costs than those who join at a later date.]

[Projections in the business plan for a manufacturing enterprise normally allow for about two or three years of losses after the startup before the PSWC reaches the break-even point. In a mature PSWC development program, the initial loan for a new enterprise usually is scheduled to be repaid five to seven years after startup. During the first two years, there are no interest or principal amortization payments. The interest (at an agreed rate) and principal payments begin in the third and fourth years, and then interest increases to market rates for the remainder of the loan.]

The CET repeated the startup process of the Zamboangan PWSC on a continuing basis with other groups of prospective PSWC entrepreneurs in Zamboanga, Tak, and surrounding communities. While slow at first, the demand for the CET's help steadily increased as more and more people in Zamboanga and the surrounding communities observed how the PSWC group entrepreneurship program increased the employment and incomes of their neighbors. The second

PSWC was a shrimp farming operation employing 10 people. An arrangement was made to sell fresh shrimp to the Zamboanga's Finest Food restaurant and to market their product in the nearby cities.

Soon there was a steady stream of venture development and business startup work for the CET, and the need for greater numbers of PSWC entrepreneurship training courses to help others learn about this process.

Over time, as the number of PSWCs in Zamboanga and the surrounding region increased, including several manufacturing PSWCs and a furniture factory, the CET and CFI encouraged them to begin networking and to organize a regional Samar PSWC "group" or "system" to purchase supplies, market products, conduct research and development, and engage in other mutually beneficial activities.

Ten years later

Ten years later there was a prosperous, well run "Samar Group" of PSWCs operating in the region. At last count, there were twenty-four manufacturing and service PSWCs operating profitably in seven different industries and employing over three thousand worker-owners. All the businesses were profitable and growing. The Zamboanga's Finest Food restaurant, the pioneer PSWC in the group, had expanded into a fully integrated tourist resort, including three restaurants, a hotel, golf course, and convention center. At last count it employed 375 worker-members.

Through networking and other group sponsored arrangements, several of the PSWCs in the Samar Group were now bidding on international contracts that none of them could have done individually. The CET, CFI and GETC set up by the Milipines CEED Foundation to start the PSWC development program in the Samar region in 1994, had all been converted into second-degree cooperatives owned by their stakeholders--their own worker-members and the 24 PSWCs in the Samar Group.

The manufacturing PSWCs in the Samar group had established joint purchasing arrangements to buy raw materials and supplies and had developed a joint marketing arrangement to distribute their products nationwide and for export. The group's CFI operated as the Samar Workers' Cooperative Bank (SWC Bank) and continued to finance new PSWC startups by providing savings and credit services to people in the entire region.

Several years ago a specialized training institution, the Samar Entrepreneurship Training Center (SETC), was organized to provide specialized worker cooperative management and business training to the group's worker-members and managers. It even ran some technical courses which were not available through other vocational training institutions. There was some discussion about organizing a group-run research and development unit to provide additional technical and product development support to the PSWCs.

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[1] "Foreign Aid: The Kindness of Strangers," The Economist, May 7, 1994, p. 19.

[2] Kenneth Loucks, Training entrepreneurs for Small Business Creation. Geneva: International Labour Office, 1988.

Chapter 2.

Worker-owned Cooperatives

What a worker-owned cooperative is and how it differs from other cooperatives

First, the term "worker-owned cooperative" is defined and how it differs from other types of cooperatives is explained. Then the "production and service worker-owned cooperative (PSWC), the kind of worker-owned cooperative this guide promotes, is defined and described in detail.

The term "worker-owned cooperative" describes a enterprise both organized and owned by a group of workers who jointly undertake the risks of entrepreneurship and employment creation. The employees, the worker-owners, *directly* own their business enterprise.

In a **worker-owned cooperative** the members, as a group of entrepreneurs: (a) take the full risks and benefits of owning and operating a business enterprise; (b) exercise their governance and control on the basis of one person-one vote; and (c) work together in a common production facility (factory or office) to jointly produce (manufacture, prepare, or organize for sale) the products, goods, or services sold in the marketplace.

A worker-owned cooperative uses a cooperative legal and organizational structure which differs greatly from the private corporate form of enterprise and the state ownership of business. It is not a guise for government ownership of the means of production nor does it describe workers who own a few shares of stock in a company in which a manager, hired by the majority stockholders, tells them what to do.

Most other types of cooperatives are not collectively owned, run and controlled by their workers. As a result, there are fundamental and significant differences in the objectives, organization, and operations of worker-owned cooperatives and other types of cooperatives. These differences are often misunderstood by many people, including people engaged in cooperative development.

Differences between worker-owned and client-owned cooperatives

The following ILO definition distinguishes between worker-owned cooperatives and client-owned ones. "One of the ways of assessing the employment potential of cooperatives is to determine the members' relationship to the cooperatives they set up and own. Is their relationship that of clients of the enterprise or workers in it? When viewed in this way, there are two basic categories of cooperatives--**client-owned** and **worker-owned**."[1] While both categories subscribe to internationally accepted cooperative principles, a supplementary set of principles and structures guide the operations of the worker-owned cooperative.

The members' relationship to a **client-owned cooperative** is that of client -- the members purchase goods or services from the cooperative or use its services. The workers in the cooperative are employees, not owners.

The members' relationship to a **worker-owned cooperative**, either a production or service cooperative, is that of both workers in it and owners of it.

Client-owned cooperatives are the most common form of cooperative worldwide. Typical client-owned cooperatives include:

agricultural supply and marketing cooperatives used by independent farmers who produce milk, grain, fruit or other agricultural commodities and then form a cooperative to collectively buy seeds, fertilizer, equipment and feed, or to collectively market their products. The cooperative may collect, process, store, package and/or market the milk, turkeys, coconuts, bananas, or grain, etc.

supply and marketing cooperatives organized by small businesses to collectively compete with the buying and marketing power of large business chains, or by a group of artisans to purchase supplies and market their handicrafts.

consumer cooperatives organized by groups of people to provide consumer goods (food, housing, etc.) or services (insurance, medical care, etc.) to their members, and possibly nonmembers, at reasonable prices.

credit unions and savings cooperatives organized by groups of people to save money and obtain loans at reasonable rates.

In all **client-owned cooperatives** the client-members (producers or consumers) own and control the enterprises to provide a service or to serve their members' needs. The workers in client-owned cooperatives are employees, not owners or controllers of the enterprises.

Misuse of the terms "worker cooperatives" and "industrial cooperatives"

Often **client-owned cooperatives** which serve the social or welfare needs of employees in a factory or provide services to artisans are called workers' cooperatives or industrial cooperatives. For example: In Indonesia, client-owned cooperatives established to provide employees in large privately and publicly owned business enterprises with credit and savings, facilities, housing, health services, and consumer goods are called workers' cooperatives. Although these cooperatives provide important services to their members, they are **not** worker-owned cooperatives because the men and/or women who work in them do **not** own and control them.

Over the years, with government help, thousands of client-owned supply and marketing cooperatives (also called workers' cooperatives and industrial cooperatives) have been established in India and other countries to help groups of independent rural artisans or handicraft workers (clients) engaged in weaving, coir, pottery, leather goods, and many other individual handicrafts to purchase their supplies and raw materials and to sell their products. Most of these cooperatives are **not** worker-owned cooperatives because the members do not work together in their own factory or production facility to jointly produce (manufacture, prepare, or organize) a common product, good or service for sale in the market.

> The widespread confusion about the significant differences between *worker-owned* and *client-owned cooperatives* has contributed to a lack of effective promotion of worker-owned cooperatives, the type of cooperative best able to *directly* generate employment and income for its worker-owner members.

Production and service worker-owned cooperatives (PSWCs)

Though there are two basic types of **worker-owned cooperatives** (production and service worker cooperatives, and labor contracting cooperatives), this guide is intended for use in organizing just one type of cooperative -- **production and service worker cooperatives (PSWCs)**. (The second type of worker-owned cooperative, the labor contracting cooperative, is organized by workers to sell their labor as a group to other employers.)

The **members of production and service worker cooperatives:**

(1) **collectively own the enterprise**;
(2) **control the enterprise** on the basis of cooperative and worker-owned cooperative principles and one-person-one-vote;

(3) **work together in a common production facility** (factory or office) to jointly produce (manufacture, prepare, or organize) their products, goods, or services for sale in the marketplace.

Collectively they take the financial risks of entrepreneurship and make the decisions affecting the business through representational democracy. They elect a board of directors who make the policies for the enterprise, hire (borrow) any needed capital, and hire (or develop internally) the professional managers needed to make it a successful business. Capital resources to start and expand the business are obtained from the members' initial equity investments and subsequent loans from profits generated by the enterprise, plus money borrowed from financial institutions.

PSWC capital formation and ownership. An understanding of the importance of capital formation and ownership in a PSWC -- how the capital is obtained, how it is owned and how it should be used to build a successful business -- is essential to everyone seeking to start this type of cooperative and equally important to those promoting them. PSWCs require two kinds of capital: (1) **equity capital;** and (2) **debt capital**. Capital is needed to organize a PSWC, to secure equipment and a facility in which to work, to meet the expenses of daily operation including payment of utilities, marketing of products, and the purchase of raw materials, and to provide a cushion to cover expenses until the PSWC becomes profitable.

Equity capital. The worker-members provide the equity capital to start a PSWC by making equal financial contributions as a condition of membership. In return, each member receives one share of stock.. Normally, the equity payment for that one share of stock is set at a level high enough: (a) to obtain a significant amount of the capital needed to start the PSWC, and (b) to demonstrate to every worker-member and to a bank or lender that they are serious enough about starting a new PSWC that they are investing a substantial amount of their own money in the enterprise.

The amount of equity capital required depends on the type of business being started and the financial condition of the members. The Basques in northern Spain require prospective members of a new worker-owned cooperative to invest about 10 percent of the total amount required to start the business--usually about one year's wages from each member--before the group's cooperative bank loans them the remainder of the needed capital. However, the bank allows worker-members to pay for their one share of stock on an installment basis through payroll deductions.

Debt capital. The additional capital needed to start and operate a PSWC, beyond the equity capital invested by the worker-members, is called debt capital. It is money borrowed from a lender and does not convey any share (equity) ownership in the cooperative. There are two kinds of debt capital: (1) external debt capital (funds borrowed from banks or other external lenders); and (2) internal debt capital (funds borrowed from the worker-members' portion of the enterprise's profits).

Individual capital accounts. Because of the importance of capital to the success of the PSWC and the need for a system to track the equity and debt capital obtained from the members, an **individual capital account** is established for each worker-owner when the PSWC is organized.

The individual capital accounts serve a number of purposes: First, they keep the membership fee at a level most potential members can afford, even in a capital intensive PSWC. Second, they provide worker-members with a substantial ownership stake and a sense of ownership and motivation to keep the PSWC productive and competitive. Third, over time they provide worker-members with a share of the capital gains from the growth and profitability of the PSWC. Fourth, they provide a revolving loan fund for expansion and modernization, a financial reserve to weather difficult times, and an effective means to keep the ownership shares of the enterprise under worker control. Finally, they provide the worker-owners with an incentive to stay with the cooperative and a nice nest egg when they retire or leave.

Each individual capital account holds the membership fee each worker pays to become a member. This money, plus money borrowed from banks and other lenders, is used to finance the PSWC startup and operations. After the PSWC is operational, a portion of the profits it earns (or loses) is allocated to the member-owners' individual capital accounts according to the hours they worked or their gross pay. Worker-members' wages vary according to skill and seniority, but they usually promote widespread well-being rather than benefiting just a few.

The members' equity and debt capital in a PSWC is the balance in their individual capital accounts. Retained patronage dividends (members' debt capital) may be paid to the members in two ways -- in cash or "rolled over" after a fixed time period (e.g., 5 - 7 years). A substantial balance (at minimum their membership fee) should always be retained in the member-owners' individual accounts to absorb losses during unprofitable years and provide the necessary capital for the business to grow and remain competitive.

When worker-owners retire or leave the cooperative (some cooperatives require them to remain with the cooperative for a specified period of time; e.g., three years, before any money accrued in their individual capital accounts, above their initial membership fee, is fully vested), the balance in their individual capital accounts (their membership fee plus all accumulated earnings and interest) is paid to them over a specified period of time. However, their membership certificates or ownership shares automatically return to the PSWC.

The cooperative principles underpinning successful PSWCs. The Rochdale Pioneers in England in the 1840s set forth eight cooperative principles to guide their operations. More recently the International Cooperative Alliance reformulated them into six internationally recognized cooperative principles:

The 6 internationally recognized cooperative principles

1. Membership in a cooperative society should be voluntary and available without artificial restriction or any social, political or religious discrimination.

2. Cooperative societies are democratic organizations. Their affairs should be administered by persons elected or appointed in a manner agreed to by the members and accountable to them. Voting should be on a one person-one vote basis.

3. The society should pay limited interest on share capital.

4. Surplus or savings arising out of the operations of a society belong to the members of that society and should be distributed in such a manner as to avoid one member gaining at the expense of others.

5. All cooperative societies should make provision for the education of their members, officers, and employees in cooperative principles.

6. Cooperative organizations should actively cooperate in every practical way with other cooperatives.[2]

Because these six internationally recognized cooperative principles were developed primarily for consumer and other client-owned cooperatives, they are insufficient and sometimes inappropriate, for organizing successful PSWCs. For example, principle number one is not suited to PSWCs because: (1) a PSWC must limit its membership to the number of worker-members the enterprise can efficiently and profitably provide employment; and (2) appropriate screening of prospective members for membership is necessary, but it should not be based on discriminatory factors such as race, sex, political or religious beliefs. Principle number three -- limited return on debt capital -- is not a major concern to the capital borrower who wants to pay the lowest cost for capital. Debt capital may be borrowed from members or nonmembers. (However, in PSWCs the equity capital must be owned by the worker-members.) The eventual conversion of the Rochdale Manufacturing Society, a worker-owned cooperative created by the Rochdale Pioneers in 1850, into a traditionally managed joint stock company in 1862 occurred because it needed capital for expansion and allowed nonworker-members who were looking only for a good return on their investment to own equity capital stock.

Historical experience has demonstrated that in addition to the six internationally recognized cooperative principles, some supplemental worker-cooperative principles also are essential for successful PSWCs. These include:[3]

Supplementary PSWC cooperative principles

1. Ownership must be exercised only by the suppliers of labor--the workers
2. All workers must become worker-owners
3. The suppliers of capital must be rewarded by agreed to rates of interest
4. The workers must dispose of the variable income of the business
5. The control and benefits of the business must be divided among the worker-owners in their capacity as suppliers of labor and not as suppliers of capital

Basic PSWC organization, governance and management. The organizers of each PSWC establish the specific provisions on which it is organized, governed, and managed based on the laws and regulations in their specific country. Therefore, this guide cannot spell out the provisions in great detail. However, the basic organizational aspects of PSWCs and the internationally recognized cooperative principles and supplemental worker cooperative principles must be incorporated.

The following information is based on "best practice" and model law and by-law provisions being used to establish worker-owned cooperatives in a number of countries. It explains the essential features of PSWC organization, governance, and management.

Basic PSWC organization, governance and management

- ***Legal Incorporation***. Laws providing for the legal incorporation of worker-owned cooperatives
- ***Size***. The minimum number of people required to incorporate a new worker-owned cooperative
- ***By-laws***. Rules drawn up by the organizers to govern the cooperative as a worker-owned enterprise
- ***Rights of membership and shareholding***. Details the conditions for membership in the worker-owned cooperative and the financial obligations
- ***Governance***. Implements the one person-one vote system of governance and election of the board of directors, and clearly identifies the responsibilities of the board and hired managers.
- ***Taxation***. Cooperative profits paid to the worker-members as patronage dividends (wages) are taxed as personal income.

Legal incorporation. The ideal form of legal incorporation for a PSWC is a national or state cooperative law that includes the key cooperative and worker-owned cooperative principles, encourages growth and permits the worker-owners in PSWCs to receive the fruits of their labor while exercising democratic management control.. Such a law usually contains four parts: (1) it converts a corporation, as it is customarily defined in law, into a membership organization which is democratically controlled by the workers; (2) it permits equitable allocation of earnings and losses to members based on their relative contribution of labor, not their relative capital investment; (3) it authorizes a capital structure along with a system for internal and individual accounts; and (4) it sets forth a capital allocation procedure consistent with the national tax codes for cooperatives. Fortunately, some countries, such as Spain and a few states in the United States beginning with Massachusetts in 1982, have enacted such legislation. If these provisions are not available under existing cooperative statutes, then efforts to change the statutes are needed (as discussed in Chapter 4).

In the absence of suitable PSWC statutes, a common procedure is to use specialized by-laws, such as the model by-laws developed by the Industrial Cooperative Association in the USA, within the legal shell of a business corporation. Similarly, a PSWC can use special worker-owned cooperative by-laws within the legal shell of a generic cooperative, a corporate entity ordinarily used by farmer cooperatives or consumer cooperatives. Thus, the company is incorporated either under the normal business corporation statute of the state or under the general cooperative statute of the state, and the specific by-laws internally restructure the company as a worker-owned cooperative.

Size. The cooperative or incorporation statutes normally identify the minimum number of people necessary to incorporate a new cooperative or business enterprise, typically six to ten people. The size depends on the number of prospective members involved in organizing a new PSWC enterprise. The maximum number of members is determined by the markets for its products or services and the ability of the cooperative to maintain its unique system of organization, participation, ownership, and governance to the satisfaction of its membership and management.

By-laws. Upon filing articles of incorporation with the necessary government agencies, the organizers of a PSWC draw up the by-laws. The by-laws add meat to the bones provided by the articles of incorporation.

Because the PSWC is a unique type of cooperative enterprise, it is essential to clearly delineate the responsibilities and rights of the worker-members, the appointed management, and the elected board, including the establishment of a suitable framework for decision-making and developing and implementing education and training programs to teach everyone in the cooperative, workers and managers alike, effective systems of management and governance, worker participation, cooperative principles and problem solving on a continuing basis.

The by-laws for a PSWC typically include:

- The name and location of the worker-owned enterprise.

- How it will carry out its purpose.

- The principal business office.

- Who can be members or shareholders, including any restrictions on owning and transferring memberships.

- The privileges and responsibilities of members; for example: How many hours a week a worker must work to qualify for membership. How and under what circumstances a member-worker can be fired or expelled from membership.

- When and where membership meetings will be held. Provisions for special meetings are set out, including the percentage of members who must request one. Notice of meetings must be given.

- The number of directors, their length of term in office, how they are elected, when they should meet, how they can be removed, how many constitute a quorum to conduct business, etc. (Usually 50 percent of the directors must be present at a meeting in order to vote and make decisions).

- The voting rights of members, one vote per member.

- The names of the officers.

- The method for amending the by-laws.

- The distribution of net earnings or losses to member-workers is set forth on the basis of labor contributed. This may take the form of cash distributions, credits in an individual member's account, or a written obligation.

- How the firm will distribute its assets if it dissolves (usually it is in proportion to the participation of each member).

- Any other items wanted, specified or which the government in the country in which the PSWC is incorporated may required.

The by-laws may specify a range of decisions reserved to the members of a PSWC.

Rights of membership and shareholding. As noted previously, in a PSWC the permanent workforce of the firm should be the member-owners. Employment in the PSWC is a condition of membership; there are no absentee members. After a probationary period, all workers must be accepted into membership or be terminated unless the members decide to allow a small percentage of short-time or part-time nonmember workers (usually limited to 5 to 10 percent of the total membership). The members determine whether this is permitted at the time of organization and include appropriate language in the by-laws. A PSWC cannot have any long-term nonmember employees.

The rights of membership obligate the workers to pay a membership fee, which is credited to their individual capital accounts, and to receive one share of stock. The rights of membership also obligate the workers to be contributing members of the PSWC.

Because all (or nearly all) workers are to become members and owners of the PSWC, the group must establish some criteria to carefully screen prospective members to insure that they fit into the PSWC. Following their initial acceptance, the workers undergo a six-month probation during which their co-workers and supervisors assess their suitability. Once they become members, they undergo an extensive socialization process, including educational courses in cooperative and worker cooperative principles and ethics.

Governance. Unless the PSWC is so small that the members can directly elect their managers, governance is exercised through elected representatives. Annually, the members vote on the basis of one person-one vote to elect the board of directors. The board of directors appoint and oversee the chief executive officer and the other members of the management team. The board also develops policy, which the managers implement on a day-to-day basis, and appoint some committee members. The members directly elect a social council or grievance committee members. Finally, the PSWC worker-owners are to be given full access to all cooperative information.

In a PSWC, the chief executive officer (CEO) or manager is accountable to the board of directors, and the board is accountable to the membership. The membership can dismiss the CEO or manager only by causing the board to do so. Within the policy guidelines established by the board, the CEO or manager has the authority to organize and direct the workers in the manufacture of the products or services, including the power to discipline or fire workers who fail to perform their duties in an acceptable manner or violate company policies. Workers may appeal such actions to a social council or grievance committee established to ensure them of due process. Termination from the enterprise for cause would lead to their loss of membership in the cooperative and forfeiture of their one share of stock (with appropriate reimbursement for the amount remaining in their individual capital accounts).

Annual membership meetings must be held. At the annual meeting, the PSWC members elect directors to the board and vote on any by-law changes or resolutions brought before the membership. To provide continuity of the board, the terms of office of the directors are usually staggered so only a portion of the directors are elected each year.. The social council or grievance committee members may also be elected at the annual meetings.. Special meetings of the general membership may be called by a ten percent petition of the members.

Establishing reciprocal relationships between workers, managers and board members in a PSWC requires time, education and, above all, trusting patience. In PSWC management, the managers derive authority from the worker-owners rather than from capital.

Taxation. The tax codes in most countries establish single taxation for the patronage-related net income of all cooperatives, including worker-owned cooperatives. When the cooperative pays patronage dividends in cash (e.g., as wages or bonuses to worker-members), it can deduct them from its taxable corporate income, but the members who receive them must declare them as taxable personal income. If the cooperative allocates the patronage dividends on paper and retains the cash, (e.g., as additions to the members' individual capital accounts) then the cooperative can choose either to pay the corporate tax on it at that time or to have the members include their non-cash allocations in their taxable personal income. If the cooperative pays the corporate tax on it at that time (which is the usual procedure), it cannot not deduct it from its corporate taxable income until it actually pays the patronage dividends in the members' individual capital accounts to them. At which time, the members include it in their personal income. Any corporate income not allocated to its members (i.e., income which goes into the cooperatives' collective capital account) is subject to corporate tax as in a conventional business corporation.

Possible PSWC business ventures

PSWCs lend themselves to a wide range of business ventures. They can be organized to start a business where human values and cooperative principles are of equal importance to productivity and profits. They can be organized to take over existing businesses when the owners intend to retire or the shareholders wish to put their capital to other uses. In such cases, the firms' assets are sold or given to the employees, and the enterprises are reorganized as a PSWC. PSWCs can be organized when a government plans to privatize an existing pubic enterprise (as was the case in the organization of a worker-owned bus cooperative in northern England several years ago). Or they can be organized as part of government-sponsored efforts to create new enterprises to generate employment, as happened in Spain and Britain in the 1970s and 1980s.

PSWCs can be used to operate enterprises in a wide range of industries, from simple low-tech manufacturing or service sector activities to the production of very sophisticated products and services. Industrial PSWCs, the foundation of the Basque system of cooperatives in northern Spain, produce household appliances (refrigerators and stoves), machine tools, robots, and other sophisticated products.

Throughout the world, worker-owned cooperatives are involved in food products, computer software, printing, furniture manufacturing, construction, solar heating, publishing, book distribution, retail food stores, clothing, transportation, consulting, wholesale distribution, health care, and personal services, to name a few. In developing countries PSWCs are involved in clothing, shoemaking, catering, candlemaking, - furniture making, restaurants, ceramic brickmaking, wireweaving, building construction, building maintenance, lighting fixtures and switches, and machine shops. The activities of PSWCs seem to be limited only in ventures that require such large work forces and substantial capital investment, e.g., automobile manufacturing and oil refining, that they make PSWC values and operation unfeasible or impractical.

The Basques in Spain have demonstrated that PSWCs can be started and operated successfully in a wide range of industries and sectors, including major manufacturing enterprises. However, when their cooperatives reach four to five hundred worker-members, they encourage their members to spin off new industrial worker-owned enterprises to maintain a sense of community, solidarity, and participation among the worker-owners and between the workers and the management of their enterprises.

Considerations for determining PSWC business ventures

- Conducting a feasibility study and writing a business plan are essential prerequisites for determining the suitability of the business idea before starting a PSWC
- PSWCs can be started from a new business idea or conversions resulting from the buyout of an existing business from a departing owner, the privatization of a state-owned enterprise, or the threatened closure of an existing enterprise,
- Low tech enterprises are easier to start than high tech enterprises, but both are suitable for PSWCs
- Labor intensive enterprises are easier to start than capital intensive enterprises, but both are suitable for PSWCs
- Manufacturing and service businesses are equally suitable for PSWCs
- Industries and businesses requiring very large amounts of capital and large work forces are less well-suited to the PSWC form of organization

Characteristics of successful PSWCs

Studies of worker-owned cooperatives indicate financial management deficiencies--inability or failure to link financial decisions to market opportunities, stock control, and technical innovation -- are their most common weakness. The researchers conclude that if these cooperatives perform less well than similar private enterprises "it is due to managerial deficiencies, not to an intrinsic weakness of the form." (Abell & Mahoney 1988)

Studies of PSWCs in developing countries also have concluded that their success (or failure) is determined by the organizing group's ability (or lack of ability) to:

- identify good business opportunities and activities,
- possess or acquire the necessary mix of skills,
- possess the personal characteristics and commitment needed to undertake good business planning, and
- pick good leaders and managers. [4]

In short, when PSWCs fail, it is because they lack or fail to obtain the critical elements needed for successful group entrepreneurship.

