Sustainable Jobs, Sustainable Communities: The Union Co-op Model

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**Please note that this union co-op template is intended to be a living document subject to continuous revision and improvement based on user feedback and applied experiences. This template is not intended to be a one-size-fits-all model, but rather offers a set of ideas and guidelines to adapt in forming new union co-ops on a case by case basis.*

Introduction

> "Those who opt to make history and change the course of events themselves have an advantage over those who decide to wait passively for the results of the change."
>
> – Father José María Arizmendiarrieta

An economist will tell you that the "Great Recession" in the United States began in December 2007 and was officially over in July 2009 when the economy began to grow again. Looking at employment data, as well as trends in wages and compensation, however, we see that this economic growth has missed the vast majority of the population to date.

In December 2007, at the beginning of the "Great Recession", the effective unemployment rate (more specifically, "U6" as calculated by the Bureau of Labor Statistics) was 8.8%. At the "end" of the recession, in July 2009, this unemployment rate stood at 16.5%. Two years later, the effective unemployment rate remained close to 16% throughout 2011, leaving about 25 million people in the U.S. either unemployed or underemployed.

In addition, wages have stagnated over the past 30 to 40 years, with little to no growth after accounting for inflation. As the rapidly increasing costs of health care continue to be passed to employees from their employers, net wages have actually gone down. Those of us that can find jobs are working longer hours for less pay, a continuing trend that we have lived with for decades now.

If we were to create an economy that worked for everyone, an economy that creates good, sustainable jobs and is accountable to the communities that drive it, what would that look like?

One powerful example to consider is the development of the Mondragon co-operatives in Spain.

Still devastated from the Spanish Civil War, most notoriously the bombing of Guernica in 1937, the Basque region in 1943 suffered political repression and high unemployment. The region had little access to capital or investments and lacked any type of social safety net.

It is in this context that Father José María Arizmendiarrieta started up a small polytechnic school that was the seed for the phenomenon we know today as the Mondragon co-operatives. Thirteen years later, with the assistance of Father Arizmendi, five graduates of the school started the first Mondragon co-operative, Ulgor, a small manufacturing facility producing kerosene stoves. In a little over 50 years, that little worker-owned co-operative grew to become the Mondragon Cooperative Corporation, which today employs over 85,000 people, nearly all of them worker owners, with 2011 annual revenues over $24 billion dollars.

The goal of the Mondragon co-operatives is to create competitive jobs and enterprises that can support their families and their communities, with values rooted in the ideals of social justice and worker dignity. Sharing that goal, the Mondragon example is the foundation on which we intend to build.

Mission & Values

The mission of the union co-op model is to create social and economic justice and worker dignity through the creation of good, sustainable jobs in viable, sustainable businesses that are accountable to both its workers and the communities in which they operate, as well as to support and sustain those communities.

In contrast to a Machiavellian economic system in which the ends justify any means, the union co-op model embraces the idea that both the ends and means are equally important, meaning that treating workers well and with dignity and sustaining communities are just as important as business growth and profitability.

Just as our union co-op model seeks to build on the foundation set by the Mondragon co-operatives, the principles and values of the union co-op model build upon the ten Basic Principles of the Mondragon co-operatives as well:

Open Admission

The co-op will not discriminate in the admission of new worker-owners, except that each person must accept the Basic Principles and be capable of performing the work required.

Democratic Organization

The principle of "one worker, one vote" shall prevail throughout the co-op, including the annual General Assembly and the election of the Board of Directors. Every worker-owner owns an equal share and has an equal vote through "one class" ownership.

Sovereignty of Labor

As the Mondragon co-operatives define it: "Labor is the main factor for transforming nature, society and human beings themselves. As a result, Labor is granted full sovereignty in the organization of the co-operative enterprise, the wealth created is distributed in terms of the labor provided and there is a firm commitment to the creation of new jobs."

Instrumental and Subordinate Nature of Capital

People are prioritized over profits. Providing and creating jobs are prioritized over increasing the marginal return on investments. As President Abraham Lincoln wrote in his first State of the Union address in 1861: "Labor is prior to and independent of capital. Capital is only the fruit of labor, and could never have existed if labor had not first existed. Labor is the superior of capital, and deserves much the higher consideration."

Participation in Management

"Ownership" must become more than just the value of a share. Workers must also take ownership in the co-op by their participation in the management of the co-op, ensuring that the co-op remains accountable to its worker-owners.

Wage Solidarity

Wage solidarity means there is less disparity among workers and the communities in which they live, reinforcing the equality, and quality, of ownership. In most cases, the highest paid worker in the Mondragon co-operatives makes no more than 5 to 7 times the lowest paid worker.

Inter-Cooperation

Just as workers benefit from working cooperatively in a business, so too can co-ops benefit from working cooperatively with other co-ops. Such an interdependent system of co-ops allows each co-op to create and share common resources such as financing, research and development, and training, as well as to support each other through down turns in the markets or the economy.

Social Transformation

A key part of the co-op's mission is to support and invest in their communities by creating jobs, funding development projects, supporting education, and providing opportunity.

Universality

The co-op supports all efforts to promote workplace democracy and promotes the co-operative model and culture as a means to achieve social and economic justice.

Education

Education is valued as "the key to the development and progress of a people" and is critical to "democratize power", as quoted from José María Arizmendiarrieta. Education and lifelong learning provide the tools for worker-owners to adapt and sustain the co-op.

Creating sustainable jobs and sustainable communities requires broadening the definition of value beyond "the bottom line". The moral values of the enterprise must matter as much, if not more so, than financial values. These values of democratic worker ownership and social and economic justice are what differentiate the union co-op model from traditional business models, making the union co-op more sustainable and giving it a competitive edge over the long term.