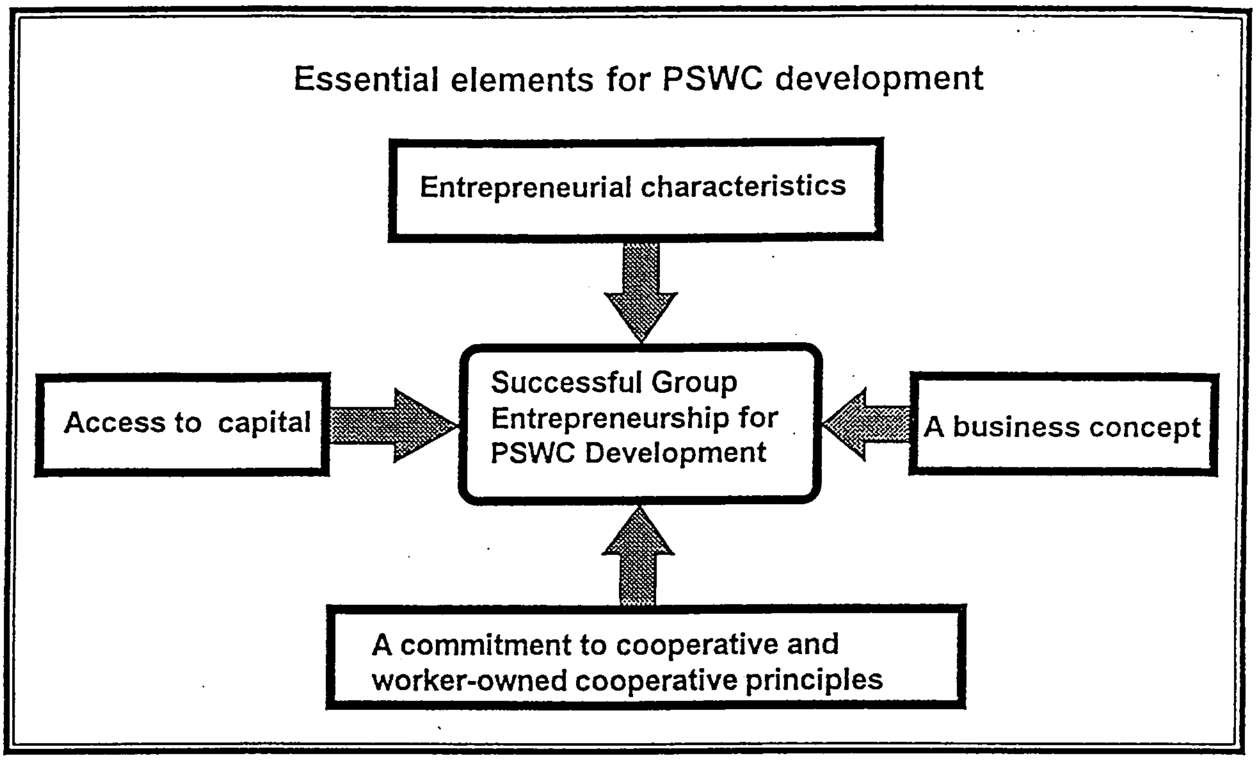
These same studies have found that a number of factors contribute to the success of worker-owned cooperatives:

Factors contributing to the success of PSWC enterprises

- Quality leadership and management
- Technical competence and training of workforce
- Members' commitment based on their capital stakes
- Effective systems of democratic management and decision making
- A network of mutually supportive worker-owned cooperative organizations
- Continuing education and training to increase the skills of managers and worker-owners
- Membership solidarity
- Adequate guidelines for good cooperative practice
- The business makes regular, substantial contributions (e.g., dividends) to the workers as owners.
- The workers are involved in the major decision-making.
- The managers treat the workers like owners instead of employees.
- The workers are educated to understand what being owners means and to think and behave like owners.[5]

Elements groups must possess for successful PSWC entrepreneurship

Subscribing to the internationally recognized cooperative principles and supplementary worker-owned cooperative principles is necessary but not sufficient for prospective group entrepreneurs to start and operate a successful PSWC enterprise. Three more elements -- (1) entrepreneurial characteristics, (2) a business concept, and (3) access to capital --need to be combined with the cooperative and worker-owned cooperative principles to constitute what one of the leading texts on the subject calls the "labor-entrepreneurship window of opportunity."[6] Organizers of successful PSWCs must possess or obtain all of these elements.



A commitment to cooperative and worker-owned cooperative principles. First, the organizing group must understand and accept the general cooperative principles and the additional worker ownership and capital formation principles to construct successful PSWCs. To avoid serious problems, PSWC organizers must thoroughly understand and practice these principles from the outset.

A viable business concept. Second, all members of the group must share a viable business concept. The business concept must be carefully thought out, researched, and analyzed through a business feasibility study. Timing is important; changing technology, economic conditions, or impending privatization are just a few of the many forces that impose time constraints. The process of conducting a business feasibility study is discussed in chapter 5.

Access to capital. Third, there must be access to adequate capital. Capital comes in many forms and from many sources. It may include the time and labor of the worker-owners and credit extended by others. It must also include the membership equity agreed to by the organizing members and possibly some grants or loans from specialized small business lending agencies and international donors.

Entrepreneurial characteristics. Fourth, some (at least one, but preferably more) people in the organizing group must have the necessary entrepreneurial characteristics, experience and business skills to start a PSWC. Important group entrepreneurial characteristics include: a high energy level--the ability to get up early and work hard all day; a positive self-image--a determination to succeed; oral and written communication skills to sell a product or service; the ability to assess the potential of a product/service/ideal; flexibility and resiliency--the ability to adjust to the rewards and pitfalls of the marketplace; decision-making skills; always learning; the ability to marshal resources; and a sense of adventure--the courage to try something new. While basic entrepreneurial characteristics cannot be taught, some skills can be gained through formal education, and others can be gained through work experience.

PSWC incubation and support mechanisms.

Incubation and support mechanisms are critical to successful PSWC development. Research and experience show that the ability of new PSWCs to survive and flourish comes primarily from the integrated approaches used to promote and develop them and the innovative mechanisms created to support them. Observations by the organizers of large-scale successful worker cooperatives, such as the Indusco cooperatives in China in the late 1930s and the Mondragon complex in Spain in the 1950s, and researchers who have studied these and other successful PSWC development programs attribute their success to good leadership, clearly defined objectives, and, most importantly, well-designed structural elements established as part of the PSWC development mechanism.

The structural elements include specialized entrepreneurial, financial, R&D, and educational units; and unique ownership and capital structures. The cultural and shaping systems, solidarity and mutual support, and a future orientation are also cited as important contributors to their success. (Arizmendiarrita in Whyte & Whyte, 1988; Alley 1979; Whyte Chapter 3 in Wiseman, 1991; Hansen 1993).

Chapter 3 discusses the eight structural and other elements required for starting an integrated PSWC development program, and Chapter 4 discusses the organization and functions of PSWC incubation and support mechanisms.

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[1] ILO, Report 3: The role of cooperatives in the promotion of employment and income in the rural and informal sectors. Report prepared for Meeting of Experts on Cooperatives, Geneva, 29-2 April 1993. (Geneva: 1992), pp. 1-2.

[2] ILO, Cooperative Management and Administration, 2nd ed., 1988, p. 7

[3] Alastair Campbell, The Democratic Control of Work, Oxford: Plunkett Foundation, Revised Edition, 1989, pp. 74-79.

[4] Malcolm Harper, Producers' Small-Scale Industrial Co-operatives: Some Case Studies from Developing Countries. Sectoral Activities Programme Working Paper, Cooperative Branch. Geneva: ILO, 1991, pp. 86-89.

[5] Corey Rosen, Katherine J. Klein, and Karen M. Young, Employee Stock Ownership in America: The Equity Solution, Boston: Lexington Books, 1986, pp. 193-194.

[6] Ibid., pp. 38-41.

Chapter 3

An Integrated Strategy for PSWC Development

Requirements for successful PSWC development

The **production and service worker-owned cooperative** (PSWC) development program has the capacity to build strong cooperatives in the industrial and service sectors of an economy that directly provide substantial numbers of good jobs and greater income for the groups undertaking the risks and challenges of worker-owned cooperative entrepreneurship.

It is both possible and appropriate for groups of people in a community to begin the process of entrepreneurship by creating PSWCs. In many countries, groups of entrepreneurs, acting on their own or with the encouragement and assistance of others, have organized worker-owned cooperatives that not only provide substantial numbers of jobs but are thriving business enterprises. However, past experience shows that the traditional approaches for promoting and organizing worker-owned cooperatives often have produced weak, isolated cooperatives that generate few jobs and little income because developing successful PSWCs is a very specialized and complex process.

Years of experience and research on worker-owned cooperative development have led to two important conclusions. First, ***when done correctly, PSWC development is an effective, practical way to generate employment, income and new business enterprises in both developing and industrialized countries***. However, PSWCs must be *systematically* promoted and *properly* organized, managed, and supported. Second, ***successful PSWC development requires specially designed promotion and support organizations that help incubate new PSWCs and also help develop and deliver skilled management, appropriate education and training services, and financial resources to them.*** Unfortunately, too little attention has been paid to these essential steps and components.

Experience also shows that three elements are essential if PSWC development efforts are to achieve long-term employment and enterprise creation success:

(1) a unique kind of "group" entrepreneurship to incubate new PSWCs;
(2) the incorporation of individual PSWCs into a larger worker-owned cooperative system or complex to maximize production efficiencies, solidarity, and economic strength; and

(3) an integrated, holistic support approach that includes the elements necessary for effective small enterprise development plus the additional ones that are unique to worker-owned cooperative entrepreneurship. (Hansen 1993)

Recent ILO research and empirical evidence demonstrate that an integrated, holistic approach is essential for the success of small-scale enterprise and PSWC employment and business creation. The essential components of a holistic approach include:

(1) the development of an appropriate environment and free market policies;
(2) studies and strategies to match demand with local resource potentials;
(3) cost-effective institutions and processes, including training and follow-up services;
(4) institutions to support the growth of existing businesses;
(5) credit and financial facilities; and
(6) national authorities to pursue and support policies and institutions for small enterprise development. (Theocharides and Tolentino, 1991, p. 1)

The integrated approach for successful PSWC development. The essential elements for successful worker-owned cooperative development have been identified by combining the findings of experience and research on successful worker-owned cooperative development and the conclusions of the ILO and other researchers about the importance of an integrated, holistic approach for small enterprise development. The essential elements for PSWC development are:

Essential elements of successful PSWC development

1. Establish the necessary institutional framework and support mechanisms;
2. Incubate PSWC enterprises on a systematic, ongoing basis;
3. Create significant numbers of new, viable employment-generating PSWCs in a community or region;
4. Build strong groups or systems of industrial PSWCs capable of independent, self-sustained growth; and
5. Facilitate local community and regional economic development by fostering enterprise and employment creation through group entrepreneurship and PSWC development.

Having information about the essential elements for successful PSWC development leads to an important question: How can these essential elements be organized and implemented in a holistic, integrated way to achieve the employment and enterprise creation potential urgently needed in many countries to reduce unemployment and provide jobs and income to workers and their families? One approach which has been successfully used to do this, but which is not widely understood, is the Cooperative Entrepreneurship for Enterprise Development (CEED) strategy. The remainder of this chapter outlines the components comprising this strategy and identifies the advantages of using it.

Components of the CEED strategy for PSWC development

The powerful, integrated and holistic **Cooperative Entrepreneurship for Enterprise Development (CEED)** strategy for launching effective, large-scale PSWC development in any area has eight components. Throughout the remainder of this Guide, this set of eight components is called the CEED strategy.

Components of the CEED strategy for PSWC development

1. An appropriate legal and institutional framework
2. A suitable PSWC model
3. An entrepreneurship institutionalizing mechanism
4. A linked financial institution
5. A linked entrepreneurship education and training institution
6. A coherent set of cooperative values, goals and objectives
7. The development of networks, groups and federations
8. A well-designed plan for implementation

The CEED strategy components are discussed below.

1. An appropriate legal and institutional framework Cooperative legislation that promotes the development of the PSWC program and incorporates the unique PSWC principles must be in place or be passed by the appropriate legislative bodies in the targeted areas. Such legislation enables the members of individual PSWCs to build strong, efficient, and well-capitalized enterprises that can be melded together into an integrated functioning network or system. The legal or institutional framework for the PSWCs must allow the members to solve their organizational, financial, and business problems on an ongoing basis, to meet new challenges and changing conditions and to achieve the goals and objectives of the PSWC system.

2. A suitable PSWC model. The unique ownership incentives and linked financial support institution for the PSWCs are the preferred legal structure to create and establish productive and successful business enterprises because they establish a realistic, cooperative basis of ownership, equity accumulation, and distribution of profits. This ownership system provides the incentive and means to increase the worker-owners' motivation, commitment and skills while reinforcing their adaptability and flexibility. Plus it also helps to retain a cadre of professionally trained, participative managers and encourages innovation by them.

3. An entrepreneurship institutionalizing mechanism. The entrepreneurship institutionalizing mechanism is the Cooperative Entrepreneurship Team (CET). Each CET consists of a small cadre of highly skilled business professionals (Category I) who have expertise in at least one of three areas: organization and management, engineering and production, and business -- finance, marketing, accounting, human resources. The CETs are capable of conducting feasibility studies, performing promotional work and carrying out other tasks associated with PSWC enterprise creation and development.

A selected number of academically trained but inexperienced young professionals (Category II) are recruited to augment the CET's technical resource base and are part of the human resource development dimension of the PSWC development program. It is intended that many of these junior professionals would eventually become the managers and leaders in new PSWCs as well as backfill the CET professional staff as the program expands.

The CETs are strategically located in communities or geographic regions to provide guidance and support services to groups of prospective PSWC entrepreneurs. They promote group entrepreneurship, identify business opportunities, determine their feasibility, and serve as midwives in giving birth to new employment-creating PSWCs.

The objectives of the CETs are:

(a) to increase the number of people with entrepreneurial characteristics and business skills;
(b) to evaluate resources and raw materials and to identify suitable PSWC business opportunities and market gaps in the communities or regions;
(c) to match people possessing entrepreneurial abilities and desiring to become worker-owners with the business opportunities and to facilitate that business formation process; and
(d) to create economically viable, sustainable PSWC businesses.

Under the PSWC development program, the CETs identify prospective worker-owners and develop new PSWC enterprises through two avenues:

(1) potential PSWC worker-members, either groups or individuals in the communities and surrounding areas, who come to the CET with a business or product idea and/or a desire to start a business; and
(2) CET staff who have business or product ideas and actively recruit people in the community to become worker-members in new PSWCs.

When a group of prospective PSWC entrepreneurs decides to undertake the creation of a new PSWC, they sign a contract of association with the CEED Foundation or other organization implementing PSWC development. This agreement enables them to receive or obtain the entrepreneurial assistance, financial support, management assistance, and training they need to start a new PSWC business. In return for this assistance, the group agrees to provide the necessary equity, adopt the PSWC ownership structure, submit to the financial discipline imposed, make regular financial reports to the CEED-affiliated financial arm, and become active members of a PSWC complex. Following the signing of this agreement, the CET and other CEED support institutions begin working with the group to launch a new PSWC business.

The CET advisors work closely with groups of potential PSWC members throughout the feasibility and business planning stages of business startups to screen potential worker-owners for new PSWC enterprises, teach them the basic cooperative and worker cooperative principles and business skills on the job, and advise them on all aspects of the business during the critical first years of operation.

4. A linked financial institution. Studies of entrepreneurship and small enterprise development agree that incorporating some means to obtain adequate credit and venture capital financing is essential for the startup and growth of any cooperatives. This is especially true for the creation of new PSWCs.

Therefore, a specialized cooperative financial institution (CFI), or financial arm, must be established to obtain the additional capital beyond that which the worker-owners can provide. This can be done locally by setting up credit and savings cooperatives or PSWC development banks to mobilize savings in the targeted area or using existing commercial banks. This can be done regionally or nationally by obtaining additional venture capital grants from government small enterprise or cooperative development programs and lending institutions such as the Asian Development Bank, World Bank, foundations, international donors, and other sources. In addition, the CFI should establish close working relationships with the existing banking sectors in the community and country to help package loans and make available the other financial arrangements the PSWCs need as they grow and expand.

The CFI staff, working in close cooperation with the CET, serve as financial advisors, venture capitalists and bankers in the PSWC development program. They must be capable of evaluating the financial aspects of any proposed business startup, expansion or conversion and of securing or providing the necessary financing to create viable new PSWC businesses. Under the terms of the contract of association each new PSWC signs, the CFI monitors the financial health of existing PSWCs, helps them to remain financially solvent, and assists them to obtain the capital they need to expand, compete and take advantage of new business opportunities.

5. A linked entrepreneurship education and training institution. Education and training are critical to the success of the PSWC development program. Past experience demonstrates that ***the long-term viability and success of PSWCs in the manufacturing and service industry sectors depend on the education and training the PSWC worker-members and managers receive on a regular and continuing basis.***

A group entrepreneurship training center (GETC) is needed to promote a PSWC enterprise culture among the worker-members and to help them become more efficient and productive as business persons and more democratic and participative in managing their businesses. Also, an educational and training program is needed to provide entrepreneurial, technical and specialized cooperative training to prospective PSWC worker-members and selected groups of young people in the community who are interested in becoming group entrepreneurs.

Regardless of what integrated CEED strategy launches the PSWC development program, a human resource development effort is necessary to provide the PSWC managers and worker-owners with the specialized types of training which they need but which are not available from other sources: motivational and achievement needs training, group entrepreneurship training, cooperative principles training, worker-ownership principles training, participative management and governance skill training, and business, technical and vocational skills training.

If the PSWC complex or system stakeholders are prepared to finance expansion as the PSWC program grows in a community or nation, the GETC could become the nucleus of a permanent PSWC training center or even a second degree worker-owned technical institute or college directed and controlled by the stakeholders (the PSWCs, CETs, CFI, GETC staff, and students). In short, the GETC stakeholders determine its future role and development. The GETC's dominating philosophy, objectives, and business training programs should reflect fundamental cooperative principles, worker-owned cooperative principles, and group entrepreneurship principles.

6. A coherent set of cooperative values, goals and objectives. If the CEED-incubated PSWC development system is to grow and succeed, the PSWC owner-members must subscribe to the common, coherent set of cooperative values, goals, objectives, and principles that are identified and articulated for present and future membership and inculcated in them through an extensive, continuous educational process. These values, goals, and operational principles are derived from or expand on the six cooperative principles and supplementary worker cooperative principles outlined in Chapter 2.

Values. Although the organizers of a PSWC development program determine the basic values, objectives and guiding principles for their system, the six cooperative principles discussed in Chapter 2 are a crucial starting point. Based on those principles, groups undertaking PSWC development should emphasize: (1) **Equality.** Regardless of social class or position, worker-owners are to be treated as equals in interpersonal and organizational relations and to have equal rights and obligations in a PSWC; (2) **Solidarity.** All PSWC members gain or lose together; no member should benefit at the expense of others; (3) **Dignity of Labor**. All human labor, blue-collar, white-collar and managerial, has dignity; (4) **Participation.** Worker-members have a right and obligation to participate in the decision-making that affects them.

Goals and Objectives. The primary objective of the PSWC enterprises is to generate good jobs and income for PSWC worker-members and their families. Other important objectives include employment security, human and social development, autonomy and self government, and economic progress.

PSWC goals and objectives

- **Good jobs and income** through the creation of viable PSWCs in the manufacturing and service sectors. All PSWC worker-members must be committed to using their commonly held equity capital to create jobs in their communities by starting new PSWCs and expanding, restructuring, or redirecting existing PSWCs to maintain competitiveness.

- **Employment security** for all PSWC worker-owners in good standing as long as their PSWC remains economically viable. This may mean that some workers must change jobs or undergo retraining within their PSWC or even move to another CEED-affiliated PSWC.

- **Human and social development** to ensure that the working conditions in PSWCs are humane and to foster the social development of the members and their communities.

- **Autonomous and self-governing.** However, the individual PSWCs should be linked in a network or federated together to strengthen them and to help them cope with changing external conditions and respond to new business opportunities.

- **Financial success** to achieve job creation, income generation and employment security. Although profits are not the only purpose for PSWCs, profits or surplus are essential to the survival and growth of these enterprises.

PSWC operating principles. Additional operating principles distilled from the six basic cooperative principles include: balancing members' interests and needs in individual PSWCs and other PSWCs in the "PSWC system", long-term thinking and planning, periodic self-evaluations of PSWCs, openness to new members as growth and turnover permit, free access to PSWC operating and financial information, politically neutral, and, when feasible, encouraging inter-PSWC trade, creating new PSWC groups to secure economics of scale, and controlling PSWC size to maintain efficiency and member involvement.

PSWC operating principles

- **Balance** between members' interests and needs in individual PSWCs and in other PSWCs. No member should gain at another's expense.
- **Long-term planning** -- well beyond the immediate situation.
- **Periodic self-evaluations** to improve the PSWC's organization and operation.
- **Nondiscriminatory**. Open to all people with good attitudes and requisite skills and training for job openings.
- **Politically neutral.** Individual members may express their own political views and belong to any political party but the PSWC must refrain from doing so.
- **Free access to information.** To make intelligent decisions, the members must, as much as practical, have access to all information relevant to decision-making and their responsibilities.
- **Inter-PSWC trade**. Individual PSWCs should buy from and sell to one another except when it is clearly disadvantageous.
- **Formation of PSWC groups** to share general management or support services as long as none of the PSWCs' interests are sacrificed.
- **Controlled size** for production and marketing efficiency and administration. PSWCs should be large enough to be productive but small enough so the management and governance is handled by members and managers who know each other.

7. The development of networks, groups or federations. Whenever CETs incubate new PSWCs in communities or regions, they must establish linkages among them to reduce their costs of doing business and enable them to become more competitive in their industries and regions, e.g., obtaining market intelligence and marketing products and purchasing raw materials. Later, the PSWCs may want to establish group arrangements to jointly provide research and development, bid on large projects, develop new products, and produce greater quantities of goods and services.

It is anticipated that nationally or on a regional basis the PSWC development program would evolve into one or more full-fledged cooperative "complexes" or "systems." The CETs, the CFI and the GETC would become second degree cooperatives owned by and serving the needs of the CEED-affiliated PSWCs.

Before establishing networks and other cooperative arrangements for mutually beneficial group activities, the PSWC development program organizers and cooperative managers should examine the small manufacturing firms in the Emila-Romagna region of Italy and the flexible manufacturing networks in Denmark, Spain, and elsewhere for concepts and practices they could apply to their own program.

8. A well-designed plan for implementation. Regardless of how talented or dedicated one or two individuals may be, they cannot implement the integrated CEED strategy to create a viable PSWC development program because creating significant numbers of PSWCs in a developing country, or any country, requires substantial planning and organization by competent, knowledgeable people.

The first step is to make an assessment or conduct a careful study to determine whether a PSWC development program and its essential support mechanisms can be developed in a community or country. Chapter 4 discusses this process in greater detail as part of the process of planning and organizing a PSWC development program.

Advantages of the CEED Strategy for PSWC development

The integrated CEED strategy combines the eight essential components with the cooperative and supplemental worker cooperative principles and the group entrepreneurship concept to generate employment and enterprise creation for groups of people and communities.

Advantages of the CEED strategy for PSWC development

- Achieves a high success rate and substantial job creation
- Emphasizes work and self-reliance
- Provides a buffer against economic difficulties
- Mobilizes underutilized resources
- Provides economies of scale and networking opportunities
- Reaches populations not served by other public programs
- Develops human resources
- Increases the supply of entrepreneurs
- Incorporates the best features of market economy and cooperation

Achieves a high success rate in PSWC enterprise creation. The integrated CEED strategy and its support mechanisms for PSWC incubation give new PSWCs a high probability of success and the ability to generate considerable employment and income.

Emphasizes work and self-reliance. PSWCs provide members with an ownership stake in their enterprises and real, viable jobs. Plus, the PSWC system eliminates the division between work and self-reliance and between capital and labor. The PSWC worker-owners know that self-reliance, responsibility, and hard work are necessary for their enterprises to succeed.

Provides a buffer against economic difficulties. The expanding "group" of PSWCs in a community or region contribute to the security of the PSWC worker-owners during economic downturns. They can jointly withstand the problems presented by business cycles and other difficulties arising in a competitive marketplace by sharing work and workers, temporarily reducing wages, obtaining capital for modernization and restructuring and obtaining emergency funding from their own financial institution.

Mobilizes underutilized resources. The CEED strategy can generate productive investment [what kind of investment?] in countries experiencing low levels of investment, high unemployment, and structural adjustment by mobilizing non-governmental resources instead of burdening government budgets or depending on foreign loans.

Provides economies of scale and networking opportunities. Group entrepreneurship and PSWCs can link members with business units that can help them secure better technology and government-structured incentives as well as help them successfully compete in the marketplace.

Reaches populations not served by other public programs. The proposed CEED strategy PSWC development program outlined in this guide is especially relevant to the urgent need for employment and income-generating opportunities in the rural and urban sectors in developing countries and for developed and industrialized countries undergoing privatization. A community or regionally based group entrepreneurship and PSWCs economic development program can help the large numbers of people not reached by government programs to find ways to employ their talents and resources in productive and autonomous ways as worker-owners. It can help people and groups who are especially disadvantaged -- women, youth, the poor, migrants, tribals, etc. -- or who lack adequate assistance through existing programs.

Develops human resources. Group entrepreneurship and PSWCs emphasize human resource development -- all the processes that create skills and know-how relevant to success in the labor market. PSWCs depend heavily on member participation in production and management and place a premium on securing quality technical and cooperative education for them.

Increases the supply of entrepreneurs. By drawing more people into the entrepreneurial process and training them in the managerial, business, and technical skills needed to successfully create and operate a business, the supply of well-rounded entrepreneurs and managers in the community and small- and medium-sized business sectors can be increased substantially.

Incorporates the best features of market economy and cooperation. PSWC entrepreneurship successfully blends the incentives, efficiencies and opportunities of the market economy and the social values of cooperatives into a dynamic economic development program.

Organizing a PSWC development program

The planning and organizing steps required to implement the comprehensive CEED strategy for PSWC development in a community, region, or country are discussed in Chapter 4. Chapter 4 also provides a detailed description of how the entrepreneurship, financial, and educational mechanisms are staffed, incubate and support new PSWC enterprises.

Chapter 4

Planning and Organizing the PSWC Development Program

The PSWC development program must be tailored to the specific needs of the community, region or country where it is to be implemented. Therefore, the feasibility and planning process must include enough information to accurately assess the potential for promoting and incubating PSWCs. The selection and composition of the planning group and the tasks that it carries out as part of the feasibility and planning process -- the data collection, analysis, planning, and other tasks -- are of the utmost importance to the success or failure of the program.

Steps in planning and organizing the PSWC development program

1. Establish a task force, steering committee or working group
2. Obtain the necessary information to develop an integrated CEED strategy
3. Prepare proposal for the PSWC development program
4. Market the proposal
5. Implement the PSWC development program

1. Establish a Task Force, Steering Committee or Working Group

Worldwide experience demonstrates that if the PSWC sector is to achieve its greatest potential to generate new employment and income in a community or nation, the first step is to organize a task force, steering committee, or working group of interested individuals who would support adopting the Cooperative Entrepreneurship for Enterprise Development (CEED) strategy and starting a PSWC development program. This carefully selected group discusses the issues, agrees to a common set of goals and objectives, determines the feasibility and develops a blueprint to initiate the integrated CEED strategy along with the necessary support mechanisms to provide continuous support and direction to the PSWC development program for employment promotion.

The membership of the task force or steering group could be drawn from:

- the PSWC sector (if one exists),
- independent and distinguished members of the NGO, academic, and business (including banking) communities,
- government departments concerned with cooperatives,
- economic development and small-scale industry promotion agencies,
- donor organization(s) interested in fostering the PSWC program for employment and enterprise development,
- potential group entrepreneurs, and
- other potential urban and rural sector constituencies for the PSWC program -- the self-employed, women, unemployed and under employed, youth, etc.

The size of the steering group should be small enough to be effective, but large enough to enlist the support of important constituencies and potential financial backers.

Because this working group designs the employment and enterprise development program which emphasizes group entrepreneurship and PSWCs, the task force members should be selected on the basis of:

- their commitment to the integrated CEED strategy and worker-owned cooperative principles,
- their knowledge and technical expertise,
- their political skills, and
- their willingness to be active task force participants.

It is anticipated that eventually the task force or some of its members could become the board of directors of a "CEED Foundation," if one is created to run the program.

Once organized, the PSWC development task force recruits a small full-time secretariat and professional staff to help them gather data, conduct the feasibility studies and planning processes and implement the strategies and policies arising from the task force's recommendations. (When the PSWC development program is started, the task force staff becomes the nucleus of its staff to provide leadership, direction and administrative support to the program.)

2. Obtain the necessary information to develop an integrated PSWC development strategy

To ascertain the potential and feasibility for starting a successful PSWC development program in a country or in a specified target area/s, the task force should:

- review written materials,
- review global, national, regional and local information pertaining to potential PSWC opportunities,
- make study trips to obtain information,
- assess the suitability of the existing enabling environment, and
- evaluate the existing condition of the PSWC sector.

Also, the task force should identify any constraints that might affect the worker-owned cooperative sector and determine the potential for developing the CEED strategy to systematically incubate PSWCs for employment creation. This process involves in-depth discussions to make plans, develop an enabling policy environment and undertake any institution-building required.

The task force must be aware of any economic development initiatives and small enterprise promotion activities that may be underway or are planned for the rural and urban sectors, communities, regions or nations where PSWC development programs could be implemented. The proposed PSWC program must be coordinated with other public and private efforts for small enterprise and self-employment development However, in many countries the entrepreneurship and business development promotion institutions are weak or nonexistent, resulting in expensive piecemeal small enterprise and cooperative development programs that have little lasting impact on solving unemployment problems, creating new enterprises, or strengthening existing small businesses.

The integrated CEED strategy set forth in this guide is designed to overcome the deficiencies and limitations of previous attempts to promote PSWC development. It incorporates the latest findings about the enabling environment and the conditions required for small enterprise development and successful PSWC development. As discussed in Chapter 3, past experience and research suggest that an integrated and holistic approach is required to develop economically viable worker-owned cooperatives and a strong mutually supportive PSWC sector.

The following information-gathering steps are essential in designing the PSWC program to generate employment and income:

Information required to design the PSWC development program

- A systematic review of the enabling policy environment
- An assessment of the banking and financial services available to support PSWCs
- The identification of opportunities for PSWC group entrepreneurship
- A report summarizing the findings and making recommendations

A systematic review of the enabling policy environment. A systematic review of the enabling policy environment is necessary to identify and analyze the extent and severity of constraints on launching a successful PSWC development program using the CEED strategy.

The **economic-business climate** must be assessed to ascertain whether and how government policies discriminate against cooperatives, especially PSWCs and other small- and medium-sized enterprises.

The positive and negative **social and psychological attitudes about business and entrepreneurship, educational constraints and technological insufficiencies** in the enabling environment must be evaluated. For example, how are PSWCs perceived? Is the cooperative sector independent of the state, dominated by it, or dependent on it? Is it compatible with the expanding private sector and market economy? Do the schools teach students about worker-owned cooperatives and group entrepreneurship and consider them important forms of business organization and new enterprise creation? Do higher education and other specialized business and cooperative training institutions offer courses about the organization and management of PSWCs? Do they provide classes on general business subjects and the participative management skills relevant to worker-owned cooperatives?

The nature, composition, and strength of the **client-owned cooperative sector and its leaders'** attitudes toward PSWCs must be ascertained. Is the client-owned cooperative sector healthy? Does it have effective support structures and networking mechanisms? Is it independent of government control, dominated by it or dependent on it? Would existing agricultural and consumer cooperatives perceive PSWCs as a threat? Is the client-owned cooperative movement capable and willing to give strong, substantive support to the development of a PSWC sector?

The strengths and weaknesses of the **worker-owned cooperative sector** must be evaluated. How many worker-owned cooperatives are there in the community, region or country? What products or services do they provide? Are they profitable? Do they compete successfully with the other businesses in the community? If some worker-owned cooperatives have failed, why did they fail?

The **legal environment** for PSWCs must be evaluated. Do the existing cooperative laws provide a suitable legal framework for PSWC development or would they have to be changed? (Some cooperative laws are supportive of only agricultural and other forms of client-owned cooperatives.) Do the tax laws discriminate against small businesses and worker-owned cooperatives? If so, what changes in the laws or their administration would be needed and how could these changes be accomplished?

The availability and quality of **business support services** must be assessed. Are quality business-related support services and institutions available to assist small businesses? Could the PSWCs utilize these services? What additional specialized business support services would an expanding PSWC sector need? How could they be obtained?

The **regulatory environment** is an important component of the enabling policy environment. Is it supportive of PSWC development? If not, what would make it more hospitable and less restrictive?

An assessment of the banking and financial services available to support PSWCs. The task force should determine whether the necessary financial institutions and services are available to support the development of a strong, dynamic PSWC sector. If they are not, the task force should determine how best to obtain the necessary financing.

An assessment should be made of all financial institutions, resources, and services available to determine the terms and conditions under which funds could be obtained to support the startup and growth of new PSWCs. Is there a cooperative banking sector that would support the proposed PSWC development program and provide financing for new PSWC startups? Is the commercial banking sector in a position or willing to make loans to groups of prospective entrepreneurs to start new PSWCs? Are there specialized government development agencies or institutions, private foundations or donors who would be willing to provide funds for PSWC business creation? Could resources for assisting small business startups be used to start PSWCs? Could funds be channeled through existing financial institutions? If not, would a special financial institution (or some other alternative) need to be created to serve as the intermediary to meet the capital needs of the new PSWC sector?

If the existing financial institutions are unwilling to lend debt capital for PSWC development, a feasibility study should be conducted to determine the organizational, legal, and other issues that would impact on establishing a worker-owned cooperative financial institution (CFI), such as a credit union, bank, loan guarantee program, revolving loan fund, etc.

The identification of opportunities for PSWC group entrepreneurship. The objective of the CEED strategy for PSWC development is to construct strong, viable PSWC groups or complexes; not isolated, weak ones. To ascertain if sufficient potential business opportunities are available for new PSWCs, the task force must obtain information at the national, regional, sector and local levels that identifies gaps in production, distribution and service systems, export opportunities, the availability and advantage of products, raw materials, skills, tradition, physical facilities and geography. (After potential PSWC opportunities are identified and the plan for the PSWC development program is prepared, the cooperative entrepreneurship teams (CET) undertake a more detailed feasibility study before starting any enterprises.)

The task force should determine if networking, inter-cooperative linkages and collaboration among PSWCs could be promoted and developed along the lines of small enterprises in the industrial districts in Italy and the PSWCs in the Mondragon industrial complex in Spain..

The task force should evaluate the potential for creating horizontally integrated PSWC development systems, thereby linking PSWC business promotion to integrated area development. They should determine if strategies could be developed to encourage investment in several horizontally integrated PSWC groups based on the potentials of a specific region or area..

A report summarizing the findings and making recommendations. After assessing the enabling policy environment, evaluating the financial mechanisms and services available, and determining the potential opportunities for PSWC group entrepreneurship, the task force should prepare a report summarizing constraints and factors that could affect the successful implementation of the integrated CEED PSWC promotion strategy in a specific community, region or country and make recommendations.

3. Develop initial plans and strategy for the PSWC program

After the task force completes its feasibility study and report, it should review that information to decide whether to create a PSWC development program and the support mechanisms needed to implement it successfully. If the findings and recommendations are positive and the task force decides to proceed, it should develop a strategic plan based on the feasibility study information and recommendations.

The strategic plan presents the rationale and justification for the organizational approach that is adopted to promote PSWC development and spells out the steps required for its implementation and the anticipated outcomes. It is developed through the following steps.:

(1) identifying and listing the PSWC development program objectives, policies and guidelines and outlining the proposed organizational structure (Option A, B, C, D or another), including how to organize, manage and deliver the entrepreneurship,

incubation and related services -- the components or support mechanisms that would be created and how they would be set up, and how these mechanisms would provide and deliver their services.

This should be followed by information about the systematic organization, staffing, training, startup and subsequent support of PSWC program operations contemplated in targeted locations along with any other details needed for their successful implementation.

(2) **determining PSWC development program resource requirements and how to obtain them:** the services that would be provided by other existing institutions (banks, government agencies, funding programs, educational institutions, cooperative movement, etc.).

(3) **establishing a timetable and procedures for implementing the elements of the plan.** The plan should clearly state the scope of the proposed program and include:

(a) the size and reach of the PSWC development program at the time of startup and over time; e.g., a pilot or small-scale basis to be expanded over time using the experience gained and resources available

(b) location: the criteria used to identify and select the target areas in which to establish the new PSWCs; e.g., a specific community or several communities, an entire region, or the nation as a whole.

These criteria should determine the nature and scope of the PSWC program operations in targeted communities or areas during the first and subsequent years.

(4) **developing plans and strategies for obtaining and disbursing financial resources to start promotional work and incubate PSWCs, including a budget for the first and subsequent years of operation.**

The completed strategic plan serves as a blueprint. It should include: (1) a section introducing and justifying the proposed program, including the assumptions on which it is based and the data and supporting documentation to demonstrate its feasibility and potential for success; and, (2) a section stating the specific objectives for the PSWC development program, the proposed organization structure and functions (e.g., creation of a CEED Foundation), the financial and other resources needed to implement it, the sources to approach to obtain the necessary funds and other resources, and the anticipated outcomes.

Several different approaches could be used to organize and carry out PSWC promotion and development efforts.

Approaches to PSWC promotion and development

- **Option A.** Adopt the integrated CEED strategy and establish an NGO to organize and operate the PSWC development program
- **Option B.** Use existing NGOs to promote PSWCs along with their other activities
- **Option C.** Use existing small business development agencies to promote PSWCs
- **Option D.** Use existing cooperative development agencies to promote PSWCs

<u>Option A</u>. ***Set up a freestanding NGO specially designed to organize and manage the PSWC development program, including all the essential mechanisms needed to effectively promote and incubate PSWCs.*** For this option to work, a new NGO or parent "CEED Foundation" would have to be chartered to organize and coordinate the activities of the three basic operating units: (1) the Cooperative Entrepreneurship Team (CET); (2) the Cooperative Financial Institution (CFI); and (3) the Group Entrepreneurship Training Center (GETC). Working together under the general direction of the CEED Foundation office and board, these three units would carry out all of the activities to systematically incubate new PSWCs in a community(s) or geographical area(s).

The parent CEED Foundation would also pursue, as part of its long-term development efforts, the establishment of an integrated "complex" or system of affiliated PSWCs along with their essential support institutions in the target community(ies) or area(s). The ultimate objective is to create one or more PSWC complexes in the country; complexes in which the CET, CFI, and GETC become second-degree cooperatives jointly owned by their worker-members and the primary PSWCs created in the particular area or community to whom they provide support and services.

<u>Option B</u>. ***Use one or more existing NGOs, either under contract or through some other mutually agreed arrangement, to promote and organize PSWCs and carry out this group entrepreneurship promotion process along with their other activities.*** The task force would actively market the CEED strategy and PSWC development concepts and philosophy to potential NGOs who might be interested in promoting PSWC development programs. Depending on government policy and interest, donor support, and resources available, a financial incentive could be provided to NGOs who qualify under a set of selection criteria.

The self-selected or task force designated NGO(s) could create the full range of support mechanisms (CET, CFI, and ETC) or rely on existing small business financial and educational institutions to supply needed financial resources, advisory and consultancy services, and training courses. The task force, government agencies and other sources would assist the selected NGO to incubate PSWCs and organize them into formal groups, federations or networks.

Option C. ***Use an existing government small enterprise promotion agency, or agencies, to actively promote the development of the PSWC group entrepreneurship program and to organize PSWCs as part of their activities.*** In some countries, existing systems of small enterprise development centers, entrepreneurship training programs, or other units are intended to promote small business creation, including cooperatives.

These agencies would be encouraged to promote the development of PSWCs and provide any new PSWCs they help incubate with the necessary financial resources, advisory services and training courses and to organize them into formal groups, networks, or federations, or to affiliate them with existing business federations for support services and other benefits of close linkages. Efforts would be made to motivate the existing infrastructure of small business financial, advisory and educational institutions to broaden their scope of activities to incorporate the CEED strategy, group entrepreneurship and PSWC program concepts into their operations

Option D. ***Use an existing government cooperative development department and cooperative movement to use the integrated CEED approach and methodology to actively promote and organize PSWCs through its resources and promotion capabilities.*** In nearly all countries there are government-run cooperative development agencies who are supposed to promote the organization of new cooperatives and strengthen the existing cooperative movement. Under this option, the existing infrastructure for promoting cooperative development would have to be redirected or expanded.

The existing cooperative financial, advisory, and educational institutions would be relied upon to incorporate PSWC concepts and CEED philosophy into their operations and to actively support the development of PSWCs as part of their expanded activities and services. Efforts would have to be made to attract PSWCs into the existing cooperative federations and apex organizations or to help them form a PSWC federation better suited to their needs and common interests.

Select the best option.. Worldwide experience suggests that Option A holds the most promise for the dynamic CEED strategy to generate substantial employment and income using PSWCs because the energy of the organization and its staff are focused full-time on PSWC development and the CET, CFI, and GETC support units are especially designed to incubate and promote them. Government small business and cooperative departments and NGOs have a variety of other interests, missions, expertise, and constituencies and may be unable or unwilling to provide the necessary leadership, direction, or resources to PSWC development.

The recommendation of Option A is strongly supported by the past outcomes of cooperative development support systems. After studying the results of cooperative development support systems for industrial producer cooperatives in developing countries (which included PSWC type cooperatives), British scholar Peter Abell concluded that existing client-owned cooperative movements (agricultural and consumer) are incapable of encouraging and facilitating the growth of PSWCs, that government cooperative departments are ill-suited to promote and maintain these cooperatives, and that the established small business advisory organizations are equally unsuited to this task.[1]

However, other considerations may necessitate or lead to a decision to use Options B, C, D or some other approach.

The approach selected to organize an effective program to promote PSWC development is determined by:

- the feasibility study findings
- the task force's recommendations
- the need for significant numbers of new business enterprises for employment and income
- the preferences of the organizers
- the financial resources available, and
- the political realities.

Past experience suggests that half-way measures or attempts to graft the PSWC development program on to existing small business development centers or cooperative development agencies would fail because their commitment and resources are focused on their own programs and responsibilities, and they do not have the essential PSWC support mechanisms needed to successfully incubate PSWCs.

4. Market the PSWC development proposal

Once the task force completes and approves its strategic plan for the PSWC development program, it becomes the basic document (project document, plan, or proposal) to market or sell the idea to government officials, potential donors, cooperative leaders, NGOs, and funding agencies to obtain the necessary backing, financial support, and assistance needed to implement it.

If potential donors or representatives of funding agencies actively participate in the design of the strategic plan through membership on the task force, the process of selling the proposal and obtaining financial support to launch the PSWC development program should be easier and the probability of achieving success greater .

5. Implement the PSWC development program

After the necessary support and funding for the PSWC development strategic plan are obtained, three important tasks remain: (1) developing an action plan, (2) establishing a PSWC development organization, and (3) starting operations, discussed in Chapter 5..

Developing an Action Plan. Although the strategic plan sets forth the rationale and justification for the PSWC promotion and development program, the general direction it should take and the basic mechanisms to be created and procedures to be followed when it becomes operational, it is necessary to fill in the details and specify the objectives, policies, and approaches to be used in a **plan of work** or **action plan**.

The plan of work or action plan becomes the operational guide or blueprint for those who organize and operate the PSWC development program in a community, targeted area or country. Like any good business plan or architect's drawings, it spells out step by step what is to be done, how it is to be done, when it is to be done, by whom, and with what resources. These steps include the development mechanisms, financial commitments, locations and types of premises needed, budget, sources of funding, personnel requirements, staff recruitment procedures, salary scales, training needs, marketing strategy, and a myriad of other organizational and operational details.

The content and format of the action plan depend on the option chosen for organizing and implementing the PSWC program. For example, if the program is to be run by an existing government small business or cooperative development department, then that agency prepares the action plan; and the plan reflects their procedures and objectives. If the program is organized as part of an existing NGO, their staff prepare it; and it reflects that organization's philosophy and format.

However, if Option A is chosen, a new NGO such as a "CEED Foundation" whose sole purpose is to promote PSWC development, incorporates the recommendations of the task force, follows the directions of its newly created board of directors, and adopts the PSWC development format, organizational structures and integrative CEED philosophy and strategy outlined above.

Establishing a PSWC development organization. The actual job of organizing or establishing a PSWC development organization and its entrepreneurship support mechanism(s) is carried out on the basis of the task force's decisions when writing the strategic and action plans. If the decision is to adopt Option A (organizing a specially designed NGO to operate the program), the task becomes one of preparing for the legal establishment of a CEED Foundation and converting the task force, or some derivative thereof, into its board of directors and staff. Then, the CEED Foundation board of directors and staff work out the specific goals and objectives for the PSWC development program and organize the operational units, i.e., CET, CFI, and GETC to implement it .

If the decision is to follow Option B, C or D (locate the promotion and development of PSWCs program in a government small business or cooperative development agency or an existing NGO), then the job of organizing the essential PSWC support functions or mechanisms for the delivery of promotion and services varies accordingly. In Option B, the governing boards or leaders of the NGOs who agree to adopt or implement the PSWC-program work out the goals, objectives and details to implement it. Under Options C and D, the government agency which assumes the responsibility for its implementation works out the goals and objectives for the program and the means to implement it. For any option, the action plan spells out the organizational steps and the procedures to be followed.

Objectives and functions of the development organization and support mechanisms. The primary objective of the integrated CEED strategy for the PSWC development program is to create PSWCs that generate good jobs and income for people and their families; thereby enhancing the quality of life in the targeted areas and communities.

Whatever option is selected for organizing the PSWC development program, the governing body has three primary roles:

(1) to recruit staff to promote group entrepreneurship and incubate PSWCs;
(2) to provide oversight and general direction to the PSWC program; and
(3) to work with business, government and cooperative leaders to sell the employment and income-generating potential of the program.

Also the governing body is to:

- lobby on behalf of the PSWC program,
- propose and work to implement policies, strategies and activities to improve the enabling environment,
- identify market opportunities,
- develop institutional links and,
- in general, to coordinate and support efforts for its successful development.

Additional duties of the PSWC program governing body and staff include:

- promoting a group entrepreneurship culture through educational and public relations campaigns;

- identifying the economic and business potential of PSWCs at the national, regional and sectoral levels, with special emphasis on the urban self-employment (informal) sector and the rural non-agricultural sector;

- collecting and disseminating information on international and national experience with small-scale enterprise development for employment through PSWCs, and to encourage these efforts;

- developing networking among cooperative training and other institutions to introduce the principles of group entrepreneurship and worker-owned cooperatives and tested methodologies, including consultancy development to promote PSWCs for employment among the existing client-owned cooperative sector;

- introducing PSWC entrepreneurship principles in school curriculums and business programs of higher and technical education institutions to expose faculty and students to the integrated CEED strategy and worker-owned cooperative principles, and

- encouraging technically qualified higher education graduates to consider employment in CETs and PSWCs where they can use their newly acquired engineering and business skills to help potential group entrepreneurs start PSWCs.

Mechanisms for implementing PSWC development, In addition to the importance of the organizational base (Options A - D) when launching a PSWC development program, the successful implementation of the integrated CEED strategy in a country requires the designated lead organization (CEED Foundation, NGO, or other agency) either to create three entrepreneurship support units or to develop the means to deliver the following three types of services to facilitate group entrepreneurship and incubate PSWCs: (1) entrepreneurial assistance, (2) financial assistance, and (3) educational assistance. The specifics of the support units created or the means used to organize and deliver these three services depend on which option is selected and the size and scope of the program established.