The union co-op model will seek to closely implement the principles and values of the Mondragon model in combination with collective bargaining in a way that not only makes the workplace more participatory and more accountable to the workers, but also further protects the interests of the workers and establishes guidelines to ensure that all workers are treated fairly.

To sustain this model, we must also ensure a dynamic labor-management relationship rooted in partnership, understanding the needs of both the worker-owners as owners and of the worker-owners as workers, and respect for the different advocacy roles each has.

Can such an idea really take root in an American culture steeped in individualism? Consider that the people who originally formed and supported the Mondragon co-operatives did so out of necessity to feed and provide for their families. They started their own schools, created their own jobs, provided their own health care and met their own banking and financing needs. Theirs is a story about self-reliance and pragmatism, not just idealism. Values such as self-reliance, ownership, and democracy obviously have deep roots in our culture and history as well.

Worker-Owned Co-operatives and Labor Unions

There are natural and historical alliances between the co-operative and labor union movements. Where those have diverged, we believe today's challenges offer a historic moment and opportunity to bring them back together.

Worker-owned co-operatives have a long history dating back to the Rochdale Pioneers in Northern England in 1844 and the works and writings of Robert Owens in the 1820s and 1830s. Early worker-owned co-operatives may have been organized among a particular trade or community, but the advantages of earlier worker-owned co-operatives remain much the same as they do today: economies of scale, mutual aid and support, full distribution of profits, full ownership and worker accountability. Unfortunately, the growth of worker-owned co-operatives has been limited by a number of factors over the years; primarily access to low cost capital, lack of investment, misperceptions, and isolation. While the interest in, and adoption of, worker co-operatives has been growing, significant obstacles remain to accelerated adoption.

Similarly, labor unions were initially formed in the United States in the mid-1800s among a particular trade as a means of mutual aid and support, a certification of training and skills in that trade, and as a means to protect from the deskilling and devaluation of that trade. In the 1880s, however, Terence Powderly led the Knights of Labor in organizing hundreds of thousands of unskilled workers, including women and African Americans, to improve their working conditions. The Knights of Labor were also one of the first labor unions to promote the development of worker-owned co-operatives. Since the National Labor Relations Act was passed in 1935, spurring a rapid growth in union membership, the rights and ability of workers to organize and to bargain have been constantly eroded and under attack. In recent decades, U.S. labor unions have been primarily focused on bargaining and administering contracts and only in recent years become more willing to allocate significant resources to organizing, to politics and legislative issues, and to trade issues. As union density has declined, however, so has the power of the union. Layoffs, plant closings, and the demand for contract concessions have become commonplace as we watch multinational corporations run away from the communities that supported them.

The modern experience of organized labor and employee ownership has been mixed and somewhat uneasy. In the late 1980s and early 1990s, there was a movement by some unions, such as the United Steelworkers (USW), towards employee ownership, exchanging contract concessions for ownership stakes in order to keep the business afloat. However, the creation of such Employee Stock Ownership Plans (ESOPs) frequently did not result in much change to the labor-management dynamic or to the nature of the operational structure, and as a result, “ownership” meant little to nothing to the workforce. As a result, many of those involved came to view employee ownership negatively, as just another way to wring concessions out of workers, or worse, to undercut the wages and benefits at their competitors. Conversely, like much of the general public, many of the people involved in employee ownership have been suspicious that unions could only bring internal conflict, an “us vs. them” mentality, and union demands that would put their company out of business.

This history is in many ways unfortunate, as generally labor union principles share many similarities with accepted co-operative principles, including:

- Democratic election of leadership based on one member, one vote.
- The propensity to promote, select (and elect) leadership from the rank-and-file.
- An emphasis on education, training, and collective attainment.
- Concern for the community.
- Co-operation with similar and/or affiliated entities.

The few ESOP conversions from the early 1990s that have enjoyed relative success in the years since, have two principle aspects in common: (1) a majority ownership stake; and (2) a real change in the structure and culture in the organization that made “ownership” feel like more than just the value of a share.

It is in this context that we seek to partner labor unions and co-operatives as a potential path towards creating good, sustainable jobs that support and sustain the communities in which they operate.

The Union Co-op Model

A union co-op is a unionized worker-owned co-operative in which worker-owners all own an equal share of the business and have an equal vote in overseeing the business.

Traditionally in larger scale worker-owned co-operatives, worker-owners elect a Board of Directors from among themselves and the Board appoints people to manage the day-to-day operations of the co-operative.

Although it may be common within larger co-ops to elect people to look out for the day-to-day interests of the worker-owners as owners; it's decidedly less common within co-ops to elect people to look out for the day-to-day interests of worker-owners as workers. Towards this end, the Mondragon co-operatives have created Social Councils which offer a formal structure that allows shop floor worker-owners more input and dialogue on a day-to-day basis on issues including wages, benefits, and working conditions, but are generally limited to an advisory role.

The union co-op model replaces the Social Council with a Union Committee. As with other businesses, in a union co-op the appointed Management would have an obligation to engage in collective bargaining with the Union Committee over issues such as wages, benefits, and working conditions.

The “bargaining unit” represented by the Union Committee would ideally encompass all non-supervisory worker-owners in the co-op, although smaller bargaining units could be carved out, using National Labor Relations Board (NLRB) criteria as a general guideline.

As historically proven, worker-owned co-operative businesses can be highly competitive with businesses that have a conventional corporate structure. Where ownership means more than just a value of a share, worker-owners tend to be more self-motivated, more productive, and more creative, helping their business thrive, grow, and remain profitable.