The following describes how these three support units might be developed if Option A is chosen, (setting up a CEED Foundation specially designed to organize the promotion efforts and to incubate PSWCs and provide them with support services). Under the CEED Foundation's sponsorship, the three entrepreneurship support units (discussed in Chapter 3) are:

(1) one or more **cooperative entrepreneurship teams** (CETs) who work with communities and groups of people to promote and incubate employment creating PSWCs;

(2) a **credit/venture capital cooperative or other financial mechanism** (CFI) to mobilize capital for new PSWC enterprise creation and to support the entrepreneurial activities of the CETs in the communities where the program is to be implemented; and

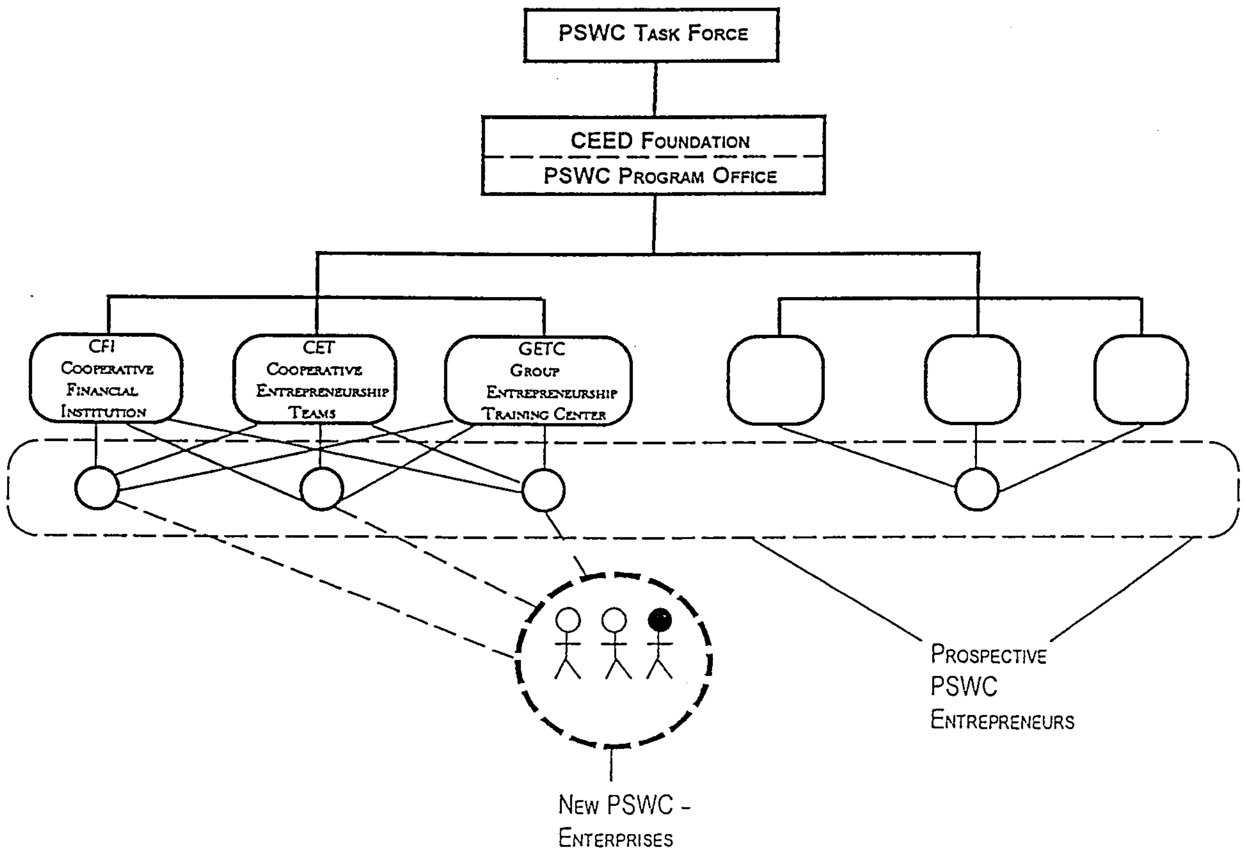
(3) a **group entrepreneurship training program or institution** (GETC) to provide the specialized entrepreneurial, technical, managerial, and worker-owned cooperative training to the PSWC entrepreneurs. (At the outset, the education and training services may be delivered in the form of a structured training program, and, if suitable, existing training institutions can provide some skill training. Ultimately, the GETC should mature into or take the form of an associated PSWC educational institution.)

As noted above, Under Option A the PSWC development program is launched on a national basis. The CETs are organized in targeted areas under the leadership and direction of the national CEED Foundation. Over time, as the PSWCs organized through the CETs' efforts expand in number and strength, it is expected that the CETs, CFI, and the GETC in an area or region would become second degree cooperatives owned by all the stakeholders -- the employees of the CET, the CFI, the GETC, the PSWCs -- in the PSWC complex plus any other cooperatives choosing to affiliate with the PSWC group, and any donor agencies contributing financial support.

Alternative mechanisms for implementing the PSWC program. If the task force or organizing group adopts Options B, C, D or some other option to foster PSWC development, a decision could be made to use, modify or adapt the basic CEED strategy and support mechanisms, including the CET, CFI, and GETC entrepreneurship support units described above, to fit the circumstances. Alternatively, other delivery mechanisms or approaches could be used to provide these essential services.

Chart 1 illustrates the organizational structure of the overall PSWC development program as envisioned under Option A..

CHART 1
ORGANIZATIONAL STRUCTURE FOR PSWC DEVELOPMENT



Staffing the PSWC development program. The CET professional staff required for the successful implementation of the PSWC development program should consist of a carefully selected and balanced team drawn from two categories of persons in the target country: Category I--vocationally experienced, academically trained persons; and Category II--vocationally inexperienced, academically trained but underemployed persons, i.e., recent college or technical school graduates. The staff should be competent in one of three professions: (1) organization/management, (2) engineering/production, or (3) marketing/accounting/human resources.

The selection of CET professional staff should be based on the following criteria:

- All staff should be technically competent, self-starters, and have good interpersonal and communication skills.

- All staff should be capable of conducting feasibility studies, performing promotional work and carrying out consulting and other tasks associated with PSWC enterprise development.

- Organization/management staff must be able to recruit, screen, and organize people into operational worker cooperatives and provide them with or obtain the necessary training to manage a successful PSWC.

- Engineering production staff must be able to design the products and organize their production.

- Business staff must be able to handle the marketing and accounting for the PSWC enterprises.

Each CET must have access to competent legal staff to handle PSWC incorporations and provide legal advice.

CFI staff should possess extensive financial and banking experience and have the necessary technical and personal skills to conduct financial analyses of business plans, review financial statements, monitor financial performance, package loans, conduct audits, and perform other duties involved in running a financial institution serving the needs of PSWCs.

GETC staff should possess extensive experience and the necessary education to develop and deliver training and educational programs to adult learners. In addition to their training backgrounds, they need to understand cooperative and worker-owned cooperative principles and be knowledgeable about business and management subjects, with an emphasis on participative management, productivity, quality, and other related areas.

CET, CFI and GETC staff must have adequate communication and administrative skills to direct the overall program. They should also:

- Be **willing to work on-site** in targeted neighborhoods, communities, and regions for extended periods and be able to transfer skills and knowledge without creating dependency relationships.

- Be **willing to invest equity in PSWC membership** and accept worker-owned cooperative ownership principles.

- Be **ideologically open**--able to learn and teach the self-generating approach to PSWC enterprises development, and be able to promote and practice democratic, participative consulting, service delivery, and training.

Initially, PSWC development program staff should be trained at a location where distractions can be held to a minimum, collegiality and common purpose can be established, and the necessary skills can be gained.

Basic PSWC development training for CET, CFI, and GETC staff should include courses to enhance or provide the:

- **technical skills** needed to start new enterprises or expand existing enterprises, including conducting feasibility studies, market research, product evaluation, product design and engineering, writing business plans, financial packaging, licensing, and legal work in collaboration with potential PSWC members.

- **organizational skills** needed to recruit and screen potential PSWC members and help them organize and run PSWCs.

- **counseling skills** needed to ensure that the CET and CFI staff members can assist the PSWC members to obtain the kinds of vocational skills they need to run their businesses, including marketing, engineering, production, management, human resource, or accounting, etc.

- **democratic governance skills**, including democratic voting, decision-making, problem solving, grievance procedures, conflict resolution, and accountability.

- **understanding of PSWC principles , business concepts, and techniques,** including individual capital accounts, pay for performance, communication, and collaborative self-management. As part of their pre-service training, the CET and CFI staffs would be put through specially designed course in PSWCs, using materials developed by the ILO and other successful PSWC development programs.

- **understanding of local economic development concepts and techniques** used to assess the strengths and weaknesses of a community and determine its potential for generating economic growth and sustaining enterprise development.

Upon completion of their training, carefully selected CET teams of six to eight Category I and Category II professionals, plus ancillary support staff, would be sent to targeted communities or localities to find suitable premises and begin operations to promote and incubate PSWCs to generate jobs and fulfill the other objectives of the PSWC development program.

The CFI staff consists of several seasoned financial professionals who are fully conversant with the financial and other aspects of business startups and banking needs. The CFI staff participate in CET training and are physically located in the CEED Foundation headquarters office or, if appropriate, some of them may be outstationed in the CET office.

The GETC staff consists of one or two seasoned trainers who are fully conversant with business and management training and PSWC development. The GETC staff organize and direct the pre- and in-service training for CET staff and organize and offer training to PSWC group entrepreneurs and worker-members. They are physically located in the CEED Foundation headquarters office, or if appropriate, some of them may be outstationed in a CET office.

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[1] Peter Abell, Establishing Support systems for Industrial Co-operatives: Case Studies From the Third World. 1988, pp. 117-122.

Chapter 5

Starting the First PSWCs: Creating New Businesses and Jobs

The "PSWC Development Wheel"

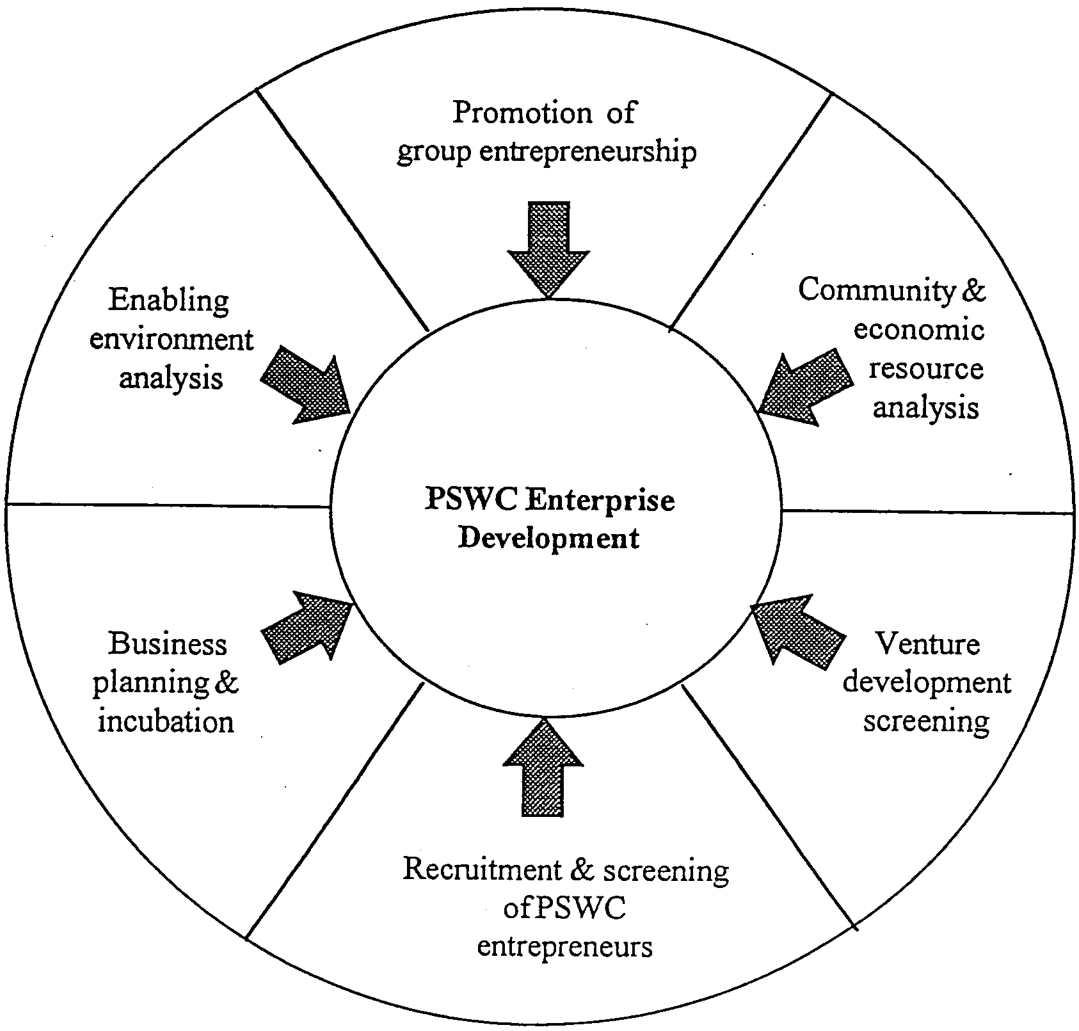
Once the lead organization is selected (CEED Foundation, existing NGO, or some other organizational structure) to operate the PSWC development program in a targeted community or region, the actual creation of a new PSWC begins. The cooperative entrepreneurship team (CET) staff is recruited and trained, and facilities are located in the targeted area.

For successful PSWC development efforts 'it was found that the best practice is to first discover a need, then the people who are trying to meet it. Then when these have been brought together show them what cooperation can do for them...[T]he start must be made somewhere, and if the right kind of practical promoters are trained, they will locate the starting places all right." (Rewi Alley)

Operating from that premise, the CET begins a number of major activities to locate 'the starting places." These activities comprise the dynamic 'PSWC development wheel" cooperative approach which specifically promotes and incubates new PSWCs enterprises for people desirous of becoming PSWC group entrepreneurs for employment creation. The PSWC development wheel provides them with the organizational skills, resources, and energy they need to systematically start new business enterprises and keep them generating good jobs and income in targeted areas.

The PSWC development wheel has six major components.

Chart 2
PSWC Development Wheel



Enabling environment analyses. Supportive business and political environments are essential to the creation and operation of successful PSWCs. Assessing whether the business and political environments are favorable to PSWC development includes analyzing the taxation policies, free market policies, cooperative and other business incorporation legislation, and the availability of credit and financial services and support institutions for small enterprise development. Any constraints are noted, and efforts are made to remedy the problem areas.

Community and economic resource analyses. The local or regional labor markets, resource markets, infrastructure and industries determine the type and scale of PSWC enterprises that can be supported and sustained. They also determine the financial and other resources needed to start the new PSWC businesses and the breadth and depth of the knowledge, managerial skills and technical skills that the members require.

Promotion of PSWC group entrepreneurship. Information about the PSWC development program is disseminated widely through the local media, speaking to groups and organizations and conducting workshops and training courses on local economic development, group entrepreneurship and PSWCs to identify, motivate, and empower individuals and groups of people who are desirous of improving their economic condition and are willing to jointly undertake the risks of PSWC entrepreneurship to do so.

Recruitment, screening, and training of PSWC entrepreneurs. The active recruitment, screening, and training of ordinary people to become group entrepreneurs and worker-owners in thriving PSWCs, along with the identification and training of potential promoters/managers to provide the necessary leadership and managerial skills, are critical to the successful development of employment-generating PSWC enterprises.

PSWC venture selection screening. This critical screening process includes venture selection criteria, market research, feasibility studies and product evaluations to identify the best potential PSWC enterprises for development. Venture selection screening also includes identifying and contacting the owners of existing enterprises who are planning to close them or may be interested in selling them and the managers of parastatals slated for or being considered for privatization to determine if they and/or their employees are interested in converting to PSWCs. If so, the employees are helped to accomplish such conversions.

Business planning and incubation. Business planning and enterprise incubation are essential to creating successful PSWCs. Together the CET and the designated managers and groups of potential entrepreneurs conduct the research, complete the business plans and obtain the necessary capital to finance the new PSWC startups. They help to guide the new PSWCs through the planning and startup phases by:

(a) providing on-the-job management assistance and "hands-on" training;
(b) establishing backward and forward linkages to obtain resources and services and market the products;
(c) arranging for or providing the necessary PSWC training and vocational training; and

(d) making available, when appropriate, PSWC business incubator facilities and providing space, equipment, secretarial services, and access to office machines, telephone service, low-cost accounting, marketing, legal services, and computer instruction.

The PSWC venture selection criteria

Past experience demonstrates that well-chosen criteria for the venture selection screening process not only save time and money but are absolutely essential to successful PSWC development. The venture selection criteria enable the CETs and the prospective PSWC group entrepreneurs to identify the potential enterprises that best integrate the prospective PSWC entrepreneurs' employment and income objectives, the program sponsor's PSWC development objectives, and the economic development needs of the targeted area..

The venture selection screening process begins with the CETs and the parent organization (CEED Foundation, NGO, or other sponsor) asking three types of questions to choose appropriate PSWC venture selection criteria: (1) Questions to obtain information about the group of prospective PSWC entrepreneurs' objectives and other factors; (2) Questions to obtain information about the business and political environments; and (3) Questions to obtain information about the PSWC program organizer's objectives, including mission and strategic goals.

Examples of questions that could be asked follow.

1. Questions to obtain information about the prospective PSWC entrepreneurs

Would the proposed venture:

- address the unique employment and income needs of the group?
- achieve ownership of the necessary resources to ensure their use and resulting income?
- provide needed goods and services?
- expand the skill base of the workers in the group and/or community?
- provide links with existing businesses for new opportunities?
- create a favorable impression on outside business interests and financial institutions so support for and participation in PSWC economic development would be encouraged?
- provide opportunities for group members to assume the responsibilities of managers and directors?
- cause environmental pollution problems such as noise, air, water, odor, land and health?

2. <u>Questions to obtain information about the business and political environments</u>:

- Would the venture have a steady, reliable market for its goods or services? If so, is that market growing?
- Is there a group of prospective PSWC entrepreneurs willing and capable of providing the equity capital and workforce required to start the business?
- Would the venture require capital investment that would necessitate large debt financing? If so, would existing lenders or sources provide it?
- Could the business capture a sufficient share of the market?
- If the venture were to fail, would the enterprise be saddled with a large debt, unused or unusable buildings and equipment and unemployed worker-owners?
- Would the venture have the special skills and licensing needed?
- Would the business break even within a reasonable period, one year, three years?
- Would the business generate sufficient profits to amortize the debt incurred to start it and provide money for expansion and growth?
- Would the business provide good jobs and steady income for the worker-owners?
- Would the business require substantial re-investment to maintain or expand its stability and profitability?

3. <u>Questions to obtain information about the PSWC program organizers</u>

Would the proposed venture:
- provide a suitable framework to operate as a PSWC with the human and capital resources available in the community and region?
- maintain or expand the PSWC program organizer's capacity to undertake more group entrepreneurship activities?
- fit into the program organizer's overall worker PSWC development strategy?
- expand the base for PSWC enterprises and industries in a rational, coherent way?
- have the potential to develop sufficient revenues and profits for the enterprise to not only meet its own financial commitments but help provide funds to support future PSWC expansion?
- maximize the use of scarce resources to generate new PSWCs to produce more jobs and greater income in the community and region?
- have the potential to be a contributing member in a network of PSWCs capable of building a strong PSWC sector in the community or region?

Though the venture screening criteria could be used in different ways in the screening process, **Chart 2** illustrates one way to do it. Every potential enterprise is rated on a point system from "zero" (does not meet the criterion) to "five" (fully meets the criterion). The total points assigned to each potential venture show which ones best meet the prospective PSWC entrepreneurship group's needs, the PSWC program organizer's objectives and have the most potential for success. Three separate rating sheets could be used, one for each of the three different perspectives (program organizer's, business and political environments, and prospective group PSWC entrepreneurs). These three perspectives could be given equal weighting or different proportions (e.g., 40%, 20%, 40%), depending on their importance in the overall selection criteria. The final rating for each potential venture would be the total of the three separate sheets. An alternative method would be to rate the criteria for all three perspectives on one sheet and then compile the total ratings from it.

Chart 3

The PSWC Venture Selection Criteria

VENTURE OPPORTUNITIES / SELECTION CRITERIA										
Key 0 = venture does not satisfy the criterion 5 = venture strongly satisfies the criterion										

The PSWC venture development screening process

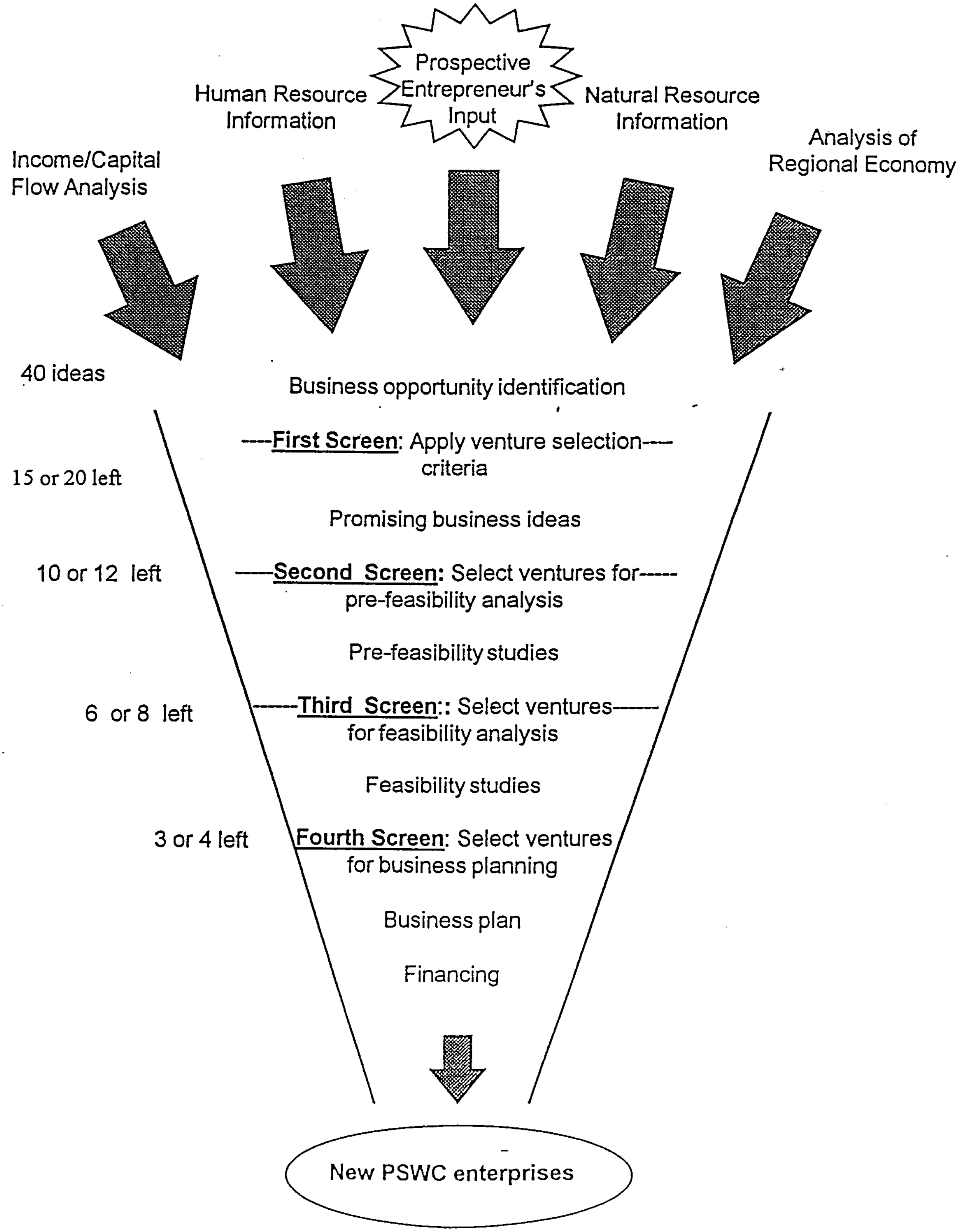
This section outlines the basic features of the venture development screening process. On an ongoing basis, the CET staff continually look for new business ideas and opportunities that might be suitable for new PSWCs. Because new PSWC venture development costs money and time and the CET staff must conserve scarce resources and help prospective group entrepreneurs make good investments, they screen the potential PSWC ideas and opportunities through the first levels of the venture development screening process before devoting substantial resources to detailed business planning and enterprise development.

The screening process to identify the enterprises considered most promising for PSWC incubation consists of three parts: (1) identifying the best business opportunities; (2) identifying groups of prospective entrepreneurs able to start PSWCs; and (3) selecting the ventures which best integrate the business opportunities and the prospective group entrepreneurs' interests with the factors necessary for successful PSWC development and the targeted area's resources and potential. (The CETs can increase the motivation and skills training of groups of prospective PSWC entrepreneurs and promote PSWC development and business planning by inviting the groups to participate in the screening process.)

The completed feasibility studies are gathered together in a CET "product bank" for use by the CET and prospective entrepreneurs desiring to start new PSWCs.

Successful PSWC enterprise development requires a series of priorities based on increasingly detailed research. The following diagram compares this process to a stack of four screens with different sized holes through which the business ideas and opportunities are sifted. The "screens" are the policies, analyses and decision-making criteria of the PSWC development system. The holes in the top screen are the largest. Those in each of three screens below are increasingly smaller. Only the most promising PSWC business opportunities for a targeted area pass through the bottom screen.

Chart 4
PSWC Venture Development Process



Identification of potential PSWC venture opportunities

Groups of prospective entrepreneurs identify or develop new business ideas and bring them to the attention of the CETs. The CETs continually search for and solicit new business opportunities and ideas from many different sources, including potential PSWC entrepreneurs.

The first screen -- application of PSWC venture selection criteria

As discussed previously, every business opportunity or idea is evaluated by the predetermined set of venture selection criteria based on the objectives the prospective group entrepreneurs, the lead organization (a CEED Foundation, an NGO, or other sponsoring agency), and the CET have for the PSWC program. Working together, the CET staff and prospective PSWC group entrepreneurs apply the predetermined venture selection criteria as the first screening.

The second screen -- pre-feasibility analysis

The potential PSWC opportunities that pass the venture selection criteria screening undergo a pre-feasibility screening. This screening is conducted by the CET staff together with the prospective group PSWC entrepreneurs. It looks at five aspects of business feasibility -- (1) the product or service, (2) the market, (3) the competition, (4) the type of organization structure required, and (5) the financing -- and asks why a venture will **not** work, rather than why it will. This screening should take about one to two weeks for all but the most complex kinds of business. It selects the opportunities which warrant a full-fledged feasibility analysis.

The third screen -- full fledged feasibility analysis

The potential opportunities that pass the pre-feasibility screen undergo the full-fledged feasibility analysis screening. (The venture selection criteria can be used again and again to review the results of pre-feasibility analyses.)

Again, the CET staff and the prospective PSWC group entrepreneurs work together to conduct this analysis. It is crucial to continue to involve the prospective PSWC group entrepreneurs in this process in order to meet their needs and desires, increase their decision-making and venture development skills and train them in general business matters. There is no such thing as self-reliance without analytical and organizational ability.

This full-fledged feasibility analysis looks at the same five topics as the pre-feasibility analysis -- product or service, market, competition, organization, and finance -- but in much greater detail. It asks, "Would this worker-owned cooperative enterprise make a profit?" This analysis explores options for operating the venture and determines if it makes financial sense.

During this screening, the pros and cons of the potential PSWC ventures are listed on separate sheets of paper and compared.

The fourth screen--selection of PSWC ventures for business planning

At this point, the CET and the prospective PSWC group entrepreneurs carefully assess every PSWC venture opportunity that passed the full-fledged feasibility screening to decide whether to carry out the development of a formal business plan and the other steps leading to a PSWC startup for any of them

This stage, like the previous stages is also used to increase the involvement, commitment and decision-making skills of the prospective PSWC group entrepreneurs and to train them in general business matters.

Preparation of the formal PSWC business plan

At this stage the formal organization of a new PSWC business is planned. Considerable resources are required to complete the planning process and to undertake the necessary steps to start a new PSWC enterprise. Thus, it is important to have an identifiable group of prospective entrepreneurs, a promoter/manager selected, and the necessary commitments spelled out in a formal, binding "contract of association" between the prospective new PSWC worker owners and the CET and CFI.

The preparation of a good business plan requires considerable time and effort--300 to 400 hours of time, minus the time spent on the feasibility study. Its preparation allows the PSWC organizers to make their mistakes on paper and correct them without incurring significant losses. The planning process also tests the group's commitment to the PSWC venture and tests their ideas to see if they can produce the facts and figures required by the CFI and other potential lenders.

Though the feasibility study provides most of the information needed to prepare a PSWC business plan, there are important differences between them. The feasibility study discusses different ways that a PSWC venture could operate and whether it would be a worthwhile investment from a financial point of view. The business plan describes the actual way the PSWC venture would operate and is used to obtain financial support from a cooperative financial institution (CFI), banks, or other lenders to launch the business.

The CET advisors work closely with the prospective worker-members and their promoter/manager throughout the entire PSWC business planning and startup stages and during the critical first years of operation.

Basic Elements of the PSWC Business Plan

Whether a group of prospective PSWC entrepreneurs approach the CET with a business idea or ask the CET's product bank to supply them with one, the CET takes them through the entire PSWC venture development screening process, if it has not already been carried out. At the very least, the group participates in updating the feasibility study for the potential venture drawn from the CET's product bank and the preparation of the business plan.

The business plan is prepared by the designated manager/promoter and prospective PSWC group entrepreneurs with the help of the CET staff. It describes their business goals and how they plan to achieve them and establishes a specific time period for doing so. The business plan alerts the group to all the things that are crucial for a successful PSWC business venture and forces them to think through what it is they want to accomplish and to make a number of important decisions before investing significant time and money.

The PSWC business plan is the last step in the venture development process prior to obtaining financing and startup. In addition to the purposes identified above, the completed business plan serves: (1) as the financing document which the CFI, banks, and other lenders require to grant loans and other financing; and (2) as a blueprint for starting, expanding, and/or operating a PSWC business.

Chart 4 outlines the five steps in preparing the business plan for a new PSWC.

Chart 5
Preparing a Business Plan

Making a business plan is a five step process.

1 — **Collect Data & Define the Business**
- Industry
- Product/Service
- Competition
- Customers/Markets
- Description of proposed business

2 — **Analyze the Data**
- Break-even Analysis
- Market Size & Trends

3 — **Decide on a Strategy**
- Marketing Plan
- Production Plan
- Organization Plan
- Long-range Plans
- Critical Risks and Assumptions

4 — **Forecast the Results**
- Sales Forecast
- Start-up costs
- Income Statement Projections
- Cash Flow Projections

5 — **Compile the Plan**
- Table of Contents
- Executive Summary
- Body of Plan
- Supporting Documentation

1. Collect data and define the business.

The proposed new PSWC business should be compared with the competition to see how it would stack up. This includes studying the industry the firm would be in, knowing exactly what product or service it would produce, what would make it competitive, and who the customers would be.

2. Analyze the data.

A preliminary analysis and assessment of the proposed PSWC business is made to pinpoint weaknesses in the proposal and to determine whether the proposed enterprise is likely to succeed. As part of the analytical process, a break-even analysis and market analysis are calculated to determine the level of business needed to make a profit and whether the market would support the sales of the proposed product or service.

3. Decide on a strategy.

Once rough projections of what the proposed PSWC business could achieve are made, it is necessary to decide how to make it happen. The topics in this part of the plan could be grouped into four sections.

1) <u>a general marketing plan</u>, including such issues as location (if location is critical to marketing the product), sales and distribution, advertising and promotion, pricing, etc.
2) <u>a production plan</u>, including such issues as location and facilities, production methods and equipment, materials and sources of supply.
3) <u>an organization plan</u>, including the essential organization for a modern PSWC:
   - governance, participation, ownership and the individual capital accounts system;
   - identifying the key personnel involved in the management and governance of the enterprise;
   - the educational and training needs of the workforce;
   - information about compensation and staffing--including the number of worker-owners and the functions to be performed; and
   - information about necessary supportive services and establishing linkages.
4) <u>a schedule</u> explaining the major steps to be taken to start the PSWC business, when they would be taken, and how they would interconnect.

4. Forecast the results.

When the business-plan decision-making process is completed, it is necessary to assess the implications of all the previous decisions in dollars. Normally, businesses measure their success on financial statements from the accounting system. For purposes of the PSWC business plan, results are projected in the form of pro forma financial statements because:

(a) they provide the type of information to describe how well the business would do;
(b) the CFI and financial institutions approached for money expect them; and
(c) they make it easy to compare plans to actual results once the business is started.

The financial section of the business plan for a new PSWC includes a set of projected financial statements for three to five years which estimate startup costs, develop sales forecasts, provide profit and loss statements, and cash flow statements.

Financial statements prepared by businesses normally include:

1) **a balance sheet** summarizing the overall financial status of the business at one point in time--what it owns or is owed (assets) and what it owes to others (liabilities), including what it owes to the owners (equity);
2) **an income statement** showing the total earned (profit) or lost (loss) in its operations and sales over a period of time (e.g., a month or a year) after subtracting the costs of operation; and
3) **a cash flow statement** showing all its sources of cash (including cash sales and collections on credit sales, loan proceeds received, capital invested by owners, and proceeds from sale of assets) and how the cash is spent (paying for shipments of inventory or supplies, paying wages and bills, buying equipment, making loan payments, and dividends or withdrawals for owners).

5. Compile the Plan.

The last step in the business planning process is to write and compile the formal PSWC business plan which is used as a financing tool and as a blueprint to start the new business. The business plan should be written, organized, printed, and bound so as to present the strongest case for the enterprise and its PSWC organizers, both in terms of what the plan contains and the way it is presented. Because it is written partly for outsiders, such as bankers, to convince them to loan money to the enterprise, it provides background and other information to demonstrate the soundness of the venture.

Normally, a business plan contains four parts:

(1) table of contents,
(2) executive summary,
(3) main body divided into sections describing the various components of the plan in considerable detail, and
(4) supporting documentation, including the pro forma financial statements covering the first three to five years of projected operations.

Recruiting, motivating, and training PSWC entrepreneurs

This section discusses the recruitment and screening procedures the CET used to identify and select potential groups of PSWC entrepreneurs. New PSWC enterprises have two sources of prospective worker-owners: (1) groups or individuals who come to a CET with a business or product idea and/or a desire to start a PSWC; and (2) people the CET actively recruit and assist to become worker-owners in new PSWC enterprises. If the group does not have a business idea, the CET provides business ideas from its product bank which are suitable for the group and area.

The CET staff use the following criteria to screen potential worker-owners for new PSWCs:

Screening criteria for prospective PSWC entrepreneurs

- Are they likely to trust each other?
- Are they committed to cooperative and worker-owned cooperative principles?
- Have they a sound business idea or opportunity? If not, does the CET's product bank have one they could use?
- Do they have the necessary skills and commitment to start and operate a business?
- Have they identified a suitable person who could serve as the promoter/manager for the new enterprise?
- Do they have money or access to sources of capital to start a business?
- Are they prepared to undertake the risks inherent in starting a PSWC business?
- Are they willing to enter into a contractual agreement with the CET and CFI to obtain the financial and other assistance needed to start a PSWC business, and to become part of the PSWC network or federation in their area?

If the answers to the above screening questions are "yes," the CET assigns an advisor to work with the group of potential PSWC worker-owners to identify and select a promoter/manager (if one has not already been identified by the group), complete the venture development screening process, write a formal PSWC business plan and obtain the financing. The process of preparing a business plan, obtaining financing and starting a new PSWC follows the above steps.

As part of the self-generating strategy for PSWC development, it is anticipated that some CET staff members would become promoters/managers in the new PSWCs to provide competent, dedicated managers to launch the new enterprises. Consequently, as part of the human resource development efforts of the PSWC development program, new Category I and II professional staff (as defined in Chapter 4) are recruited and trained on a regular basis to backfill the CET positions vacated by departing promoters/managers.

As soon as possible after a PSWC development program is launched in a targeted area, the PSWC entrepreneurship training center (GETC) staff or PSWC training unit organized by the lead organization (CEED Foundation, NGO, or other sponsoring agency) provides a formal training program for prospective PSWC entrepreneurs that includes modules on business planning, PSWC entrepreneurship, management and governance in PSWCs, and basic business skills. Appropriate PSWC training materials are obtained, modified, and used as part of these training activities. Whenever possible and appropriate, existing vocational training and educational institutions are used to provide the technical and vocational skills the PSWC members need.

Small businesses often lack the technical and managerial skills necessary to operate successfully, and the management education and training programs and standard cooperative education programs are not geared to teach the specialized skills modern PSWCs need. Consequently, after the PSWC development program is operational for an appropriate time, the GETC provides advanced training to selected PSWC members and managers following the basic PSWC training. The purposes of this continuing training are to add value to the firm's human capital, ensure that the new business enterprises are managed efficiently and effectively, decrease the firm's dependency on the CET and CFI advisors, and ensure that the PSWC worker-members know, from an accounting perspective, how their labor adds value to the firm, their families, and their community.

Training for this phase of the PSWC development strategy should be firm specific. However, other training arrangements could be made as the PSWC development system grows to accommodate the training needs of PSWCs in the same or related industries or in the same geographic area. PSWC members should actively participate in planning, designing, and implementing these educational activities.

Monitoring the financial health of PSWCs

The CFI staff, operating under the Contract of Association each cooperative signs with the PSWC development program at the time they come to the CET for assistance in starting a business, also serve as financial advisors to affiliated PSWCs. They monitor their financial health and assist them to obtain external debt capital to finance expansions, maintain their competitiveness, and take advantage of new business opportunities.

Under the terms of the Contract of Association, the affiliated PSWCs furnish the CFI with copies of their annual accounts and budgets for the following year in the form set forth by the CFI. In addition, the enterprises provide the CFI with certain financial data on a monthly basis. Both parties treat the information as confidential. The PSWCs also agree to periodic audits by the CFI's auditors. The auditors then produce a report on the cooperatives' economic, social, and business development, including recommendations about existing or potential problems. The

CFI also provides the PSWC with regular reports on its own financial planning and other economic and technical matters that may be of interest and value.

When there is an indication of problems, the CFI and CET, by formal agreement through a Contract of Intervention, spell out the roles, powers, and responsibilities of the manager, the board of directors, the intervenor, and the CFI and CET assist the troubled PSWC until it is no longer in difficulty.

A concluding comment about starting and operating PSWCs

The primary emphasis of this chapter is on the three elements comprising the venture development process: (1) screening and selection of business opportunities, (2) writing the business plan, and (3) recruiting, motivating, and empowering PSWC entrepreneurs. Obviously, the actual process of starting and running PSWCs is more complicated than this chapter and guide can cover.

This is not intended to be a comprehensive and detailed manual for starting and running a PSWC or to provide all the necessary training components which such a manual should contain. The reason for not doing so is twofold: First, the objective of this guide is to outline the steps and processes for organizing a successful PSWC development program at the national or local levels. It is not intended to be a training manual for PSWC entrepreneurs, or include all of the information they will need to successfully set up and run a PSWC business. Second, a number of excellent guides, manuals, and business training materials are available (including some produced by the ILO) for potential groups of entrepreneurs to use to learn needed business skills and to train their worker-members in the unique aspects of PSWC management and governance. A list of some of these materials is provided in Chapter 6.

Because PSWCs are both a unique form of cooperative and a unique form of business enterprise, recent experiences show that PSWC worker-members require considerable human resource development: (a) to overcome their inexperience in owning and managing their own business enterprise; (b) because of the internal conflicts caused by the more complex working relationships between worker-owners and managers; and (c) because of their lack of familiarity with the cooperative rules and regulations governing the running of PSWCs.

As suggested in the previous section on recruiting, motivating and training PSWC entrepreneurs (in this chapter), it is anticipated that in addition to learning business planning skills and basic business and vocational skills, prospective PSWC group entrepreneurs would receive training on such topics as:

(a) the requirements to form a PSWC;
(b) the basic cooperative and worker-owned cooperative principles;
(c) management and information sharing in PSWCs;
(d) PSWC teamwork and group skills (brainstorming, problem solving, working together, etc.);

(e) the legal and financial structures of modern PSWCs (including organizing and using individual capital accounts);
(f) understanding the constitution and model rules and by-laws;
(g) the responsibilities of worker-members and PSWC membership; and
(h) the rights of worker-members as employees and handling grievances and other work-related problems in PSWCs.

The objectives of the human resource development efforts are to empower and improve the skills of the PSWC worker-owners to enable them to effectively organize and operate their new PSWC enterprises. To do this, they need to be able to:

(a) adopt a suitable PSWC constitution and by-laws that can be legally registered;
(b) decide on the management structure and functions of the business and determine the rights and responsibilities of the managers and workers in the enterprise; and
(c) demonstrate their ability to cooperative effectively with each other as worker-owners and managers.

Chapter 6 in this guide lists some resources useful for starting and managing a PSWC and the training materials considered essential to provide comprehensive training on what can be termed "cooperative skills," "PSWC business skills," and "participative management skills." It also provides a selected list of readings for those who want to learn more about the use of group entrepreneurship and PSWCs in generating employment and income.

Chapter 6

Expanding and Consolidating PSWC Development

Obtaining information and providing feedback

It is important for the lead organization (CEED Foundation, NGO, or other agency) sponsoring or operating a PSWC development program to regularly assess the work of the CET, the CFI and the other support units in incubating new PSWCs. They should assess the existing policies, approaches and routines for promoting PSWC development and the startup assistance, technical support and financial support to identify weaknesses, gaps, and potential problems. Information about the financial health of the PSWC enterprise "group" or "system," the cohesion of the PSWC development mechanisms and the development of business linkages and support systems is also important.

Because business linkages and support systems are critical to the success of PSWC businesses, or any small business, it is important to determine when the PSWCs are in a position to establish linkages and obtain support from networks and other systems. Consideration should be given to clustering the PSWCs, establishing them on a geographical or industrial basis, to provide synergism and strength to their purchase of services and materials and to their production and marketing of goods and services. When helping new PSWCs to develop linkages and support systems, the CETs should promote the networking concepts developed in Emilia-Romagna in Italy, Mondragon in Spain, and elsewhere.

The CFI, in its financial monitoring role, determines the information needed to monitor the financial health of the PSWCs and provides timely and effective feedback to ensure their continued financial health. The lead organization (the CEED Foundation, the NGO, or other agency) identifies and collects, in a non intrusive way, the information needed to improve and strengthen the overall PSWC development program.

The ETC staff, in their educational and training roles, work with the PSWCs to design and provide the necessary training to ensure that the PSWCs remain competitive in their business and industry. They assess the PSWC worker-members' levels of education and training and provide timely and effective feedback to ensure that their educational health improves. The ETC staff also work with the CETs to develop and offer the type of achievement and other training the prospective PSWC entrepreneurs need to ensure that they become successful worker-owners in the expanding PSWC sector.

Building a PSWC system or complex

The PSWC development program proposed in this guide is designed to create a "group" or "system" of PSWCs that is healthy enough and large enough to generate the types and sizes of business enterprises needed to significantly increase employment and income in the communities, regions, and countries where it is implemented. System building is essential to the expansion and consolidation of the PSWC development program.

Because there is strength in numbers, and networking and other support relationships enhance the success of small businesses, the CETs are to encourage and facilitate the creation of mutually beneficial linkages between the PSWCs as they increase in the communities and regions within a country. These inter-cooperative linkages could be directed at credit, purchasing, marketing, research and development, etc., to strengthen the PSWCs and overcome any weaknesses that limit their potential for survival and growth. Linkages are also to be fostered among PSWCs physically located in CET incubator facilities and those operating independently in communities.

During the expansion and consolidation process, the CETs and the CFI devote a good deal of effort and time to fostering system building and establishing synergistic and mutually supportive inter-cooperative networking among the PSWCs. Their goal is to develop a full-blown PSWC "system" along the lines of the Mondragon complex, with a substantial number of primary and several second-degree cooperatives, which might include CETs, the CFI, and the GETC. Only when this level of development and system building is a major, high priority objective can a PSWC development program in a community or country achieve the size and strength it needs to compete on an equal footing with the other enterprises and institutions in a market economy.

Conducting a formal evaluation of the PSWC development program

Just as it is important to have financial projections for a PSWC in the business plan, it is important to have outcome projections for the PSWC development program. The lead organization (CEED Foundation, the NGO, or other agency) directing the PSWC development program should establish a management information system to collect the baseline and subsequent data to periodically evaluate the progress of the program in the targeted areas.

To achieve its full potential for job and enterprise creation, the CEED strategy for PSWC development outlined in this guide requires at least a five-year commitment of time and resources. It might be wise to break the five-year period into two phases for planning purposes. Phase One would be a three-year startup period, and Phase Two would be a two-or three-year follow-on or consolidation period. At the end of each time period, an independent evaluation should be conducted to determine the success of the PSWC development program in meeting its goals and objectives. This evaluation should also include recommendations for improving the program's operations.

The five-year period envisioned for institutionalizing a successful PSWC development program could contain several goals:

- the establishment of a lead organization (CEED Foundation, NGO, or other development agency) to actively direct and promote the incubation and development of PSWCs for employment and income generating purposes
- the establishment of a CFI to finance the development of PSWCs and monitor their financial health
- the establishment of one or more CETs to incubate new PSWCs
- the establishment of a GETC to provide specialized training to PSWC owner-members
- the establishment of x number of operational worker cooperative businesses employing y number of worker-owners and generating z amount of income and employment in their communities

The "success" of the PSWC development program could be measured by:

- the number of operational PSWCs and the number of jobs created by each within a three- to five-year period;
- an improvement in the standard of living of the PSWC worker-owners and their families
- a decrease in the amount of sponsor assistance or financial subsidy needed to operate the development program;
- the evidence of democratic governance and practices within the PSWCs;
- the achievement of higher skill levels by the PSWC worker-owners and managers;
- the progress made in creating a PSWC group or system in which the individual PSWCs become part of a larger PSWC system in the community or country and the CETs, CFI and GETC evolve into second degree PSWCs; and
- the PSWC members' degree of acceptance and practice of the basic cooperative and supplementary worker-owned cooperative values discussed in Chapter 3.

Where to go for additional help

Because of the complexity and importance of this subject, this guide cannot contain all the details and information needed to answer every question or cover every situation. Consequently, the following lists are included to provide a sampling of background reading about group entrepreneurship and worker-owned cooperatives and the basic training resources and materials available. When used in conjunction with these resource materials, this guide should be a useful tool for organizing a dynamic PSWC development program.

Learning resources available for use with PSWC group entrepreneurship development programs

- Adams, Frank T. and Gary B. Hansen. Putting Democracy to Work: A Practical Guide for Starting Worker-Owned Businesses. San Francisco and Eugene: Barrett-Koehler, Revised Edition, 1992
- Basic Orientation. Somerville, MA: Industrial Cooperative Association, 1987
- Committee Effectiveness Training: Skill Building for Labor-Management Groups. Washington D.C.: USDOL, BLMRCP, 1990.
- Co-Operative Development: A Support Resource for Co-operative Enterprise--Tutor Manual. Dublin: Irish Co-operative Development Unit, 1990
- From Invention to Innovation: Commercialization of New Technology by Independent and Small Business Inventors. Washington, D.C: U.S. Dept. of Energy, May 15, 1991.
- Gastil, John. Democracy in Small Groups: Participation, Decision Making & Communication. Phila.: New Society Publishers, 1993.
- ILO. A Workers' Co-operative: The Decision to Start--Trainer's Manual. Vienna: MATCOM, 1986
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- Stack, Jack. The Great Game of Business. New York: Doubleday, 1992.
- Venture Development Facilitators Manual. Vancouver, BC: Westcoast Development Group, 1991.
- Ward, Gene and Richard Kennedy. The Business Plan Manual: A Practical Guide for Developing your Business Plan. Vancouver, BC: Westcoast Development Group, 1990.
- Witter, Glen. Finding and Evaluating Business Opportunities: A Practical Guide for Developing Business Ideas. Vancouver, BC: Vancouver Community College, 2nd Ed. July 1991.

Additional reading and information about group entrepreneurship and PSWC development

- Abell, Peter. "Support systems for industrial co-operatives," Chapter 5 in Establishing Support Systems for Industrial Co-operatives: Case Studies From the Third World. Aldershot: Gower Publishing, 1988, pp. 113-134.
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- Hansen, Gary B. Lessons from the past: selected readings on the systematic development of workers' cooperatives to generate employment and income. (Background readings for ILO Workshop on Workers' Cooperatives, Bangkok, 30 November-2 December 1993) Logan: Utah Center for Productivity and Quality, 1993.
- Hansen, Gary B. Using Group Entrepreneurship to Generate Employment and Income in Developing Countries and Countries Undergoing Privatization. Logan: Utah Center for Productivity and Quality, Utah State University, 1994.
- Harper, Malcolm. "The critical factors for the success of co-operatives and other group enterprises." Small Enterprise Development, Vol. 3, March 1992, pp. 14-21.
- Harper, Malcolm. Producers' Small-Scale Industrial Co-operatives: Some Case Studies from Developing Countries. Sectoral Activities Programme, Working Papers, Geneva: ILO, 1991.
- Moye, A. Melissa. "Mondragon: Adapting Co-operative Structures to Meet the Demands of a Changing Environment." Economic and Industrial Democracy, Vol. 14 (1993), pp. 251-276.
- Wales, Nym. China Builds for Democracy. New York: Modern Age, 1941.
- Whyte, W.F. and K.K. Whyte. Making Mondragon: The Growth and Dynamics of The Worker Cooperative Complex. Ithaca: ILR Press, Second Ed. Rev. 1991.

Working Together to Create Jobs

A Guide to Worker-owned Cooperative Development

by

G. B. Hansen and E. Mogensen

International Labour Organization
Regional Office for Asia and Pacific
Bangkok, Thailand

December 1994

To Helen Foster Snow, Edgar Snow, and Rewi Alley, three forerunners who saw the promise and potential of worker cooperative entrepreneurship to create jobs, income, and dignity for poor people in Asia, and demonstrated that it works.

Table of Contents

Chapter 1

Introduction

This guide was developed because of the International Labour Organisation's (ILO's) recognition of the urgent need for increased job creation in the 1990s. The 1992 ILO Director General's Report states that, "The ILO's task will be to promote policies and programs that encourage the enterprise spirit and the establishment and development of enterprises and co-operatives with a view to creating jobs."

In accord with that ILO statement, the ILO Regional Office for Asia and the Pacific, as part of its 1993-94 work plan, adopted a project "to develop an approach for employment creation through worker-owned co-operative enterprises in the Asia Pacific region and a plan for the ILO's involvement in supporting such an approach." During November 30-December 2, 1993, a task force of eight national experts from China, Indonesia, Thailand, India, Bangladesh, and the Philippines, one international expert, and the Asia Pacific Regional Adviser on Co-operatives met in Bangkok to begin developing such an approach.

Because the capabilities and potential of worker-owned co-operatives (WCs) and group entrepreneurship to provide employment for workers in both rural and urban areas are not widely known or understood, the task force concluded that a written guide outlining their basic principles and the essential mechanisms to launch them is necessary to help the ILO actively promote them. Therefore, under the direction of Ejvind Mogensen (the ILO Asia Pacific Regional Adviser on Co-operatives), Gary Hansen (the Director of the Utah Centre for Productivity and Quality, Utah State University) wrote this guide to explain the process of WC entrepreneurship to development practitioners and potential users. (Following a workshop in early 1995, a final version of this guide will be printed and distributed to the people who will actively promote group WCs in communities and countries in the Asia Pacific region.)

This guide is designed to be a practical and useful handbook for those interested in launching an enterprise and job creation program by working directly with people and communities to organise WCs on a systematic and continuing basis. It describes the essential mechanisms needed to carry out this unique form of group entrepreneurship and outlines the steps for organising an innovative WC development program on a large scale.