A unionized worker-owned co-operative that has a collective bargaining agreement which provides guidelines over wages, benefits and working conditions, builds upon the historical strengths of worker-owned co-operatives but also helps to ensure that all worker-owners are treated fairly, have access to due process, and that worker-owners as workers are more engaged in the business on an ongoing basis.

With three separate but equal groups elected or selected from within the co-operative (elected Board of Directors, selected Management, and elected Union Committee members), no worker-owner would be allowed to serve in more than one of those capacities at any one time. However, nothing should prevent a worker-owner from serving in multiple roles on a consecutive basis; for example, someone elected to the Union Committee could later be elected to the Board of Directors if they are no longer serving on the Union Committee.

The experience of the Mondragon co-operatives has also shown that a broader support system is key to sustainability and growth. While we can’t expect to immediately replicate a Mondragon system that has developed over many decades, a union co-operative has the advantage of being part of the broader union and cooperative support systems, not only drawing on shared experience and knowledge, but also with the ability to tap into union benefit plans, such as health insurance plans that may provide lower cost options due to the union's collective buying power and defined benefit retirement plans that share risk and maximize returns.

Structural Components

The core organizational principle of the union co-op model is "one worker, one vote". Primarily, the structural foundation of the union co-op model is based on the Mondragon model, with the Social Council replaced with a Union Committee.

Like the Mondragon model, the primary oversight body in the union co-op model will be the General Assembly, which shall meet annually and in which each worker-owner of the co-op shall have an equal vote.

Worker-owners will also elect a Board of Directors from within the co-op, similar to Mondragon's Governing Council, which shall have broad oversight responsibility, governed by and subject to the General Assembly. Members of the Board of Directors would be elected to four year terms with a proportional number of seats up for election every year or every other year, depending on the by-laws of the specific co-op. To be eligible to run for a Board seat, the person must be a worker-owner within the co-op and may not serve on the Management team or the Union Committee while serving on the Board of Directors. The number of seats on the Board shall be determined by the co-op's bylaws and shall be proportional to the number of worker-owners within the co-op. A co-op may also find it useful to provide at least two seats on the Board for people "outside" the co-op as a way of gaining additional perspective and advice. Unless otherwise required, such as a hybrid model with outside investors, the "internal" Board members could select the "outside" members. Another method of incorporating people outside of the co-op would be the creation of an Advisory Board that is separate from the Board of Directors.

The Management team shall be appointed by the Board of Directors for a term of four years and shall be subject to removal by the Board or the General Assembly. A member of the Management team shall also be a worker-owner within the co-op and may not serve on the Board of Directors or the Union Committee. As with the Mondragon model, a Management team member may serve no more than two consecutive terms in any one position. In order to be removed from a Management team position during their four year term by the General Assembly, at least two-thirds of the worker-owners must petition for a special General Assembly, to be held within 30 days of the petition, and for the removal to be supported by at least two-thirds of those worker-owners at the General Assembly.

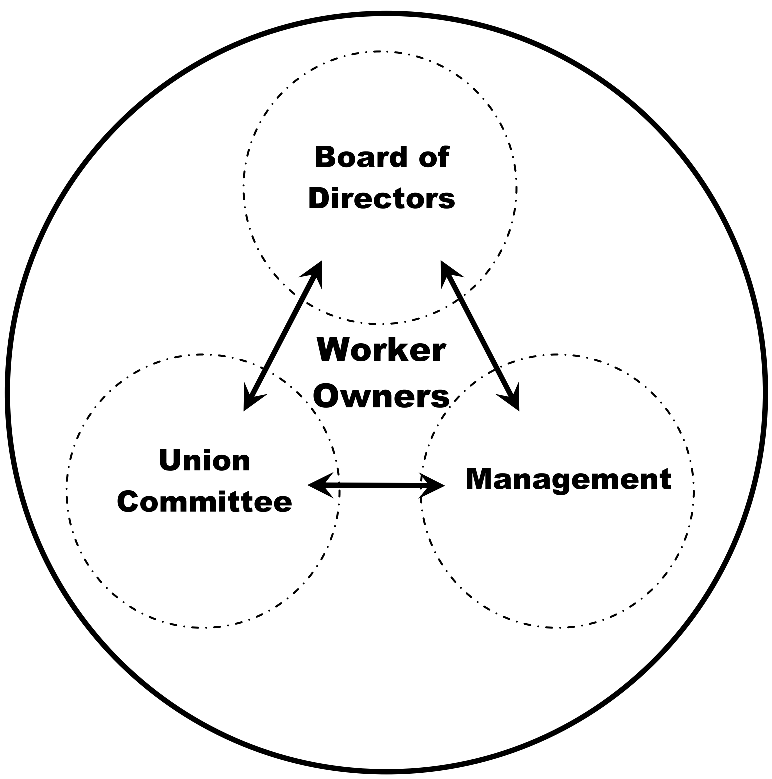
Like the Social Council in the Mondragon model, a Union Committee will be elected on a representational basis from different areas within the co-op, not on an at-large basis such as the Board of Directors. Also like the Social Council, the Union Committee will have responsibility as the communication infrastructure on a day-to-day basis between the individual worker-owners and the Management team. However, where the Social Council in Mondragon only has the ability to advise Management on workplace matters such as compensation and working conditions, the Union Committee shall have the authority to collectively bargain. A member of the Union Committee must be a worker-owner of the co-op and may not serve on the Management team or the Board at the same time.

The Union Committee shall represent all worker-owners, with the exception of management, in their roles as workers for the purpose of collective bargaining. In the event a majority of eligible worker-owners decide to not have a Union Committee represent them in collective bargaining, the Union Committee shall be disbanded.

The Union Committee would negotiate a collective bargaining agreement with the Management team of the co-op which lays out important policies and procedures for the co-op, such as due process for discipline issues, dispute resolution, how compensation is structured, what benefits are provided, and how seniority is applied. The Union Committee would also work closely with the Management team and the Board to adapt to changes in the business and/or the operation, as well as to create an ongoing communication and collaboration process with Management.

As a means to improve communications, a union co-op may also want to establish “ex-officio” seats on the Board for a member of Management (such as a CEO or GM) and for a member of the Union Committee.

How the union co-op model is implemented is partially determined by the size of the co-op. In a small group of 10 people or less, there is likely to be ample opportunity for each worker-owner to interact with each other and co-operate in the management of the business. The larger the group, however, the less those direct relationships are likely to happen and the greater the need for day-to-day management specialization. While it has been long accepted practice in larger worker-owned co-ops to elect a Board and appoint Management, the need for advocacy for worker-owners as workers is normally unaddressed. Although Mondragon does not require a Social Council, it is strongly suggested in a worker-owned co-op of 50 or more people. Likewise, the benefits of increased accountability and communication inherent in having a Union Committee will be more fully realized the larger the group.



Ownership and Financing

When creating the legal entity for the union co-op, there are several forms to choose from, although the laws to do so are set at the state level and vary widely from state to state. Although Massachusetts and Minnesota have laws specific for worker-owned cooperatives, most states do not. Even if your state does not have co-op specific statutes, you can still create a union co-op structure within the more traditional forms of incorporation, such as C Corps, S Corps, and LLCs. For S Corps, although it has tax advantages because earnings are passed through to the shareholders, there are significant limitations to ownership to consider, such as the limit of no more than 100 shareholders.

The ideal ownership structure would be for worker-owners to have 100% ownership of the business, equally distributed among the worker-owners, and to be structured as a co-operative. However, the level of capital investment required for some co-ops, such as in the manufacturing sector, may be initially unattainable for just the worker-owners themselves. In those cases, we need to consider hybrid ownership and investment models that are consistent with our union co-op principles, but also allow for additional co-op opportunities to be created and for worker-owners to move towards 100% ownership over time.

One possible hybrid ownership option would be to maintain the basic co-op structure, but also to allow outside investors to own shares and control a number of seats on the Board of Directors. The primary advantage of this scenario is that only one enterprise needs to be created and maintained. With the scarcity of any substantive legal guidelines for co-operative enterprises, many existing worker-owned co-operatives in the U.S. have been set up as standard C Corporations with by-laws, policies and procedures based on the co-operative model. As a C Corporation, a union co-op needing to adopt a hybrid ownership and investment model would have plenty of flexibility within that structure to allow for outside investors and Board members. Such a hybrid, however, imbeds the outside investor into the co-op and could potentially undermine the mission of building worker ownership and/or undermine the co-operative structure itself by selling its shares to other investors, refusing to sell back shares to worker-owners, or possibly even changing or eliminating the co-operative structure itself in an attempt to maximize resale value.

Another possible hybrid option would be to maintain the 100% worker-owned co-operative as a separate entity and create a separate joint-venture company, such as an LLC, with outside investors. The primary advantage of this model would be that the co-operative would always remain completely in the hands of the worker-owners and accountable to them only. The co-op could have little capitalization requirements initially, formed to be able to partner (as one cohesive group) with outside investors in a joint-venture structure. The co-op may then be able to negotiate their ownership stake in the LLC based on the labor provided, and potentially increasing that ownership stake as certain benchmarks are set or buying additional shares using a predetermined formula. A clear path to increasing ownership would need to be carefully laid out, so that workers are not taking on risk without a correlating potential for rewards. The co-op could potentially enter into a number of different LLCs with various investors. An LLC operating agreement could also set guidelines on how investors sell their shares. Potential downsides of such a hybrid might include complications arising from a second layer of organizational bureaucracy or if the co-op takes on more risk in an LLC than it otherwise should, as part of a larger entity.

Theoretically, in either of the above scenarios, workers could own a minority of shares initially and buy out or earn enough additional shares to eventually take 100% ownership. Rather than one outside investor holding a majority stake, it could be more realistic for the co-op to assemble a group of smaller investors with ownership stakes of 10% to 20% each. Depending on the situations, such investment could come from other co-ops, suppliers, customers, impact investors, credit unions, non-profits, anchor institutions, even community groups.

If a hybrid ownership structure is initially needed, an investor or benefactor might request some type of "golden share" as a condition of their investment and/or involvement. A "golden share" could provide veto power over certain decisions of the co-op, such as whether or not to sell the business. One purpose of a "golden share" might be to keep worker-owners from selling the business in order to reap a short term gain from the long term investments of others. Although ownership, almost by definition, would seem to require the ability to sell; for our purposes, the rights of ownership do not necessarily contradict the use of a "golden share" in the short and medium terms where the risks of a start-up are likely disproportionately borne by others. Any "golden share" ought to have specific limitations with a defined sunset period and most likely will need to be negotiated with each investor as part of the investment agreement.

The goal of the union co-op, even when utilizing a hybrid ownership model, should be for worker-owners to eventually gain 100% ownership and for these businesses to remain place-based and community-anchored for the long term. Mechanisms for voluntarily restricting the dissolution/sale of the co-op ought to be included in the by-laws, such as unanimous approval or a strong super-majority approval required from all shareholders.