It is intended to be used by: (1) individuals and groups of people who want to become successful WC entrepreneurs; (2) government economic development officials desirous of promoting a dynamic approach to enterprise and employment development; (3) co-operative development officials interested in expanding the cooperative sector by promoting WC development; and (4) development banks and international donors looking for more effective ways to reduce unemployment and poverty in the urban and rural areas of developing countries and in countries transitioning from command to market economies.

Chapter 2

An Example of Worker Co-operative Entrepreneurship: "Working Together to Create Jobs in Zamboanga"

The following story is a hypothetical example of how the group entrepreneurship and worker-owned co-operative (WC) development process works. It highlights the important elements and principles of group entrepreneurship and demonstrates how they are combined into a powerful, dynamic process of enterprise and job creation in a community or geographic region. This example is just one approach to worker co-operative entrepreneurship and development. A group or community could use another entrepreneurship and WC development approach to foster job and enterprise creation. The bracketed italicised comments are to help the reader better understand how the WC entrepreneurship and development process is implemented.

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Working together to create jobs in Zamboanga

Learning about worker co-operative entrepreneurship

As a result of attending an ILO-sponsored workshop on successful approaches to enterprise and employment creation held in Jakarta in the Spring of 1994, the director of the Milipines Co-operative Development Department (CDD) learned about the "Indusco Strategy" for job creation and local economic development. The Indusco Strategy uses a dynamic combination of group entrepreneurship, education, and financial support to systematically organise and launch large numbers of new employment and income-generating worker-owned co-operative (WC) enterprises. Upon returning home, the director discussed the Indusco Strategy with his colleagues. They decided to launch a WC development program using this strategy to alleviate the widespread unemployment and poverty in the country's Zamboa region.

Starting a worker co-operative development project

The ILO Regional Office in Bangkok not only provided the Milipines CDD director with a guide on how to implement the Indusco Strategy, including a list of experts who were knowledgeable about using this innovative form of group entrepreneurship to achieve local economic development, but it also helped the director engage an ILO consultant to write the proposal to start an INDUSCO project in the Zamboa region. The ILO Regional Office helped the director to submit the proposal to several international donor agencies. After undergoing a rigorous review process, the proposal was approved. A US$50,000 planning grant was obtained from one of the international donors.

In the fall of 1994, the Milipines CDD began its new ILO/Milipines Worker Co-operative Entrepreneurship Development Project -- "Milipines Indusco Project" for short. A task force involving some of the country's leading citizens provided input and helped the Indusco Project team conduct a feasibility assessment. The assessment indicated that the project was feasible. To ensure that the project would be independent from government control and to enable the implementing unit to become a dynamic engine of employment and enterprise creation on a long-term basis, it was recommended that a new non-profit NGO should be created to implement it.

Because of their enthusiasm for the proposed project, several of the task force members volunteered help the Milipines CDD obtain a grant to start the project and to undertake the necessary legal and organisational work to establish the non-profit NGO -- the Milipines WC Development Foundation (WCDF) -- in Raratonga, Milipines. Through their joint efforts, the Milipines WCDF was chartered in December 1994 to promote group entrepreneurship and systematically organise WCs for employment creation and local economic development.

A grant of US$1,400,000 was obtained from the same international donor who financed the feasibility study. The donor was very impressed by the task force's thorough and detailed report assessing the feasibility of the Milipines Indusco Project and how it would be implemented. The grant provided the necessary funding to organise the Milipines WCDF and launch the WC development program. Part of the grant (US$1 million) was earmarked to establish the WCDF Loan Fund and the remaining US$400,000 was to be used to set up the WCDF, organise the necessary outreach and support units, and finance their operations for the first three years. Also, the Milipines CDD provided M$200,000 to help start the WC development work in two regions, and the ILO contributed some assistance in the form of a technical expert. The ILO was anxious to actively participate in the project's implementation because it was an entirely new approach to local economic development and held considerable promise for creating jobs and reducing poverty, and if successful they wanted to be in a position to replicate the project in other countries in the Asia Pacific Region.

Promoting worker co-operative entrepreneurship

The WCDF Board hired a director and two professional staff members for the headquarters established in Raratonga, Milipines. They set up a WC development organisation consisting of three complementary units -- a worker co-operative entrepreneurship team (CET), a co-operative financial office (CFO), and a group entrepreneurship training centre (GETC) -- to organise new WCs in the Zamboa region. Following the hiring and training of the CET staff, three experienced and professionally trained business persons and three recent university graduates (an engineer, an MBA, and an accountant), the WCDF informed the public of the start up of the WC development project through the local media and began offering courses in group entrepreneurship and WC development in the communities of Samar, Tak, and Zamboanga.

Soon, a number of people had heard about the project and had taken the introductory CET courses on group entrepreneurship. Several of the participants began to discuss at length the possibility of starting their own WC to provide stable employment for themselves and improve their economic position. In May 1995, a group of twenty Zamboangans invited a member of the CET office in Raratonga to come and discuss with them the possibility of organising a WC in Zamboanga.

Incubating new worker co-operatives

The Zamboangan group appeared to have a co-operative spirit, a good leader/manager, and a plausible business idea so the CET staff helped them carry out a venture development screening process and conduct a pre-feasibility study. It proved favourable to further consideration of their proposed WC venture so the CET staff drew up a contract of association with the Zamboangan group and agreed to assist them during the business planning phase and start-up period. *[If a group does not have a logical leader/manager, the CET staff, in conjunction with the prospective group entrepreneurs and the CFO, select a leader/manager who has the backing of both the group and the CET.]*

The Zamboangan group had sufficient collateral in the form of land owned by several members and a building to house the business. The CET used their property as collateral to obtain a loan from the CFO to pay the manager's salary to run their business. *[If the group lacks adequate collateral, the CFO makes a deferred-interest loan to the start-up group to pay the manager's salary during the promotion and business planning period.]*

The CET helped the group register as the Zamboangan WC under the co-operative laws of the Milipines. (Registering as an WC means that an entity exists to receive the promotion loan and to pay the manager's salary during the promotion/launching period. The Milipines co-operative laws support the organisation of modern industrial WCs). The Zamboangan group's promoter/manager, Mr. Vanatu, was assigned a CET advisor and provided with an office and other support services in the CET office in Zamboa. The CET advisor worked closely with Mr. Vanatu and the Zamboangan WC group during the planning, promotion and launching of their WC and for a year or two thereafter.

The Zamboanga WC group had their own business idea, a restaurant featuring native cuisine and catering to the growing tourist industry in the region. The CET advisor, Mr. Vanatu, and the Zamboanga WC group performed the initial screening of their restaurant idea. They used the predetermined selection criteria developed by the CET -- market trends, sales per worker, capital per worker, etc. After a careful evaluation, they concluded that their restaurant idea was financially viable.

[If the group's business idea fails to pass the selection criteria, the group can select an idea from the CET's product bank of feasibility studies. Then the CET advisor, the WC group's promoter/manager, and group members update the feasibility study for that enterprise. If the updated feasibility study results are positive, a business plan is written.]

Because the Zamboangan WC business idea passed the three step screening and feasibility process, a formal business plan was written. *[The business plan must include enough detail to answer all the relevant questions about the venture that a third party could ask.]* After the Zamboangan WC business plan was completed and approved by the organising group and the CET, it was submitted to several banks in the region and the Milipines WC Development Foundation CFO to obtain the necessary funding to start the business.

The 15 charter members of the Zamboangan WC (five of the twenty prospective members decided not to participate) put up 10 percent of the cost as equity capital, amounting to M$15,000. The Milipines WCDF CFO loaned them 40 percent of the funds needed (M$60,000), and the Milipines Small Industry Development Bank loaned them 50 percent ($M75,000). After receiving the necessary funds to start their WC, the promoter/manager and the WC members worked with the CET and the CFO advisors to establish their new restaurant.

[If the CFO agrees to finance the new start-up, or funds are obtained from other lenders, financial arrangements are made to obtain the equity capital from the worker-members and to systematically draw on the debt and equity capital obtained from all sources to launch the enterprise in a timely manner. The worker-members' equity in the new enterprise is determined during the business planning and financial negotiating processes. (It may be several hundred or several thousand U.S. dollars for each member, depending on the type of enterprise and job creation costs).

During the first year or two of operation (i.e., the launching and consolidation period until break-even), 70% of the start-up costs (including the WC manager's salary during the promotion period) are capitalised as an asset which is depreciated over a period of ten years so that the original members of the WC do not bear a greater portion of the start-up costs than those who join at a later date.

Projections in the business plan for a manufacturing enterprise normally allow for about two or three years of losses after start-up before the WC reaches the break-even point. In a mature WC development program, usually the initial loan for a new enterprise is scheduled to be repaid five to seven years after start-up. During the first two years, there are no interest or principal amortisation payments. The interest (at an agreed rate) and principal payments begin in the third and fourth years, and then interest increases to market rates for the remainder of the loan.]

With the help of the CET and their manager/promoter, the Zamboanga WC members refurbished the building to house their restaurant, purchased and installed the necessary furnishings and equipment, obtained suppliers for the food and other items needed, and arranged training so they could fill the various positions in their restaurant. The grand opening of Zamboanga's Finest Food was held five months after they approached the CET for help.

Soon the new restaurant was filled with tourists because of the high quality of their food and service. Within a few months, the restaurant was making a healthy profit and paying off its loans ahead of schedule. At the end of its first fiscal year, the co-operative's board of directors declared a patronage dividend above that allocated for wages; the WC members received a sum based on their labour during the previous year. Also, part of the profits were set aside to cushion the restaurant during off-peak times and to provide capital to expand their business, and some profits were allocated to each member's individual capital account to provide working capital and reserves for the enterprise.

Because the WC members were gainfully employed and the restaurant had considerable untapped market potential, the WC considered taking on additional members to expand the restaurant. During the next year, ten prospective members, each carefully screened by the existing members of Zamboanga's Finest Food WC and willing to invest M$1,000 for a share of stock, were invited to join, increasing the membership to 25. The new members received extensive training in WC principles, group entrepreneurship and self-management at the WCDF training centre. They also took courses in food service and business management at the local vocational training centre.

Growing the "Zamboa WC Group"

Though slow at first, the demand for the CET's help increased steadily as more and more people in Zamboanga and the surrounding communities saw how the WC restaurant increased their neighbour's employment and incomes. The second WC, a shrimp farming operation employed 10 people and sold fresh shrimp to the Zamboanga's Finest Food restaurant and also marketed them in the nearby cities. The CET and GETC continued to provide WC entrepreneurship training courses and to help other would-be WC group entrepreneurs during the start-up process.

Over time, the number and kinds of WCs in the region has increased, including several manufacturing WCs and a WC furniture factory. Through the encouragement of the CET and the CFO, they began networking and organised a regional "Zamboa WC Group" to purchase supplies, market products, conduct research and development, and engage in other mutually beneficial activities.

When the three year grant form the international donor ended, the Zamboa WC Group was reorganised to insure that the services being provided by the CET, CFO and GETC would continue. The WCs in the Zamboa Group decided to organize the three support units as second-degree cooperatives owned by their workers and the WCs. The income received through the contracts of association made between the individual WCs and the WCDF, course fees from training by the GETC, and the profits from the CFO's banking operations were sufficient to finance the continuing work of the CET, CFO, and GETC in the Zamboa region.

Because of the success of the WCDF job and enterprise creation operations in Zamboa, annother three-year grant was obtained by the WCDF from the same international donor to create a second WC development unit (containing a CET, CFO and GETC) in another region of Southern Milipines. This grant was augmented by funds provided by the Milipines CDD for the same purpose.

The "Milipines Indusco Project" ten years later

A prosperous, well-run group of WCs is operating in the Zamboa region. At last count, The Zamboa WC Group consisted of 24 manufacturing and service WCs, employing over 5,000 worker-owners, and operating profitably in seven different industries. Zamboanga's Finest Food, the first WC in the group, has expanded into a fully integrated tourist resort, including three restaurants, a hotel, golf course, and convention centre. At last count, it was employing 375 worker-members. Another successful WC Group has been established in the Samar Region, with 2,500 worker-members owning eleven manufacturing and service WCs. They have now created the Samar WC Group with their own second-degree CET, CFO and GETC support co-operatives. Two years ago the WCDF, with support from the Milipines Government and the Asian Development Bank launched its third WC development program in the Mindo Region. Already three WCs have been established in this region employing 135 worker-members.

The success of the Zamboa WC Group has continued apace. Because of networking and other group-sponsored arrangements, several of the WCs in the Zamboa Group are jointly bidding on international contracts that none of them could bid on individually. Three manufacturing WCs in the electronics business are exporting products to Korea, Japan, and the United States and several more are subcontractors to firms in these countries. The CET, the CFO and the GETC originally set up by the Milipines WCDF to start the first Milipines INDUSCO Project in the Zamboa region have all become second-degree co-operatives owned by their own worker-members and the 24 co-operatives in the Zamboa group.

The manufacturing WCs in the Zamboa Group have established joint purchasing arrangements to buy raw materials and supplies and have developed a joint marketing arrangement to distribute their products nation-wide and for export. Recently, there was some discussion about organising a group-run research and development unit to provide additional technical and product development support to the manufacturing WCs.

The Zamboa Group's CFO is now the Samar Workers' Co-operative Bank (known in the region as the SWCBank) and continues to finance new WC start-ups as well as providing savings and credit services to the working people in the entire region through its fifteen offices.

Several years ago the GETC in Raratonga obtained a new building and was reorganised as the Zamboa Entrepreneurship Training Centre (ZETC). It serves the entire Zamboa Group of co-operatives as an education and training institution, providing specialised worker co-operative management and business training to the group's worker-members and managers. It also offers some technical courses which are not available through other vocational training institutions.

A visitor revisiting the region after a ten year absence could not believe the changes that had taken place in Zamboanga. His comments, after spending a week at the Zamboanga Resort and Convention Centre and touring the surrounding area were insightful:

> "Who would have dreamed, ten years ago, that the people residing in the Zamboa region would experience the economic growth and prosperity which resulted from launching the Milipines Indusco Project. When I was here before, the area was economically depressed and the people discouraged. Many of the young people wanted to move to the capital city or go abroad. Today, people in the region speak with pride as they tell me the story of ***their*** Zamboa WC Group, and the jobs and income it provides for them and their children. It is clear to see that the Zamboa WC Group has become the economic backbone of what is now a vibrant and prosperous region."

Chapter 3

Definitions and Concepts of Worker Co-operative Entrepreneurship

In order to effectively promote worker-owned co-operative (WC) entrepreneurship and create jobs and enterprises on the scale and with the positive impact described in the story of "Working Together in Zamboanga" in Chapter 2, it is necessary to understand the underlying concepts and principles which infuse this unique type of entrepreneurship and enterprise development. In this chapter, definitions and concepts of WC entrepreneurship and development are provided. In Chapters 4 and 5 the process of organising a WC development program and incubating new WCs using these concepts are presented.

Internationally recognised co-operative principles.

The Rochdale Pioneers in England in the 1840s set forth eight co-operative principles to guide their operations. More recently the International Co-operative Alliance reformulated them into six internationally recognised co-operative principles:

The 6 internationally recognised co-operative principles

1. Membership in a co-operative society should be voluntary and available without artificial restriction or any social, political or religious discrimination.
2. Co-operatives are democratic organisations. Their affairs should be administered by persons elected or appointed in a manner agreed to by the members and accountable to them. Voting should be on a one person-one vote basis.
3. The society should pay limited interest on share capital.
4. Surplus or savings arising out of the operations of a society belong to the members of that society and should be distributed in such a manner as to avoid one member gaining at the expense of others.
5. All co-operative societies should make provision for the education of their members, officers, and employees in co-operative principles.
6. Co-operative organisations should actively cooperate in every practical way with other co-operatives. (ILO 1988)

Supplementary "worker-owned" co-operative principles.

Because of their unique ownership, management, and employment structures, WC owner-members must subscribe to several supplementary principles in addition to the six internationally recognised co-operative principles. ***Experience has demonstrated that the following supplementary principles are essential to successful WC operation and growth:***

- ***ownership of WCs must be exercised only by the suppliers of labour--the workers;***
- ***all workers must become worker-owners;***
- ***the workers, as owners of the enterprise, must decide on the disposition of the net income of the business; and***
- ***the control of the enterprise must be exercised and and the benefits divided among the worker-owners in their capacity as suppliers of labour and not as suppliers of capital.***

Definition of worker co-operative and worker-owned co-operative

In this guide, the terms **worker co-operative** and **worker-owned co-operative** (hereafter **WC**) have the same meaning, and it is a specific and unique meaning. ***In a WC the members, subscribing to co-operative and WC principles, and functioning as "group entrepreneurs":***

- ***take the full risks and benefits of organising, owning, and operating an enterprise;***
- ***exercise their governance and control on the basis of one person-one vote; and***
- ***work together in a common production or service facility (factory or office) to jointly produce (manufacture, prepare, or organise for sale) the products, goods, or services sold in the marketplace.***

WCs are different from client-owned co-operatives -- supply and marketing co-operatives, consumer co-operatives, and credit unions. In a client-owned co-operative, the client-members, producers or consumers, own and control the co-operative to provide a service or to serve their members' needs. ***The workers in client-owned co-operatives are employees, not owners or controllers of the enterprises.***

Definition of group entrepreneurship and WC entrepreneurship

As used in this guide, the terms **group entrepreneurship** and **WC entrepreneurship** have the same meaning. They mean ***a group or groups of people in an urban area, rural village, or community manifest the characteristics of entrepreneurship:***

- ***a desire to be self-employed,***
- ***a willingness to undertake the process of starting a new WC enterprise,***
- ***a willingness to take calculated risks, and***
- ***the ability to engage in a common productive activity and to take responsibility for financial resources.***

The WC entrepreneurship and development process outlined in this guide is designed to systematically create new business enterprises on a continuing basis and substantial scale. Specially designed entrepreneurship, financial, and educational mechanisms are used to incubate and nurture modern worker-owned joint production or service co-operatives. This unique WC entrepreneurship process is initiated and sustained by a specially created non-governmental organisation (NGO) called a WC Development Foundation (WCDF). The WCDF provides the expertise and leadership to establish the essential mechanisms to systematically identify, recruit, and help prospective group entrepreneurs in a community or region to organise and operate new WC business enterprises. These WCs will then become part of an integrated WC "group" or "complex."

Requirements for successful worker co-operative entrepreneurship.

Adherence to the internationally recognised co-operative principles and supplementary WC principles is necessary but not sufficient for prospective group entrepreneurs to start and operate a successful WC enterprise. Three more elements: entrepreneurial characteristics, a business concept, and access to capital, must be combined with the co-operative and WC principles to constitute what one of the leading texts on the subject calls the "labour-entrepreneurship window of opportunity." (Adams & Hansen 1992) ***Organisers of successful WCs must possess or obtain all four of these elements.***

1. <u>A commitment to co-operative and WC principles</u>. First, as noted above, the organising group must understand and accept the general co-operative principles and the additional WC ownership and capital formation principles to construct successful WC enterprises. To avoid serious problems, WC organisers must thoroughly understand and practice these principles from the outset.

2. <u>A viable business concept</u>. Second, all members of the group must share a viable business concept. The business concept must be carefully thought out, screened, and analysed through a business feasibility study. Timing is important; changing technology, economic conditions, or impending privatisation are just a few of the many forces that impose time constraints. (The venture development screening process and business feasibility study are discussed in greater detail in chapter 5.)

3. <u>Access to capital</u>. Third, there must be access to adequate capital. Capital comes in many forms and from many sources. It may include the time and labour of the worker-owners and credit extended by others. It must also include the membership equity agreed to by the organising members and possibly some grants or loans from specialised small business lending agencies and international donors.

4. <u>Entrepreneurial characteristics</u>. Fourth, some (at least one, but preferably more) people in the organising group must have the necessary entrepreneurial characteristics, experience and business skills to start a WC. Important WC entrepreneurial characteristics include:

- a high energy level--the ability to get up early and work hard all day;
- a positive self-image--a determination to succeed;
- oral and written communication skills to sell a product or service;
- the ability to assess the potential of a product/service/ideal;
- flexibility and resiliency--the ability to adjust to the rewards and pitfalls of the marketplace;
- decision-making skills;
- always learning;
- the ability to marshal resources;
- the ability to work together with others to achieve a common goal;
- and a sense of adventure--the courage to try something new.

While basic entrepreneurial characteristics cannot be taught, some skills can be gained through formal education, and others can be gained through work experience.

Characteristics of successful worker co-operatives

A major study of WCs as business enterprises found financial management deficiencies -- the inability or failure to link financial decisions to market opportunities, stock control, and technical innovation -- to be their most common weaknesses. The researchers conclude that if WCs perform less well than similar private enterprises "it is due to managerial deficiencies, not to an intrinsic weakness of the form." (Abell & Mahoney 1988)

Another study of WCs in developing countries concluded that their success (or failure) is determined by the organising group's ability (or lack of ability) to:

- identify good business opportunities and activities,
- have or acquire the necessary mix of skills,
- have the personal characteristics and commitment needed to undertake good business planning, and
- pick good leaders and managers. (Harper 1991)

In short, when WCs fail, it is because they lack or fail to obtain one or more of the critical elements necessary for successful WC entrepreneurship.

These and other studies conducted in developing and industrialised countries found that a number of factors contribute to the success of WCs and other types of employee-owned enterprises (Adams and Hansen 1992; Hansen 1993; Rosen, Klein and Young 1986; Whyte & Whyte 1991; Meek & Woodworth 1990):

Factors contributing to the success of WC and other employee-owned enterprises

- Profitable business ideas
- Quality leadership and management
- Technical competence and workforce training
- Members' commitment based on their capital stakes
- Effective systems of democratic management and decision making
- A network of mutually supportive worker-owned co-operative organisations
- Continuing education and training to increase managers' and worker-owners' skills
- Membership solidarity
- Adequate guidelines for good co-operative practice
- Regular, substantial contributions (e.g., dividends) to the workers as owners.
- Involvement of workers in the major decision-making.
- Managers treating the workers like owners instead of employees.
- Workers educated to understand what being owners means and to think and behave like owners.

Requirements for successful WC promotion and development.

Successful, large-scale, and continuing WC development requires several key components together with an integrated strategy for their organisation and use. Failure to include all of these components as part of a carefully designed development program results in isolated, weak and marginal WCs that generate few jobs and little income.

Eight essential elements are required for launching an effective, large scale WC development program or effort in a country or region.

Requirements for successful WC promotion and development

1. An appropriate legal and institutional framework
2. A suitable WC model
3. An entrepreneurship institutionalising and business incubation mechanism
4. A linked financial unit or institution
5. A linked entrepreneurship education and training institution
6. A coherent set of co-operative values, goals and objectives
7. The development of networks, groups or federations
8. A well-designed plan for implementation

1. **An appropriate legal and institutional framework.** Co-operative legislation that promotes the development of the WC program and incorporates the unique WC principles must be in place or be passed by the appropriate legislative bodies in the targeted areas. Such legislation enables the members of individual WCs to build strong, efficient, and well-capitalised enterprises that can be melded together into an integrated functioning network or system. The legal or institutional framework for the WCs must allow the members to solve their organisational, financial, and business problems on an ongoing basis; to meet new challenges and changing conditions; and to achieve the goals and objectives of the WC system. In most cases, co-operative laws designed for agricultural or consumer co-operatives are not suited to the needs of modern WCs.

2. **A suitable WC business organization.** The unique ownership incentives provided by the individual capital account system and the presence of a financial arm or institution closely linked to the WCs are critical to their economic viability and growth. These equity capital and organisational structures are essential to create and establish productive and financially successful WC business enterprises of any size and scale beyond the marginal. They establish a realistic, co-operative basis of ownership, equity accumulation, and distribution of profits. This capital ownership system, which includes internal capital accounts for each worker-owner, provides the incentive and means to increase the worker-owners' equity, motivation, commitment and skills while reinforcing their adaptability and flexibility. It also helps to retain a cadre of professionally trained, participative managers.

3. **An entrepreneurship and business incubation mechanism.** The group or worker co-operative entrepreneurship team (hereafter CET) is the entrepreneurship institutionalising and WC incubating mechanism needed to build a strong employment and income-generating WC system. Each CET consists of a small cadre of highly skilled business professionals (Category I) who have expertise in at least one of three areas: (1) organisation and management; (2) engineering and production; and (3) business -- finance, marketing, accounting, human resources. The CETs are capable of conducting venture development screening and feasibility studies, performing promotional work and carrying out the other tasks associated with WC enterprise creation and incubation.

A selected number of academically trained but inexperienced young professionals (Category II) and talented individuals in the community without academic training (Category III) are recruited to augment the CET staff and are part of the human resource development dimension of the WC development program. It is intended that many of these junior professionals and community members will eventually become the managers and leaders of new WCs as well as backfill the CET professional staff as the program expands.

The CETs are strategically located in communities or geographic regions to provide guidance and support services to groups of prospective WC entrepreneurs. They promote group entrepreneurship, identify business opportunities, determine their feasibility, and serve as midwives in giving birth to new employment-creating WCs.