Culture

A key component to the long term viability of this model, as emphasized by numerous practitioners and experts and based on a wide variety of experiences, is developing a workplace culture that is consistent with the mission and values of the model. How to develop that culture will remain an open-ended question to be resolved on a case-by-case basis, but a few points are worth considering:

- Finding a balance between conflict and co-optation. A concern raised about this union co-op model is the perception of labor-management conflict in unionized businesses. Although the labor-management relationship trends more towards working together in the vast majority of cases, we ought to recognize that labor-management conflict can and does occur (whether the workforce is unionized or not), and consider how that conflict can be most effectively managed. A good labor-management relationship is about resolving conflict, not creating it. Among the many lessons to be learned from the GM-UAW partnership at Saturn, a model which could almost be described as "co-management", is that after the first few years of operation, a majority of the workers voted out the initial group of local union officers because they were perceived to be too close to management. As a result, the company and the union moved towards a more traditional model. We believe cooperation and conflict are not mutually exclusive, but rather are the foundation for a healthy relationship based on mutual respect, when properly managed.

- Training on working in and managing in a cooperative has always been essential for success. Key topics would include communications, team building, problem solving, decision making, and leadership. As the Mondragon practice demonstrates, this type of organizational training cannot and must not be a one-time event, but rather an ongoing learning and reinforcement process.

- Accountability is another lynchpin of success. This model utilizes a Union Committee and collective bargaining as a means of improving the accountability of management to the workers, but it also intends to improve the accountability of individual workers to each other and to the business by communicating clear guidelines and policies for everyone to follow. A common misperception is that unions protect "bad" workers; however, the intent of a negotiated grievance procedure is only to provide due process. Good management practices are needed to maintain accountability and we believe this model provides useful tools to achieve that goal.

Worker-owned companies that adopt an ownership culture have more productive employees because they are given autonomy and take ownership of their jobs and have more effective managers who are freed up from the inefficiencies of closely supervising subordinates, united in doing the best job they can to satisfy their customers and sustain a profitable business.

Negotiating the Collective Bargaining Agreement

In a conventional workplace with a union, a collective bargaining agreement (CBA) is negotiated between the workers in the union and the management of the company that sets out the wages, hours, and working conditions for those workers. The CBA is a legally binding contract and usually applies for a fixed period of time before the terms of the agreement are renegotiated.

In a union co-op, since workers and owners are no longer necessarily distinct groups, a CBA would be negotiated in much the same way for the benefit of worker-owners as workers, yet would also require some additional flexibility to adapt to business and market changes that would concern worker-owners as owners.

Since workers in a worker-owned co-operative have the ability to change the co-op's bylaws at the annual meeting, vote on the Board of Directors, and theoretically run the enterprise, some may wonder what the purpose of negotiating a collective bargaining agreement would have. Two principle reasons are: (1) without a CBA, the ability of workers to hold management accountable on a day-to-day basis is limited and indirect; and (2) to ensure fair treatment and provide due process. As contemplated by James Madison in the Federalist Papers and later coined by Alexis de Tocqueville in Democracy in America, the "tyranny of the majority" in a democracy could trample the rights of the minority, prompting the need for a system of checks and balances.

A collective bargaining agreement helps to assure the day-to-day accountability of management by establishing guidelines and policies that can no longer be unilaterally changed by management. Instead, such changes would be negotiated with other workers (the Union Committee), directly elected by their peers, whose role is to be advocates for the worker-owners as workers.

A collective bargaining agreement would also provide for due process in the event of a dispute. For example, in the event a worker-owner feels he or she has been discriminated against, unfairly passed over for a promotion, or unjustly disciplined, he or she could allege a grievance and attempt to resolve it at multiple levels, including utilizing an impartial arbitrator as a last resort if the issue remains unresolved. A collective bargaining agreement can provide the workplace equivalent of checks and balances and a worker-owner bill of rights. This formalized process, while normally associated with Unions, is in complete harmony with accepted co-operative principles, and is in many cases is even used as a model in worker co-operatives without union-represented employees.

Having a clear set of policies and guidelines outlined in the CBA that are well established and well-communicated can create a more stable and more efficient workplace. A CBA also provides more stability and more clarity to the wages and benefits earned by the workers, reducing favoritism and reinforcing fairness and solidarity.

In a union co-op, the CBA is likely to be more of a living document than may be the case in a more traditional business structure. Although a traditional CBA provides stability and is binding for a fixed period of time, that stability can be balanced with the need for flexibility and adaptation through processes and procedures mutually agreed to by labor and management.

For co-ops with multiple bargaining units, a joint Union Committee that represents the combined group as a whole could be formed, while still providing individual Union membership based on the job classification or dues paid to each Union as a prorated share of the combined membership. In other words, if Union A represents 90% of a combined group and Union B represents 10%, the worker-owners in Union A job classifications would either be direct members of Union A or a joint Union Committee could forward 90% of dues to Union A. Another option would be to negotiate one "master" contract that determines wage scales and benefits for everyone, and then negotiate separate "local" agreements that are specific to each bargaining unit. With multiple bargaining units, having entirely separate contracts could be problematic to administer for a small union co-op.

Generally, the bylaws of a co-op and a collective bargaining agreement serve two distinct roles. Where the co-op's bylaws apply to everyone in the co-op and can be amended annually at the General Assembly, the CBA applies only to those in the bargaining unit and is normally set in place for an extended period of time, such as 3 years. However, since the CBA can be amended by mutual agreement between Management and the Union Committee at any time, the CBA would potentially be the more flexible document.

In addition to the Mondragon principles above, some key elements of the bylaws would include:

- An operating agreement that defines how shares are distributed, voted, and transferred. In a hybrid investor model, this would include how many shares the worker-owners are collectively entitled to, how many shares the outside investors (if any) receive, the process for worker-owners to increase their collective ownership stake, what restrictions would be placed on the potential sale or transfer of such shares, and what voting rights are provided by such shares.
- The mission and values that the union co-op shall live by.
- The structure of the union co-op, the roles and responsibilities of each body within that structure, and the process for implementing and changing that structure, such as how and when elections are held and how bylaws can be amended.
- The policies and benefits that shall apply to all worker-owners in the co-op. Where the union co-op model employs the collective bargaining process to periodically modify such items, the intent for the bylaws is to apply some of the core principles that are unlikely to be changed over time as a core to the proper functioning of the model, such as:
    - Some type of due process procedure for those outside the bargaining unit(s).

- A requirement that whatever group based benefits negotiated by the Union Committee, such as health insurance and pensions, shall apply to all worker-owners in the co-op, both for the efficiencies of providing those benefits and for the potential movement of worker-owners in and out of the bargaining unit.
- An endorsement of the collective bargaining process and the unionization of the worker-owners, as well as an impartial election process for worker-owners to select the union of their choice (including having no union at all). While U.S. labor law prohibits employers from favoring a particular union, there is no restriction on an employer being pro-union or favoring unions generally.
- A statement of solidarity that any worker-owners outside a bargaining unit will pay an amount equivalent to dues paid by worker-owners inside a bargaining unit to either the union or a charity of their choosing.
- How profits are distributed generally among all worker-owners, the establishment of ownership accounts, the establishment of a reserve pool in case of losses, and the process of recovering losses from ownership accounts after the reserve pool has been exhausted.
- Probationary period for new workers and the process for conversion of new workers into worker-owners.

Some key elements of a collective bargaining agreement in a union co-op:

- Many of the traditional topics of wages, benefits, and working conditions, which are also mandatory subjects of bargaining under U.S. law, would be part of the CBA for the bargaining unit:
  - Job classifications, "wage" rates for each classification, incentives (including a more detailed formula for profit sharing).
  - Group-based benefits such as health insurance and pensions, which under the bylaws would be extended to all worker-owners in the co-op. Since the Union Committee is set up to be more directly connected to the needs and desires of worker-owners as workers, negotiating such benefits in the CBA provides more accountability to the group of worker-owners as a whole than if such benefits were unilaterally decided by Management or the Board of Directors. The ability to modify the CBA on an ongoing basis also provides more flexibility and more efficiency in adapting to changing conditions than requiring a General Assembly to study, thoroughly discuss and vote on such changes on an annual basis.
  - Accrual and use of benefits such as vacation, sick days, and holidays.
  - The process for job bidding, scheduling, overtime, leaves of absence, and discipline.
- Due process for any disputes about the CBA is applied, traditionally known as the grievance and arbitration process.
- The process for the collection of Union dues.
- A commitment that Management and the Union Committee will make their best attempt to reach mutual agreement in the event conditions warrant the modification of the CBA during the term of the agreement.

As the governing document for the entire co-operative, the bylaws should generally serve as the primary set of rules, with the CBA being negotiated within that framework. However, Management will have a legal obligation to bargain with the Union Committee over mandatory subjects such as wages, hours and working conditions. Where a CBA conflicts with the bylaws in such an area, the CBA is the legally binding document for the bargaining unit and would prevail, subject to applicable laws. For example, the co-op's bylaws may provide some type of Board review for workers outside of the union (management) for the purposes of determining compensation, but the compensation system for those within the union will be set by the CBA.

Compensation

As a worker-owned co-operative, the ultimate intent is that all of the profits will be distributed equitably to the worker-owners. Realistically, however, profits will always be variable and never guaranteed, so we must also anticipate losses and how the variability in profits and losses might affect the worker-owners.

In order to provide a more consistent income for its worker-owners, Mondragon co-operatives have adopted a practice of advancing anticipated profits during the year (almost equivalent to paying wages), then making the final distribution based on year-end financial results. In adapting the Mondragon model to a U.S. model, paying wages instead of "anticipated profits" does not necessarily disadvantage the co-op or its worker-owners, so the focus of the U.S. union co-op model will be to pay wages as the base unit of compensation.

In a co-op where the workers are also owners, utilizing some level of variable pay methods, such as profit sharing, incentives, and bonuses, ought to be consistent with core principles, such as wage solidarity, and competitive business practices so that the union co-op is profitable. Generally within Mondragon co-operatives, compensation could be described as roughly averaging 85% base pay and 15% variable pay based on profit and performance. Recognizing the conflicting interests between worker-owners as workers desiring the highest possible base pay and the worker-owners as owners desiring the highest possible variable pay, applying the generalized ratios from the Mondragon model would appear to be a good place to start.

Understanding the unique nature of the worker-owned co-operative structure, it is important to emphasize that earning shared rewards (profits) also means sharing risks (losses) as well. The advantage of creating the co-op as a C Corporation or as an LLC means there are limits to the liabilities of ownership, but practical contingencies need to be in place to absorb losses with the expectation of a turn-around, prior to declaring bankruptcy. Where profits would be distributed to individual ownership accounts of the workers (whether held internally within the co-op or paid out to external accounts), a reserve fund could be built up prior to distribution to individual accounts, so that when losses do occur, the reserve fund can be utilized prior to the co-op withdrawing money from those individual accounts.

How profits are allocated to individual worker-owners (traditionally known as patronage dividends), would ultimately be up to the co-op, although ownership dividends could be paid as equal amounts (one worker, one share) or based on the investment of their labor into the co-op, such as a calculation modeled on pay rate, time worked, and years of service. Where the individual accounts are held internally within the co-op, the annual allocation of profits is essentially a "paper" allocation, not necessarily cash. Yet worker-owners are responsible for paying taxes on the allocation of profits into their individual member account, so the co-op would be required by IRS regulations to turn at least 20% of that distribution into a cash payout, large enough to cover any incremental individual tax liability.

In terms of wage solidarity, we note that most Mondragon cooperatives have been able to sustain a ratio of the highest paid worker receiving no more than 5 to 7 times what the lowest paid worker earns.