The objectives of the CETs are:

- to increase the number of people with entrepreneurial characteristics and business skills;
- to identify and evaluate market gaps, available resources, raw materials and WC business opportunities in the communities or regions;
- to match people possessing entrepreneurial abilities and desiring to become worker-owners with business opportunities and to facilitate those business start-ups; and
- to create economically viable, sustainable WC businesses.

CETs identify prospective worker-owners and develop new WC enterprises in two ways:

1) potential WC worker-members, either groups or individuals in the communities and surrounding areas, who come to the CET with a business or product idea and/or a desire to start a business; and
2) CET staff who have business or product ideas and actively recruit people in the community to become worker-members in new WCs.

When a group of prospective WC entrepreneurs decides to create a new WC, they sign a contract of association with the organisation implementing WC development. This agreement enables them to receive or obtain the entrepreneurial assistance, financial support, management assistance, and training they need to start a new WC business. In return, the group agrees to provide the necessary equity, adopt the WC ownership structure, submit to the financial discipline imposed, make regular financial reports to the WC development organisation's financial arm, and become active members of a WC complex. Following the signing of this agreement, the CET and other WC development support institutions begin working with the group to launch a new WC business.

The CET advisors screen groups of potential WC members and then work closely with them during the feasibility and business planning stages to teach them the basic co-operative and worker co-operative principles and business skills and then advise them on all aspects of the business during the critical first years of operation.

4. A linked financial office or institution. Studies of entrepreneurship and small enterprise development agree that ***incorporating some means to obtain adequate credit and venture capital financing is essential to the start-up and growth of any new enterprises and co-operatives. This is especially true for new WCs.***

Therefore, a specialised WC financial office (CFO), or financial arm, must be established to obtain the additional capital beyond that which the worker-owners can provide. This can be done locally by setting up credit and savings co-operatives or WC development banks to mobilise savings in the targeted area or using existing commercial banks. It can be done regionally or nationally by obtaining additional venture capital grants from government small enterprise or co-operative development programs and lending institutions such as the Asian Development Bank, World Bank, foundations, international donors, and other sources. In addition, the CFO should establish close working relationships with the existing banking sectors in the community and country to help package loans and make available the other financial arrangements the WCs need as they grow and expand.

The CFO staff, working in close co-operation with the CET, serve as financial advisors, venture capitalists and bankers in the WC development program. They must be capable of evaluating the financial aspects of any proposed business start-up, expansion, or conversion and of securing or providing the necessary financing to create viable new WC businesses. Under the terms of the contract of association each new WC signs, the CFO monitors the financial health of existing WCs, helps them to remain financially solvent, and assists them to obtain the capital they need to expand, compete and take advantage of new business opportunities.

5. <u>A linked entrepreneurship training unit or institution</u>. Education and training are critical to the success of the WC entrepreneurship and development program. Past experience demonstrates that ***the long-term viability and success of WCs in the manufacturing and service industry sectors depend on the education and training the WC worker-members and managers receive on a regular and continuing basis.***

A WC or group entrepreneurship training centre (GETC) is needed to promote a WC enterprise culture among the worker-members and to help them become more efficient and productive as business persons and more democratic and participative in managing their businesses. Also, an educational and training program is needed to provide entrepreneurial, technical and specialised WC training to prospective worker-members and selected groups of young people in the community who are interested in becoming WC entrepreneurs.

Regardless of what integrated strategy launches the WC development program, a human resource development effort is necessary to provide the WC managers and worker-owners with the specialised types of training which they need but which are not available from other sources: motivational and achievement needs training, group entrepreneurship training, co-operative principles training, WC principles training, participative management and governance skill training, and business, technical and vocational skills training.

If the WC group or complex stakeholders are prepared to finance the expansion as the WC program grows in a community or nation, the GETC could become the nucleus of a permanent WC training centre or even a second-degree worker-owned technical institute or college that is directed and controlled by the stakeholders (the WCs, CETs, CFO, GETC staff and students). In short, the GETC stakeholders determine its future role and development. The GETC's dominating philosophy, objectives, and business training programs should reflect co-operative principles, supplementary WC principles, and group entrepreneurship concepts.

6. <u>A coherent set of co-operative values, goals and objectives</u>. If the WC development system is to grow and succeed, the WC owner-members must subscribe to the common, coherent set of co-operative values, goals, objectives, and principles that are identified and articulated for present and future membership and are inculcated in them through an extensive, continuous educational process. These values, goals, and operational principles are derived from or expand on the internationally recognised co-operative principles and supplementary worker co-operative principles outlined above. Appendix A at the end of the chapter contains the basic values, goals and objectives, and operating principles that are essential to successful WC entrepreneurship and development. (Whyte & Whtye 1991)

7. <u>The development of networks, groups or federations</u>. Whenever CETs incubate new WCs in communities or regions, they must establish linkages among them to reduce their costs of doing business and enable them to become more competitive in their industries and regions -- obtaining market intelligence, marketing products and purchasing raw materials. Later, the WCs may want to establish group arrangements to jointly provide research and development, bid on large projects, develop new products, and produce greater quantities of goods and services.

It is anticipated that nationally or on a regional basis the WC development program and its affiliated WCs will evolve into one or more full-fledged co-operative "complexes" or "groups." The CETs, the CFO and the GETC will become second-degree co-operatives owned by and serving the needs of the affiliated WCs.

Before establishing networks and other co-operative arrangements for mutually beneficial group activities, the WC development program organisers and co-operative managers should examine the small manufacturing firms in the Emila-Romagna region of Italy and the flexible manufacturing networks in Denmark, Spain, and elsewhere for concepts and practices applicable to their own program. (Pyke 1992)

8. <u>A well-designed plan for implementation</u>. Regardless of how talented or dedicated one or two individuals may be, they cannot expect to implement a viable WC development program on a "shoe string" or an ad hoc, improvised basis. It is one thing to organise a single WC employing 10 or 20 persons. It is quite another thing to organise 30 or 50 WCs employing 5,000 or 10,000 worker-owners, and meld them into a strong, dynamic WC system or complex in a community or region. The process of creating significant numbers of successful, economically viable WCs in a developing country, or any country, requires substantial planning, time, resources, and organisation by competent, knowledgeable people.

APPENDIX A

Essential Values, Goals and Objectives, and Operating Principles for Successful WC Entrepreneurship and Development

Although the organizers of a WC development program determine the basic values, objectives and guiding principles for their system, the six internationally recognised co-operative principles and four supplementary WC principles are a crucial starting point. (Whyte & Whyte 1991; Adams & Hansen 1992; Hansen 1993)

Values. Based on the co-operative and supplementary WC principles, groups undertaking WC development should understand and emphasise the following values: (1) **Equality.** Regardless of social class or position, worker-owners are to be treated as equals in interpersonal and organisational relations and to have equal rights and obligations in a WC; (2) **Solidarity.** All WC members gain or lose together; no member should benefit at the expense of others; (3) **Dignity of Labour.** All human labour, blue-collar, white-collar and managerial, has dignity; (4) **Participation.** Worker-members have a right and obligation to participate in the decision-making that affects them.

Goals and Objectives. The primary objective of the WC enterprises is to generate good jobs and income for WC worker-members and their families. Other important objectives include employment security, human and social development, autonomy and self government, and economic progress.

WC goals and objectives

- **Good jobs and income** through the creation of viable WCs in the manufacturing and service sectors. All WC members must be committed to using their commonly held equity capital to create jobs in their communities by starting new WCs and expanding, restructuring, or redirecting existing WCs to maintain competitiveness.
- **Employment security** for all WC members in good standing as long as their WC remains economically viable. This may mean that some workers must change jobs or undergo retraining within their WC or even move to another affiliated WC.
- **Human and social development** to ensure that the working conditions in WCs are humane and to foster the social development of the members and their communities.
- **Autonomous and self-governing.** However, the individual WCs should be linked in a network or federated together to strengthen them and to help them cope with changing external conditions and respond to new business opportunities.
- **Financial success** to achieve job creation, income generation and employment security. Although profits are not the only purpose for WCs, profits or surplus are essential to the survival and growth of these enterprises.

WC Operating Principles. Additional operating principles distilled from the six basic co-operative and supplementary WC principles include: balancing members' interests and needs in individual WCs and other WCs in the "WC system", long-term thinking and planning, periodic self-evaluations of WCs, openness to new members as growth and turnover permit, free access to WC operating and financial information, politically neutral, and, when feasible, encouraging inter-WC trade, creating new WC groups to secure economics of scale, and controlling WC size to maintain efficiency and member involvement.

WC operating principles

- **Balance** between members' interests and needs in individual WCs and in other WCs. No member should gain at another's expense.
- **Long-term planning** -- well beyond the immediate situation.
- **Periodic self-evaluations** to improve the WC's organisation and operation.
- **Nondiscriminatory**. Open to all people with good attitudes and requisite skills and training for job and membership openings.
- **Politically neutral.** Individual members may express their own political views and belong to any political party but the WC must refrain from doing so.
- **Free access to information.** To make intelligent decisions, the members must, as much as practical, have access to all information relevant to decision-making and their responsibilities.
- **Inter-WC trade**. Individual WCs should buy from and sell to one another except when it is clearly disadvantageous.
- **Formation of WC groups** to share general management or support services as long as none of the WCs' interests are sacrificed.
- **Controlled size** for production and marketing efficiency and administration--and worker participation. WCs should be large enough to be productive but small enough so the management and governance is handled by members and managers who know each other.

Chapter 4

Steps in Organising a Worker Co-operative Development Program

Careful planning and organising are necessary for a worker-owned co-operative (WC) development program to achieve its potential in creating jobs and income. There are five steps in planning and organising a successful WC promotion and development program.

Steps in planning and organising a WC development program

1. Establish a planning group
2. Obtain information and assess the feasibility of WC development in the community or region
3. Write a plan and proposal for the WC development program
4. Market the WC development proposal
5. Implement the WC development program

1. Establish a Planning Group

The members of the planning group should be selected on the basis of their commitment to the WC program, their knowledge and technical expertise, their political skills, and their willingness to be active program participants. The planning group members could be drawn from:

- the co-operative sector and WC sector (if one exists),
- independent and distinguished members of the NGO, academic, and business (including banking) communities,
- government departments concerned with co-operatives,
- economic development and small-scale industry promotion agencies,
- donor organisation(s) interested in fostering the WC program for employment and enterprise development,
- potential group entrepreneurs, and
- other potential urban and rural sector constituencies for the WC program -- the self-employed, women, unemployed and under employed, youth, etc.

(If potential donors or representatives of funding agencies are members of the planning group, selling the proposal and obtaining financial support to launch the program should be easier and the probability of achieving success should be greater.)

Once organised, the planning group agrees to a common set of goals and objectives. Then it recruits a small full-time secretariat and professional staff to help gather data, conduct the feasibility study and develop a blueprint to design the WC program along with the necessary support mechanisms to provide continuous support and direction to the program. When the WC development program is started, they provide the leadership, direction and administrative support for it.

2. Assess feasibility of worker co-operative development

In order to succeed, a WC development program must be tailored to the specific needs of the community, region, or country where it is to be implemented. In addition, the feasibility and planning process must include enough information to accurately assess the potential for promoting and incubating WCs. To ascertain the potential and feasibility for starting a successful WC development program in a specific location, the planning group should:

- review the available global, national, regional and local information pertaining to the feasibility of undertaking a substantial WC development program on a systematic, continuing basis
- assess the suitability of the existing enabling policy and regulatory environments:
  (a) the economic-business climate,
  (b) the positive and negative social and psychological attitudes about business and entrepreneurship, educational constraints and technological insufficiencies,
  (c) the nature, composition, and strength of the client-owned co-operative sector and its leaders' attitudes toward WC development;
  (d) the legal environment for WC and small enterprise development; and
  (e) the availability and quality of business support services
- evaluate the strengths and weaknesses of the WC sector (if one exists)
- assess the banking and financial services available to support WC development
- identify opportunities for WC entrepreneurship

The final step in the feasibility assessment process for a WC development program is to prepare a report summarising the findings and making recommendations. The report should identify any constraints or factors that might affect the WC sector development and determine the potential for developing the financial and other support institutions needed to systematically incubate WCs for employment creation. This process involves in-depth discussions to make plans, develop an enabling policy environment and undertake any institution-building required.

The proposed WC development program must be co-ordinated with other public and private efforts for economic development, especially those dealing with small enterprise and self-employment that may be underway or are planned for the rural and urban sectors, communities, regions or nations where WC development programs could be implemented. The organisers of the WC development program proposed in this guide must be aware of and, where appropriate, co-ordinate their activities with existing small enterprise and co-operative development efforts.

However, a word of caution. If the WC development strategy is to be successful, it should not be subordinated to, controlled by or dominated by other co-operative and small enterprise development programs. In many countries the existing entrepreneurship and business development promotion institutions are weak or non-existent, resulting in ineffective, fragmented small enterprise and co-operative development programs that have little lasting impact on solving unemployment problems, creating new business enterprises, or strengthening existing small businesses. Appending WC development efforts to one of these other programs or agencies is a prescription for failure.

3. Write a plan and proposal for worker co-operative development

After the planning group completes its feasibility study and report, it should review the information to decide if the findings and recommendations are positive to create a WC development strategy and the support mechanisms needed to implement it. If the planning group decides to proceed, it develops a strategic plan and funding proposal based on the feasibility study and recommendations.

A. Develop a strategic plan and proposal.

The strategic plan presents the rationale and justification for the organisational approach used to promote WC development, spells out the steps required to implement it and anticipates the outcomes. The proposal puts the strategic plan in terms that a financial donor or development bank can understand and provides the budget and any other items in a format needed to "sell" the proposal and obtain approval and funding. These documents are developed through the following steps.:

(1) **Identify and list the WC development program objectives, policies and guidelines and outline the proposed organisational structure,** include how to organise, manage and deliver the WC entrepreneurship outreach, incubation and related services and the components or support mechanisms to be created -- how to set them up, and how the mechanisms will provide and deliver their services.

This should be followed by information about the systematic organisation, staffing, training, start-up and subsequent support of WC operations contemplated in targeted locations along with any other details needed for their successful implementation.

(2) **Determine the WC development program resource requirements and how to obtain them.** What services can be be provided by other existing institutions (banks, government agencies, funding programs, educational institutions, co-operative movement, etc.) and what services will need to be provided by the program.

(3) **Establish a timetable and procedures for implementing the elements of the plan.** The plan should state the scope of the proposed program and include:

(a) the size and reach of the WC development program at the time of start-up and over time; e.g., a pilot or small-scale basis to be expanded over time using the experience gained and resources available.

(b) location: the criteria used to identify and select the areas (a specific community, several communities, an entire region, or the nation as a whole) in which to establish the new WCs.

These criteria should determine the nature and scope of the WC operations in targeted communities or areas during the first and subsequent years.

(4) **Develop plans and strategies to obtain and disburse financial resources to start promotional work and incubate WCs. Include a budget for the first and subsequent years of operation.**

The completed strategic plan serves as a blueprint. It should include: (1) a section introducing and justifying the proposed program, including the assumptions on which it is based and the data and supporting documentation that demonstrate its feasibility and potential for success; and, (2) a section stating the specific objectives for the WC development program, the proposed organisation structure and functions (e.g., creation of a WC Development Foundation), the financial and other resources needed to implement it, the sources to approach to obtain the necessary funds and other resources, and the anticipated outcomes.

B. Select a strategy for WC promotion and development.

Several different strategies could be used to organise and carry out the WC promotion and development efforts. However, experience suggests that the best one, the one most likely to succeed, is to set up ***a free-standing NGO especially designed to organise and manage the WC development program, including all the essential mechanisms needed to effectively promote and incubate WCs***. This strategy charters a new NGO or parent WC Development Foundation (WCDF) that organises and co-ordinates the activities of the three essential operating units -- **the *Co-operative Entrepreneurship Team (CET)***; the ***Co-operative Financial Office (CFO)***; and the ***Group Entrepreneurship Training Centre (GETC).*** These three units, under the general direction of the WCDF Board, carry out all the activities to systematically incubate new WCs in a community(ies) or geographical area(s).

The parent WCDF also pursues, as part of its long-term development efforts, the establishment of an integrated "group," "complex" or "system" of affiliated WCs along with their essential support institutions in the targeted community(ies) or area(s). The ultimate objective is to create one or more WC complexes in the region or country in which the CET, the CFO, and the GETC become second-degree co-operatives jointly owned by their worker-members and the primary WCs to whom they provide support and services.

Should alternative WC development strategies be considered? The above strategy is most likely to generate substantial employment and income using WC entrepreneurship because the entire organisation and its staff are focused full time on WC development, and the CET, the CFO, and the GETC support units are especially designed to function in an integrated way to incubate, support, and promote them. Typically, government small business and co-operative departments and NGOs have a variety of other interests, missions, expertise, and constituencies and may be unable or unwilling to provide the necessary leadership, direction, or resources to WC development.

Past outcomes of co-operative development support systems throughout the world strongly support the free-standing NGO strategy (in the WCDF form outlined above) for WC development. After studying the results of co-operative development support systems for industrial producer co-operatives in developing countries, including WC-type co-operatives, British scholar Peter Abell concluded that the client-owned co-operative movements (agricultural and consumer) are incapable of encouraging and facilitating the growth of WCs, that government co-operative departments are ill-suited to promote and maintain these types of co-operatives, and that the existing small business advisory organisations are equally unsuited to this task. (Abell 1988)

Although no other options are recommended for organising a WC development program for these reasons, other considerations may necessitate or lead to a decision to use another organising approach than the one proposed in this guide.

The strategy and approach selected to organise an effective program to promote WC development should be determined by:

- the results of the feasibility study
- the planning group's recommendations
- the need and desire for significant numbers of new business enterprises for employment and income creation (Is the effort intended to make a major contribution to employment creation or a marginal one?)
- the organisers' preferences
- the financial resources available, and
- the political realities.

When deciding what organising strategy to use, remember that past experience suggests that half-way measures or grafting the WC development program onto existing small business development centres or co-operative development agencies are less likely to succeed.

4. Market the development proposal

Once the planning group completes and approves its plan and proposal for the WC development program, it becomes the basic document used to market or sell the idea to government officials, potential donors, co-operative leaders, community leaders, NGOs, development banks and funding agencies to obtain the necessary backing, financial support, and assistance needed to implement it.

If potential donors or representatives of funding agencies actively participate, as members of the planning group, in the design of the strategic plan, selling the proposal and obtaining financial support to launch the WC development program should be easier and the probability of success greater.

5. Implement the WC development program

Once the necessary support and funding for the WC development program are obtained, four important tasks follow -- ***developing an action plan; establishing a WC development organisation; staffing the WC development program; and starting operations***.

A. Prepare an action plan.

Although the strategic plan sets forth the rationale and justification for the WC promotion and development program, the general direction it should take and the basic mechanisms to be created and procedures to be followed when it becomes operational, the ***action plan*** becomes the operational guide or blueprint for those who organise and operate the WC development program in a community, area or country.

The action plan, like any good business plan or architect's drawings, spells out step by step what is to be done, how it is to be done, when it is to be done, by whom, and with what resources. These steps include the development mechanisms, financial commitments, locations, types of premises needed, budgets, sources of funding, personnel requirements, staff recruitment procedures, salary scales, training needs, marketing strategy, and a myriad of other organisational and operational details.

To implement the strategy recommended in this guide, a new NGO (such as the WC Development Foundation whose sole purpose is to promote WC development) incorporates the recommendations of the planning group, follows the directions of its newly created board of directors, and adopts the WC development format, organisational structures and integrative philosophy and strategy outlined above.

B. Establish the WC development organisation.

The first task is to prepare for the legal establishment of a WC Development Foundation and to convert the planning group, or some derivative thereof, into its board of directors and staff

The governing body has five primary tasks:

- provide general direction to the WC program and co-ordinate activities;
- recruit staff to promote group entrepreneurship and incubate WCs;
- identify market opportunities;
- lobby and work with business, government, and co-operative leaders to improve the enabling environment, to develop institutional links and to sell the program; and
- obtain resources to support the WC program.

C. Staff the WC development organisation.

The designated lead organisation (WCDF or other NGO), the board of directors and the staff work out the specific goals and objectives for the WC development program and organise the entrepreneurship support units -- the **CETs**, the **CFO**, and the **GETC** -- to deliver the services to facilitate group entrepreneurship and incubate WCs. The CET, the CFO and the GETC staff must have adequate communication and administrative skills to direct the overall program.

The CETs (co-operative entrepreneurship teams), under the leadership and direction of the national WCD Foundation, are organised in the targeted areas to work with communities and groups of people to promote and incubate employment creating WCs;

These carefully selected and balanced professional teams implement the WC development program. They should come from three categories of persons in the targeted country or community: Category I--*vocationally experienced, academically trained persons*; Category II--*vocationally inexperienced, academically trained but under-employed persons* (recent college or technical school graduates); and Category III--*competent, experienced but academically untrained individuals in the community or region where the WC strategy will be established.* The Category I and II staff should be competent in **one** of the following professions:

- *organisation/management*
- *engineering/production*
- *marketing/accounting/human resources*

The criteria for the selection of the professional CET staff include:

- Being a self-starter and having good interpersonal and communication skills.
- Being technically competent -- capable of conducting feasibility studies, performing promotional work and carrying out consulting and other tasks associated with WC enterprise development.

- Organisation/management -- able to recruit, screen, and organise people into operational worker co-operatives and provide them with or obtain the necessary training to manage a successful WC.
- Engineering/production -- able to design the products and organise their production.
- Marketing/accounting/human resources -- able to handle the marketing, accounting and personnel needs of the WC enterprises.

Each CET must have access to competent legal staff to handle WC registrations and provide legal advice.

The CFO (credit/venture capital office or other financial mechanism) mobilises capital for new WC enterprise creation and to support the entrepreneurial activities of the CETs in the communities where the program is to be implemented.

The CFO staff consists of several seasoned financial professionals who are fully conversant with the financial and other aspects of WC business starts and banking needs. They should possess extensive financial and banking experience and have the necessary technical and personal skills to conduct financial analyses of business plans, review financial statements, monitor financial performance, package loans and conduct audits to meet the financial needs of the WCs.

The GETC (group entrepreneurship training program or institution) provides the specialised entrepreneurial, technical, managerial, and worker-owned co-operative training for the WC entrepreneurs. The GETC staff consists of one or two seasoned trainers who are fully conversant with business and management training and WC development. They organise and direct the pre- and in-service training for CET staff and organise and offer training to WC group entrepreneurs and worker-members. They are physically located in the WCDF headquarters office, or if appropriate, some may be out-stationed in a CET office.

GETC staff should possess extensive experience and the necessary education to develop and deliver training and educational programs to adult learners. In addition, they need to understand co-operative and WC co-operative principles and be knowledgeable about business and management subjects, with an emphasis on participative management, productivity, quality, and other related areas. At the outset, the education and training services may be delivered in the form of a structured training program and, if suitable, existing training institutions can provide some of the skill training. Ultimately, the GETC should mature into or take the form of an associated WC educational institution.

Over time, as the WCs organised through the CETs' efforts expand in number and strength, it is expected that the CETs, the CFO, and the GETC in an area or region will become second-degree co-operatives owned by all the stakeholders -- the employees of the CET, the CFO, the GETC, the WCs -- in the WC group or complex plus any other co-operatives choosing to affiliate with the WC group and any donor agencies contributing financial support.

D. Begin incubating new WCs

Once the staffs for the CET, CFO, and GETC have been recruited and trained, the real work of WC development gets underway. This includes outreach and education work, public relations, offering group entrepreneurship training courses, seeking out potential group entrepreneurs, assessing the local environment and economy, and identifying good business ideas suitable for WC entrepreneurship. This is interspersed with and followed by the process of incubating new WCs -- by matching prospective teams of group entrepreneurs with good business ideas and helping them obtain the resources and other assistance they may need to plan and launch their new WC enterprises.

Chapter 5

Steps in Starting Worker Co-operatives

Basic steps for starting new worker co-operatives

A group of prospective WC entrepreneurs having the four essential elements necessary for group entrepreneurship identified in Chapter 3 (acceptance of co-operative and WC principles, entrepreneurial characteristics, a sound business idea, and access to adequate capital) may decide to start a co-operative on their own without any outside help. The can, and if they want to increase their changes of success, should complete the basic steps for starting a new WC outlined in this chapter. However, if the prospective WC entrepreneurs lack some of the necessary elements or desire outside assistance, they can obtain them through the CET, CFO, and GETC mechanisms of the WC development program. In either case, the following four steps are important to launch successful WC business ventures.

Four steps to develop a successful WC business

1. Select a sound business idea
    - (a) Identify possible business ideas
    - (b) develop venture selection screening criteria
    - (c) screen business ideas and select the most promising
2. Write a business plan
3. Obtain adequate financing
4. Organise and start the business

1. Select a sound business idea

There are several dimensions of the process of selecting a sound business idea: generating possible business ideas, developing suitable venture selection criteria, and screening the ideas using the criteria to find one which can be developed into a successful WC business venture.

A. Generate possible business ideas

A wide range of business ventures can be operated as successful WCs. WCs can be organised for businesses where human values and co-operative principles are of equal importance to productivity and profits. They can be organised to take over businesses where the owners intend to retire or the shareholders wish to put their capital to other uses. In such cases, the assets of the firms are sold or given to the employees, and the enterprises are reorganised as a WC. WCs can be organised where a government plans to privatise an existing public enterprise (for example, the organisation of a worker-owned bus co-operative in northern England several years ago). They also can be organised as part of government-sponsored efforts to create new enterprises to generate employment, as happened in Spain and Britain in the 1970s and 1980s.