However, depending on factors such as the type of business and the size of the business, the union co-op may need to adapt its compensation model to recruit and retain highly skilled and highly experienced workers and managers, consistent with the principle of wage solidarity as much as possible.

Education and Training

Another key shared value of both unions and co-operatives is the emphasis on education, which is a further illustration of the power of the union co-op model. The emphasis on education is formulated around distinct, yet related concepts: equipping individual worker owners with the skill sets not only to do their jobs, but also to perform as owners and managers of the enterprise, as well as providing opportunities for personal enrichment and advancement. Specific targeted areas for education could include operations and safety training, financial literacy, team decision-making skills, and more. As part of the larger union and co-operative support systems, expertise and training programs are available to union co-ops to draw from. In addition, continuing education classes could be offered directly for co-op members, as well as a tuition assistance benefit.

A pivotal component of ensuring the success of this model, especially in the case of a conversion of an existing business into a co-op, is training on working in and managing in a cooperative workplace. Although many unions may already have positive and healthy relationships with most of their employers, the culture of the worker-owned cooperative (and by extension the union co-op) is significantly different from a traditional business, requiring a focus on training for all employees on how to work cooperatively and manage cooperatively. As noted above, this type of organizational training cannot and must not be a one-time event, but rather an ongoing learning and reinforcement process. Without the right culture, both the premise and the promise of worker ownership are at risk. Ownership must mean more than the value of a share.

Putting the Principles of Social Transformation & Inter-Cooperation into Practice

Although this union co-op model is significantly focused on building worker ownership and accountability within a particular workplace, our principles of Social Transformation and Inter-Cooperation are aimed at ensuring that workplace can support and sustain the communities in which it operates.

Social Transformation is about how we use these sustainable jobs to support and develop sustainable communities, specifically through providing good local jobs, supporting other local businesses, and investing in the local community. An example of supporting other local businesses would be to utilize a "Buy Local" preference that not only keeps money and jobs within the local community, but also further develops the dynamics of the local economy and potentially minimizes the environmental impact of the supply chain. Investing in the local community not only has quality of life impacts, such as recreational and cultural activities, but also supports and grows the local economy, through investments such as education and infrastructure. In the shift to a more global economy, it is this support and investment in the local community that is fading away, creating more and more globalized businesses with no loyalty to any particular community, state, or nation. Looking to the Mondragon cooperatives, it's worth noting that their approach to growing their businesses around the world is significantly unlike the top-down globalization approach of today's multi-national corporations; rather, their approach is one of "multi-localization", developing bottom-up businesses rooted in their local communities and brought together under an umbrella of other networked cooperatives which serve to increase both local employment and the value of that employment.

The mutual benefit those networked cooperatives provide each other goes to the heart of the principle of Inter-Cooperation. As noted previously, Inter-Cooperation within the labor union context means better access to specialized services and training, as well as leveraging group buying power for better health insurance benefits and retirement benefits. Inter-Cooperation with other businesses, such as other union businesses, other co-ops, and especially other union co-ops, provides the solidarity and mutual support within a virtual community of businesses that share similar values. Inter-Cooperation in this context keeps money flowing within these businesses, sustains jobs within these businesses, and creates the opportunity to share specialized services and/or training.

Evolution

Where the concepts of both labor unions and co-operative businesses have been around for at least 150 years, the intent of the union co-op model is to adapt and integrate those principles and core concepts to the challenges and opportunities we face today. If successful, adaptation becomes evolution. Our ultimate goal, therefore, might be described as the evolution of the workplace.

The following examples offer lessons learned from past experiences and offer insight into how the union co-op model could adapt and evolve existing models:

<u>Collective bargaining compliments co-operation and workplace democracy.</u>
Where people unfamiliar with labor unions have raised concerns about creating an unnecessary adversarial situation, we need to consider the root and cause of such concern: that labor unions are generally only in the news when a conflict erupts, such as a strike or lockout. In fact, strikes and lockouts are exceptionally rare, occurring during maybe 1% of contract negotiations. More often than not, negotiations are about finding the balancing point between helping the employer succeed and ensuring that the employees share in that success. Where there is mutual respect of each other's roles, a reasonable agreement can be reached. Even though we call it a co-operative, we must also recognize that by its very nature, worker-owners have conflicting interests as workers and as owners and how that inherent conflict is managed can have a significant impact on the success or failure of the enterprise. Integrating the collective bargaining process into the co-op creates a forum for that inherent conflict to be resolved fairly and smoothly where the Management and Union Committee respect each other's advocacy roles. Collective bargaining in this context provides a forum for conflict resolution.

<u>Collective bargaining increases accountability and protects workers' rights.</u>
The mere fact that there are laws governing employment, safety, and discrimination, does not mean that those laws aren't frequently broken. Although a co-op's principles and bylaws are established to guide and govern the operation of the co-operative, enforcing such rules in a fair and equitable manner can be a challenge. As mentioned above, in a democratic workplace those rules are also subject to the same "tyranny of the majority" issues that threaten the rights of the minority. A collective bargaining agreement provides due process and a legal, enforceable framework under which rules can be enforced fairly, where management can hold workers accountable to those rules and where workers can hold management accountable to those rules as well. The most import aspect of the grievance procedure is that if the issue cannot be resolved internally, the matter can be referred to an impartial arbitrator to make the decision.

Joining a Union larger than the co-operative opens up significant opportunities, including shared resources, for worker-owners.
One of the key principles we seek to adapt from Mondragon is that of inter-cooperation: that co-ops should support and work together with other co-ops to make each other stronger, just as smaller local unions join together with other local unions as part of a bigger union. Inter-cooperation between a union co-op and other local unions (albeit within traditional employers), strengthens both. As part of a larger group/union, members of the union co-op have access to shared resources and collective power that they would not otherwise have, including the ability to gain access to lower cost, higher quality health insurance, retirement plans, industry and market research, education and training, finance and public policy initiatives.

Worker-owned co-operatives could provide Union members the opportunity to have more fulfilling and more satisfying jobs and careers, as well as more fully receiving the profits created by their work.
If there is an "us vs. them" culture in some workplaces, it is probably a two way street. Any opportunity to work in an environment that promotes worker dignity, mutual respect and real ownership that means more than just the value of a share is going to be a positive for workers. The union co-op model aims to improve the accountability of managers to the worker-owners, and to provide opportunities for training and advancement. As owners, workers can also feel assured that their ingenuity and hard work will be rewarded equitably rather than exploited.

Worker-ownership could provide some relief to the constant threat of layoffs and plant closings.
In a worker-owned co-op where the priority is jobs over profits, workers have a better opportunity to figure out alternatives to layoffs, bankruptcies, and closings in hard times; rather than have the rug pulled right out from under them and left with no alternatives.

Case Studies

Cooperative Home Care Associates – New York City, New York
Cooperative Home Care Associates (CHCA) is a provider of home health care services based in the South Bronx area of New York City, whose 1,700 employee owners are represented by 1199SEIU and is currently the largest worker cooperative in the United States. CHCA started business as a worker co-operative in 1986 with the primary goal of improving the conditions for workers in an industry that has traditionally offered workers low wages (often set by government and private industry health plans) and sub-standard benefits.

In 2003, CHCA supported the efforts of its workers and worker-owners to join 1199SEIU and form a collective bargaining unit. The reasons expressed by labor and management for doing so were: 1) to continue CHCA's mission in "raising the floor" for industry workers and improving conditions in the industry in general, 2) to take advantage of SEIU's political clout in the state of New York's apportionment of health care contracts, and 3) to take advantage of SEIU's benefit and education programs for the workers. Representatives from both labor and management expressed the idea that unionizing the cooperative's worker-owners was a logical step in the development of a positive workplace.

CHCA workers are offered the option to voluntarily purchase a share and become an owner of the business. Workers who decide to become owners purchase a share of the cooperative for $1,000, with a small amount deducted from their paychecks until the full amount is paid over time. As owners, workers get voting rights within the cooperative and receive dividends as shareholders.

In addition to the traditional elements of a collective bargaining agreement (CBA), such as the grievance procedure, mediation and arbitration processes, CHCA management and 1199SEIU officials felt that an additional avenue for labor-management relations was needed. In 2007, an agreement was reached to form a Labor-Management Committee (LMC), which replaced the pre-union Worker Council. The LMC's primary purpose was to serve as formalized structure for discussing and resolving on-the-job workplace issues, preferably prior to filing a formal grievance or triggering an arbitration procedure. The LMC has also served as a source of in-house leadership development and cooperative culture development, as well as a vehicle to support and positively impact the business.

Both labor and management representatives have expressed the opinion that all the original goals of the LMC have been met, and in most cases exceeded. Specifically regarding labor management relations, the LMC was instrumental in implementing business-wide culture initiatives that succeeded in rebuilding a sense of community among worker-owners which had been stressed due to business growth. The LMC also implemented improved communication processes that created efficiencies in resolving grievances, as well as education and training programs for communicating potentially unpopular initiatives like efficiency improvements. Success of the LMC is predicated on high levels of mutual trust from all parties, including management, union local leadership, and rank and file worker-owners. This trust is built on shared values of worker empowerment and continual support for the LMC process.

Throughout all these programs, the procedures and objectives remained consistent: a commitment to necessary training and education programs for LMC participants, open communication from all levels, data-supported problem analysis, and non-judgmental solution formation. There was and is a significant cost to the business in implementing the LMC structure, due primarily to the fact that time spent on the Committee is compensated at regular wage rates for all participants, but that investment continues to pay dividends.

The LMC has 16 members, composed of 8 worker-owners, 6 administrative staff members of CHCA, and 2 union representatives. Within the LMC, 3 smaller work groups have been created that are tasked with solving specific, narrower issues: service delivery, communications, and access to child care, with the goal of utilizing 3 additional work groups in the future. The LMC does not directly handle bargaining at contract time, but will informally discuss all issues, including those covered by the contract. Both labor and management representatives expressed the belief that this separation between the LMC and the bargaining committee has been a net positive for the company. CHCA also includes as part of its structure a Leadership Committee that includes labor and management representatives.

As a unionized cooperative, CHCA has expanded from about 500 people in 2000 to about 1,700 in 2010, has increased the ratio of full time jobs within the cooperative, provides quality healthcare to its workers, and allocates 80% of its revenue directly to workers' wages and benefits.

<u>Market Forge – Everett, MA</u>
Originally founded as an iron and metal workshop in Boston, MA in 1896, Market Forge produces steam equipment for the foodservice industry at its manufacturing plant in Everett, MA. In 1991, the company that owned it, Specialty Equipment, announced that it intended to close the plant and move the operations to Georgia. However, the workers, members of USW Local 2431, were able to convince Specialty Equipment to give them time to buy it and in 1993, after two and a half years of negotiations,

bought 100% ownership of the Market Forge operation through an Employee Stock Ownership Plan (ESOP). Financed primarily through concessions by the workers and bank loans, the 130 workers at the time all owned an equal share of the company and restructured their business more along the lines of a cooperative model. Faced with the common challenges for employee buyouts of older facilities, older equipment, and limited access to capital and investment, Market Forge workers have persevered for almost 20 years and continue to make innovative, high quality products.