WCs can be used to operate enterprises in a wide range of industries, from simple low-tech manufacturing or service sector activities to the production of very sophisticated products and services. Industrial WCs, the foundation of the Basque system of co-operatives in northern Spain, produce household appliances (refrigerators and stoves), machine tools, robots, and other sophisticated products.

Throughout the world, WCs are involved in manufacturing, food products, computer software, printing, furniture manufacturing, construction, solar heating, publishing, book distribution, grocery stores and restaurants, clothing, transportation, consulting, wholesale distribution, health care, subcontracting assembly work for automobile manufacturers, and personal services to name a few.

In developing countries, WCs are involved in clothing, shoemaking, catering, candlemaking, furniture making, restaurants, ceramic brickmaking, wireweaving, consumer goods manufacturing, building construction, building maintenance, lighting fixtures and switch manufacturing, and machine shops and foundries, among others.

WC opportunities seem to be limited only in ventures that require such large work forces and substantial capital investment, e.g., automobile assembly and oil refining, that they make WC values and operation unfeasible or impractical.

The Basques in Spain have demonstrated that WCs can be started and operated successfully in a wide range of industries and sectors, including major manufacturing enterprises. However, when their co-operatives reach 400 to 500 worker-members, they are encouraged to spin off new industrial worker-owned enterprises to maintain a sense of community, solidarity, and participation among the worker-owners and between the workers and the management of their enterprises.

Some considerations to take into account when generating ideas for starting a WC follow.

Considerations for determining possible WC business ventures

- WCs can be started from new business ideas, from buyouts of existing businesses, from privatisation of state-owned enterprises, and from the threatened closure of enterprises
- Low tech enterprises are easier to start than high tech enterprises, but both are suitable for WCs
- Labour intensive enterprises are easier to start than capital intensive enterprises, but both are suitable for WCs
- Manufacturing and service businesses are equally suitable for WCs
- Successful WCs can be organised in rural as well as urban areas and in the informal as well as formal sectors
- Industries and businesses requiring very large amounts of capital and large work forces are less well-suited to the WC form of organisation
- Conversions of failing enterprises to WCs are less likely to succeed than those created from divestitures of successful enterprises

B. Develop venture selection screening criteria.

Well-chosen venture selection "screening criteria" not only save time and money but are absolutely essential to successful WC development. The venture selection criteria enable the prospective WC group entrepreneurs on their own or assisted by CETs to identify the potential enterprises that best integrate the prospective WC entrepreneurs' skills and resources, employment and income objectives, the WC program's development objectives, and the economic development opportunities of the targeted area.

Appropriate WC venture selection criteria begin with the CETs and the WCD Foundation asking three types of questions:

- questions to understand the prospective WC entrepreneurs' objectives;
- questions to understand the business and political environments; and
- questions to understand the WC program organiser's objectives, including mission and strategic goals.

Examples of questions that could be asked follow.

(1) <u>Questions to understand the prospective WC entrepreneurs' objectives</u>

Would the proposed venture:

- meet the employment and income needs of the group?
- secure the necessary resources to generate employment and income?
- provide needed goods and services?
- expand the skill base of the workers in the group and/or community?
- provide links with existing businesses for new opportunities?
- make a favourable impression on outside business interests and financial institutions that would encourage them to support and participate in WC economic development?
- provide opportunities for group members to assume the responsibilities of managers and directors?
- cause noise, air, water, odour, land and health problems?

(2) <u>Questions to understand the business and political environments</u>:

- Would the venture have a steady, reliable market for its goods or services? If so, would that market grow?
- Would a group of prospective WC entrepreneurs be willing and able to provide the equity capital and workforce required to start the business?
- Would the venture capital investment necessitate large debt financing? If so, would existing lenders or sources provide it?
- Could the business capture a sufficient share of the market?
- If the venture failed, would the enterprise be saddled with a large debt, unused or unusable buildings and equipment, and unemployed worker-owners?
- Would the venture have or be able to obtain the special skills and licensing needed?
- Would the business break even within a reasonable period, one year, three years?
- Would the business generate sufficient profits to amortise the start-up debt and provide money for expansion and growth?
- Would the business provide good jobs and steady income for the worker-owners?
- Would the business require substantial re-investment to maintain or expand its stability and profitability?

(3) <u>Questions to understand the WC program organisers' objectives, including its mission and strategic goals.</u>

Would the proposed venture:

- be a profitable WC with the human and capital resources available in the community and region?

- maintain or expand the WC program organiser's capacity to undertake more group entrepreneurship activities?
- fit with the program organiser's overall worker WC development strategy?
- expand the base for WC enterprises and industries in a rational, coherent way?
- have the potential to develop sufficient revenues and profits for the enterprise to meet its own financial commitments and to help provide funds to support future WC expansion?
- maximise the use of scarce resources to generate new WCs to produce more jobs and greater income in the community and region?
- have the potential to be a contributing member in a network of WCs capable of building a strong WC sector in the community or region?

Though the venture screening criteria could be used in different ways in the screening process, **Appendix I** (at the end of the chapter) illustrates one way to do it. Using a rating sheet, every potential enterprise is rated on a zero-to-five point system -- *zero* means it does not meet the criteria, *five* means it fully meets the criteria. The total points assigned to each potential venture show which ones have the most potential for success. Three separate rating sheets could be used, one for each of the three different perspectives -- program organisers, business and political environments, and prospective group WC entrepreneurs. These three perspectives could be given equal weighting or different proportions (e.g., 40%, 20%, 40%), depending on their importance in the overall selection criteria. The final rating for each potential venture would be the total of the three separate sheets. An alternative method would be to rate the criteria for all three perspectives on one sheet and compile the total ratings from it.

C. Carry out the screening process.

Prospective WC entrepreneurs should apply the venture selection screening criteria to each business idea they generate. They can also seek the assistance of the CET in screening their business ideas. In addition to assisting groups of prospective entrepreneurs, the CET staff continually look for new business ideas and opportunities that might be suitable for new WCs in their community or region. Because new WC venture development costs money and time and the CET staff must conserve scarce resources and help prospective group entrepreneurs make good investments, they help them screen the potential WC business ideas and opportunities through the first levels of the screening process before devoting substantial resources to detailed business planning and enterprise development.

The screening process to identify the enterprises considered most promising for WC incubation consists of three parts:

(1) identifying the best business opportunities;
(2) identifying groups of prospective entrepreneurs desirous and able to start WCs; and
(3) selecting the ventures which best integrate the business opportunities and the prospective group entrepreneurs' interests and skills with the factors necessary for successful WC development and the targeted area's resources and potential.

(By inviting the prospective WC groups to participate in the screening process, the CETs can increase the motivation and business skills training of the prospective WC entrepreneurs while promoting WC development and business planning.)

The completed feasibility studies are gathered together in a CET *product bank* for use by the CET and prospective entrepreneurs desiring to start new WCs.

Successful WC enterprise development requires a series of increasingly detailed analyses of the business ideas and opportunities. The following chart compares this process to three separate sieves, each successive one having smaller holes. The *sieves* are the policies, analyses and decision-making criteria of the prospective WC entrepreneurs and WC development system. Only the most promising WC business opportunities for a targeted area pass through the bottom sieve.

Screening potential WC business ideas

The CETs continually search for and solicit new business ideas from many different sources, including groups of prospective WC entrepreneurs. The business ideas are then put through a rigorous screening process.

The first sieve -- the WC venture selection criteria

As discussed previously, every business idea is evaluated by a predetermined set of venture selection criteria based on the objectives of the prospective group entrepreneurs, the WCD Foundation and CET. Working together, the CET staff and prospective WC group entrepreneurs apply these criteria to the potential WC business ideas.

It is crucial to involve the prospective WC group entrepreneurs in this whole process to help them understand it, to increase their commitment, decision-making and venture development skills and to train them in general business matters. There can be no successful WC without the necessary analytical and organisational ability.)

Ideas that pass these criteria undergo a pre-feasibility analysis.

The second sieve -- the pre-feasibility analysis

The CET staff and the prospective WC group entrepreneurs conduct the pre-feasibility analysis. It evaluates the *product or service*, the *market*, the *competition*, the *type of organisational structure required*, and the *financing*. This analysis determines why a business idea will **not** work, rather than why it will. For all but the most complex kinds of business, this analysis should take about one to two weeks. The business ideas that pass this analysis warrant a full-fledged feasibility analysis.

The third sieve -- the feasibility analysis

The CET staff and the prospective WC group entrepreneurs conduct the full-fledged feasibility analysis. It evaluates the same five topics as the pre-feasibility analysis -- product or service, market, competition, organisation, and finance -- but in much greater detail. It asks, Would this worker-owned co-operative enterprise make a profit? This analysis explores options for operating the business idea and determines if the business idea makes financial sense. During this screening, the pros and cons of the potential WC business ideas are listed on separate sheets of paper and compared. (The venture selection criteria can be used again and again to review the results of pre-feasibility analyses.). Those business ideas that survive the feasibility analysis become candidates for business planning.

2. Write a business plan

The CET and the prospective WC group entrepreneurs carefully evaluate every WC business idea that passes the feasibility screening process to decide whether to develop a formal business plan and to take the other steps leading to a WC start-up for any of them. This is because an investment of considerable time and money is required to complete the planning process and to undertake the steps to start a new WC enterprise.

Though the feasibility study provides most of the information needed to prepare a WC business plan, there are important differences between them. The *feasibility study* evaluates the different ways a WC venture could operate and whether it would be financially sound. The *business plan* describes the formal organisation of a new WC business, the actual way it would operate and lists the facts and figures to obtain financial support to launch the business from a co-operative financial institution (CFO), banks, or other lenders. Before starting this stage it is important to have an identifiable group of prospective entrepreneurs, a promoter/manager and the necessary commitments spelled out in a formal, binding Contract of Association between the prospective new WC entrepreneurs and the CET and the CFO.

The preparation of a good business plan requires considerable time and effort -- 300 to 400 hours of time minus the time spent on the feasibility study. Its preparation allows the WC organisers to make their mistakes on paper and correct them without incurring significant losses. This planning process also tests the prospective WC group's commitment to the WC business idea by spelling out how much capital they will be required to invest to start the business.

The essential elements of a WC business plan are outlined in Appendix II at the end of the Chapter.

3. Obtain financing

With the assistance of the CFO, the prospective WC entrepreneurs use their business plan to seek the necessary funding to start the business. They take their carefully prepared business plan to banks and other lending sources to obtain capital to finance the start-up of the business. The financial package for a WC business start-up normally includes funding from several sources: the capital paid in by the WC owner-members (at least 10 percent of the total cost), a substantial amount in the form of a loan from the CFO (especially if the CFO has been capitalised with funds from a source such as a development bank, an international donor agency, or money obtained from a government small enterprise or co-operative development funding agency), and money obtained from commercial banks and other lenders.

4. Start operations

The CET and CFO advisors work closely with the prospective WC group and their promoter/manager throughout the entire WC business planning and start-up stages and during the critical first years of operation. This last stage entails acquiring premises, obtaining equipment, training the worker-members, establishing backward and forward linkages to resource suppliers and product markets for the enterprise, and commencing operations.

The CFO, under the Contract of Association each new co-operative signs with the WC development program at the time they come to the CET for assistance in starting a business, also serve as financial advisors to affiliated WCs. They monitor their financial health and assist them to obtain external debt capital to finance expansions, maintain their competitiveness, and take advantage of new business opportunities.

Under the terms of the Contract of Association, the affiliated WCs furnish the CFO with copies of their annual accounts and budgets. In addition, the WCs provide the CFO with certain financial data on a monthly basis. Both parties treat the information as confidential. The WCs also agree to periodic audits by CFO auditors. The auditors then complete a report on the co-operative's economic, social, and business development, including existing or potential problems and recommendations. The CFO also provides the WCs with regular reports about the CFO's financial planning and other economic and technical matters that may be of interest and value to the WCs. The CET also continues to provide technical assistance to the WC until it is capable of operating on its own.

A Contract of Intervention also spells out the roles, powers, and responsibilities of the manager, the board of directors, the intervenor, and the CFO and the CET to assist WCs who experience difficulties after they have been in business for a while.

A concluding comment about starting and operating WCs

The entire process and many details involved in the actual start-up and operations of WCs are beyond the scope of this chapter and guide. This guide is not intended to be a comprehensive and detailed manual for starting and running a WC for two reasons. First, its primary purpose is to outline the steps and processes for organising a successful WC development program at the national or local levels. Second, a number of excellent guides, business planning manuals, and entrepreneurship training materials are available (including some produced by the ILO) to help potential groups of WC entrepreneurs learn the business skills and the unique aspects of WC management and governance. A list of some of these resource materials is provided in Chapter 7.

Human Resource Development in a WC business

WCs are both a unique form of co-operative and a unique form of business enterprise. Prospective members of WCs in most countries lack the business and management skills to run a business, including a WC. Furthermore, most managers hired to run WCs have little preparation for managing this type of enterprise. Consequently, WC members (and the managers they hire) require considerable human resource development to enable them to understand the complex working relationship between them and their managers, overcome their inexperience in owning and participating in managing their own business enterprise; and their lack of familiarity with the co-operative rules and regulations governing the running of modern WCs.

The human resource development efforts are essential to empower the WC members to effectively organise and operate their new WC enterprises. To do so, they need to be able to:

- adopt a suitable WC constitution and by-laws that can be registered legally;
- establish an appropriate management structure and functions for the business
- determine the rights and responsibilities of the managers and workers in the enterprise; and
- demonstrate their ability to work effectively with each other as worker-owners and managers.

It is anticipated that in addition to business planning, basic business and vocational skills, prospective WC group entrepreneurs would also receive training from the CET and GETC on such topics as:

- the requirements to form a WC;
- the basic co-operative and worker-owned co-operative principles;
- management and information sharing in WCs;
- WC teamwork and group skills -- brainstorming, problem solving, working together, communication, etc.;
- the legal and financial structures of modern WCs, including organising and using individual capital accounts;
- understanding the constitution, model rules and by-laws;
- the responsibilities of worker-members and WC membership; and
- the rights of worker-members as employees and the handling of grievances and other work- related problems in WCs.

Chapter 7 lists some resources for starting and managing a WC and some comprehensive training materials on co-operative skills, WC business skills, group facilitation skills, and participative management skills. It also provides a selected list of readings for those who want to learn more about using group entrepreneurship and WCs to generate employment and income.

Appendix I

Worker Co-operative Venture Selection Criteria Form

Appendix II

Essential Elements of Business Planning

When a group of prospective WC entrepreneurs approach the CET with a business idea, the CET takes them through the entire WC venture development screening process. If a potential business idea is drawn from the CET's product bank, the group participates in updating the feasibility study and the preparation of the business plan.

The business plan is prepared by the designated manager/promoter and the prospective WC group entrepreneurs with the help of the CET staff. It describes their business goals, how they plan to achieve them and establishes a specific time period for doing so. The business plan alerts the group to the things that are crucial for a successful WC business venture, forces them to think through what it is they want to accomplish and to make a number of important decisions before investing significant time and money.

In addition to the purposes identified above, the completed WC business plan serves: (1) as the funding document which the CFI, banks, and other lenders require to grant loans and other financing; and (2) as a blueprint for starting, expanding, and/or operating a WC business.

1. Collect data and define the business.

The proposed new WC business should be compared with the competition to evaluate its potential. This includes studying the industry the firm would be in, knowing exactly what product or service it would produce, what would make it competitive, and who the customers would be.

2. Analyse the data.

The preliminary analysis and assessment of the proposed WC business pinpoints any weaknesses in the proposal and indicates whether the proposed enterprise is likely to succeed. The analytical process includes a break-even analysis and a market analysis to determine the level of business needed to make a profit and whether the market would support the proposed product or service.

3. Decide on a strategy.

Once rough projections are made of what the proposed WC business could achieve, it is time to decide how to achieve them. The topics in this part of the plan could be grouped into four sections.

1) <u>a general marketing plan</u>, including issues such as location (if location is critical to marketing the product), sales and distribution, advertising and promotion, pricing, etc.
2) <u>a production plan</u>, including issues such as location and facilities, production methods and equipment, materials and sources of supply.
3) <u>an organisation plan</u>, including the essential organisation for a modern WC:
   - governance, participation, ownership and the individual capital accounts system;
   - identification of the key personnel involved in the management and governance of the enterprise;
   - the educational and training needs of the workforce;
   - information about compensation and staffing--including the number of worker-owners and the functions to be performed; and

- information about the necessary supportive services and linkages.

4) **a schedule** explaining the major steps to be taken to start the WC business, when to take them, and how they interconnect.

4. Forecast the results.

Once the business plan decision-making process is completed, it is time to assess the implications of all the previous decisions in dollars. Normally, businesses measure their success on financial statements from the accounting system. For purposes of the WC business plan, results are projected in the form of pro forma financial statements because:

(a) they provide the type of information to estimate how well the business would do;
(b) the CFI and financial institutions approached for money expect them; and
(c) they make it easy to compare plans to actual results once the business is started.

The financial section of the business plan for a new WC includes a set of projected financial statements for three to five years which estimate start-up costs, develop sales forecasts, provide profit and loss statements, and cash flow statements.

Financial statements prepared by businesses normally include:

(1) **a balance sheet** summarising the overall financial status of the business -- what it owns or is owed (assets) and what it owes to others (liabilities), including what it owes to the owners (equity) at one point in time;
(2) **an income statement** showing the total earned (profit) or lost (loss) in its operations and sales after subtracting the costs of operation over a period of time (e.g., a month or a year); and
(3) **a cash flow statement** showing all sources of cash (including cash sales and collections on credit sales, loan proceeds received, capital invested by owners, and proceeds from the sale of assets) and how the cash is spent (paying for shipments of inventory or supplies, paying wages and bills, buying equipment, making loan payments, and dividends or withdrawals for owners).

5. Compile the Plan.

The last step in the business planning process is to write and compile the formal WC business plan which is used as a financing tool and a blueprint to start the new business. The business plan should be written, organised, printed, and bound to present the strongest case for the enterprise and its WC organisers, both in terms of what the plan contains and the way it is presented. Because it is written partly for outsiders, such as bankers, to convince them to loan money to the enterprise, it provides background and other information to demonstrate the soundness of the venture.

Normally, a formal business plan contains five parts:

(1) title page
(2) table of contents,
(3) executive summary,
(4) main body divided into sections describing the various components of the business idea in considerable detail, and
(5) supporting documentation, including the pro forma financial statements covering the first three to five years of projected operations.

Chapter 6

Consolidating and Evaluating Worker Co-operative Development

Building a worker co-operative "group," or "complex"

The creation of a strong, dynamic worker-owned co-operative group or complex capable of generating substantial employment is a lengthy process. It cannot be built in one month or even one year. As the old saying goes, "Rome was not built in a day." Neither is a successful employment- and income-generating WC group or system. To achieve its full potential for job and enterprise creation, the WC development program outlined in this guide requires at least a five- and preferably ten-year commitment of time and resources. The objective of undertaking a WC development program should be the development of one or more strong, self-sustaining groups or systems of WCs, not just organising a few small, isolated WCs in a community or country.

The WC development program proposed in this guide is designed to create such groups or systems. It is intended to help establish connected groups, systems, or complexes of WCs that are healthy enough and large enough to generate the types and sizes of business enterprises needed to significantly increase employment and income in the communities, regions, and countries where it is implemented. Thus, "system building" is essential to the expansion and consolidation of the WC development program.

Because there is strength in numbers, and networking and other support relationships enhance the success of small businesses, the CETs are to encourage and facilitate the creation of mutually beneficial linkages between WCs as they increase in the communities and regions of a country. These inter-co-operative linkages could be directed at credit, purchasing, marketing, research and development, etc., to strengthen the WCs and overcome any weaknesses that limit their potential for survival and growth. Linkages also are to be fostered among WCs physically located in CET incubator facilities and those operating independently in communities.

During the expansion and consolidation process, the CETs and the CFO devote a good deal of effort and time to fostering system building and establishing synergistic and mutually supportive inter-co-operative networking among the WCs. Their goal is to develop a full-blown WC system, along the lines of the Mondragon complex in Spain, the manufacturing networks in Denmark, or the small enterprises in Emila-Romagna in Italy, with a substantial number of primary and several second-degree co-operatives such as the CETs, the CFO, and the GETC. Only when this level of development and system building is a major, high priority objective can a

WC development program in a community or country achieve the size and strength it needs to compete on an equal footing with the other enterprises and institutions in a market economy.

Evaluating the WC development program

Just as it is important to have financial projections for a WC in the business plan, it is important to have outcome projections for the WC development program. At the outset, the lead organisation (WCD Foundation, the NGO, or other agency) directing the WC development program should establish a management information system to collect baseline and subsequent data to periodically evaluate the progress of the program in the targeted areas.

As stated above, to achieve its full potential for job and enterprise creation, the WC development program outlined in this guide requires at five to ten year commitment of time and resources. For planning and evaluation purposes, it might be wise to break the five-year period into two phases. Phase One would be a three-year start-up period, and Phase Two would be a two-or three-year follow-on or consolidation period. At the end of each phase, an independent evaluation should be conducted to determine the success of the WC development program in meeting its goals and objectives. This evaluation should also include recommendations for improving the program's operations.

The five-year period for institutionalising a successful WC development program could contain several goals:

- the establishment of a lead organisation (WCD Foundation or other development agency) to actively direct and promote the incubation and development of WCs for employment and income generating purposes
- the establishment of a CFO to finance the development of WCs and monitor their financial health
- the establishment of one or more CETs to incubate new WCs
- the establishment of a GETC to provide specialised training to WC owner-members
- the establishment of x number of operational worker co-operative businesses employing y number of worker-owners and generating z amount of income and employment in their communities

The success of the WC development program could be measured by:

- the number of operational WCs and the number of jobs created by each within a three- to five-year period;
- an improved standard of living for the WC worker-owners and their families
- a decrease in the amount of sponsor assistance or financial subsidy needed to operate the development program;
- the evidence of democratic governance and practices within the WCs;
- higher skill levels of the WC worker-owners and their managers;

- the progress made in creating a WC group or system in which the individual WCs become part of a larger WC system in the community or country and the CETs, CFO and GETC evolve into second degree WCs; and
- the WC members' degree of adherence to the basic co-operative and supplementary worker-owned co-operative values discussed in Chapter 3.

Chapter 7

Sources of Additional Help and Information

The Co-operative Branch of the International Labour Organisation in Geneva, Switzerland and the Regional Co-operative Advisor for the ILO Asia-Pacific Region, located in Bangkok, Thailand can provide additional information and technical assistance to those groups and governments in this region who would like to implement a worker-owned co-operative (WC) development program in their community or country.

Because of the complexity and importance of this subject, this guide cannot contain all the details and information needed to answer every question or cover every situation. Consequently, the following resource lists are included to provide, first, a compilation of basic training materials which can be used by those starting a WC development program, and second, a selection of readings on the topics of group entrepreneurship and WCs. The lists are not exhaustive, but they are a representative sampling of some of the training and resource materials available in English at the present time. **(The MATCOM items on the training materials list are available from the ILO in Geneva.)** When used in conjunction with these two types of resource materials, this guide should be a useful tool for organizing a dynamic WC development program.

Training materials for worker co-operative development

- Adams, Frank T. and Gary B. Hansen. Putting Democracy to Work: A Practical Guide for Starting Worker-Owned Businesses. San Francisco and Eugene: Barrett-Koehler, Revised Edition, 1992
- Basic Orientation. Somerville, MA: Industrial Cooperative Association, 1987
- Business Plan Pro: Chart the Course for Growth and Profits. Palo Alto: Palo Alto Software, 1994. (Windows-based PC software designed to assist in business planning)
- Committee Effectiveness Training: Skill Building for Labor-Management Groups. Washington D.C.: USDOL, BLMRCP, 1990.
- Co-Operative Development: A Support Resource for Co-operative Enterprise--Tutor Manual. Dublin: Irish Co-operative Development Unit, 1990
- From Invention to Innovation: Commercialization of New Technology by Independent and Small Business Inventors. Washington, D.C: U.S. Dept. of Energy, May 15, 1991.
- Gastil, John. Democracy in Small Groups: Participation, Decision Making & Communication. Philadelphia: New Society Publishers, 1993.

- Haberman, Gayle. Heaven Sent Housecleaning Cooperative: The Road to Self-management and Workplace Democracy. Report and Training Manual. East Palo Alto, CA: Heaven Sent, June 1994.
- ILO. A Workers' Co-operative: The Decision to Start--Trainer's Manual. Vienna: MATCOM, 1986.
- ILO. A Worker's Co-operative: Formation and Management--Trainer's Manual. Vienna: MATCOM, 1986.
- ILO. A workers' Co-operative--Organization. Vienna: MATCOM, 1986
- ILO. A Workers' Co-operative--Basic Economics. Vienna: MATCOM, 1986
- ILO. Co-operative management and administration. 2nd Ed. Geneva, 1988
- Interest-based Problem Solving. Trainer Guide and Participant Workbook. Washington, D.C.: U.S. Department of Labor, DOL Academy, 1994
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