

An Incubated Approach to Cooperative Development

Cooperatives are businesses that are owned and controlled by the people or businesses who use them.¹ Throughout its history, the cooperative movement has recognized the importance of various principles; today, the International Cooperative Alliance recognizes seven principles that guide cooperative businesses, including:

- voluntary and open membership;
- democratic member control;
- member economic participation;
- autonomy and independence;
- education, training, and information;
- cooperative among cooperatives; and
- concern for community.²

Recent estimates by the University of Wisconsin Center for Cooperatives (UWCC) count over 64,000 cooperatives in the United States in lines of business ranging from produce marketing to financial services to electric generation and distribution.³ Various organizations across the U.S. develop new cooperatives or support existing co-op businesses from agricultural cooperatives to consumer food co-ops to worker-owned enterprises.⁴ The United States Department of Agriculture’s Rural Development agency includes various cooperative programs and provides a grant program to support technical assistance centers across the U.S. providing services to cooperatives.⁵ The College of Food, Agricultural, and Environmental Sciences (CFAES) Center for Cooperatives at The Ohio State University (OSU) is one such cooperative development center. OSU’s CFAES has had cooperative development programming since 2001. The Center specializes in cooperative development in agriculture and Appalachian economies.

Why Cooperate?

Cooperatives create big impacts. In a study completed in 2006 and 2007, UWCC estimated the economic impacts of cooperatives in the U.S. Figure 1 details these estimates.

Cooperative Sector	Firms	Revenue (millions)	Employment (jobs)
Commercial Sales & Marketing	3,463	201,207	422,505
Social & Public Services	11,311	7,525	424,505
Financial Services	9,964	394,363	1,133,353
Utilities	4,546	49,808	162,873

Figure 1. Economic Impact Estimates for U.S. Cooperatives¹

¹ “Understanding Cooperatives: Who Runs the Cooperative Business? Members.” (2011). U.S. Department of Agriculture Rural Development, Cooperative Information Report 45, Section 4. Retrieved from http://www.rd.usda.gov/files/CIR45_4.pdf

² Cooperative identity, values & principles. (2018). International Cooperative Alliance. Retrieved from https://www.ica.coop/en/cooperatives/cooperative-identity?_ga=2.106130304.248339756.1542494918-1228926519.1537194143

³ Measuring the Cooperative Economy. (2018). University of Wisconsin Center for Cooperatives. Retrieved from <https://mce.uwcc.wisc.edu/>

⁴ Rural Cooperative Development Centers. (2018). U.S. Department of Agriculture Rural Development. Retrieved from <https://www.rd.usda.gov/files/RD-CoopDevelopmentCenters.pdf>

⁵ Cooperative Programs. (2018). United States Department of Agriculture Rural Development. Retrieved from <https://www.rd.usda.gov/programs-services/all-programs/cooperative-programs>; Rural Cooperative Development Grant Program. (2018). U.S. Department of Agriculture Rural Development. Retrieved from <https://www.rd.usda.gov/programs-services/rural-cooperative-development-grant-program>

The failure rate of new business enterprises is notoriously high. Some estimates indicate that 60-80% of U.S. corporations fail after their first year operating and only 3-5% are still active after five years. However, research indicates that cooperatives have much lower failure rates with only about 10% failing after their first year and similar rates of failure after five years.⁶

Cooperative advocates also cite various benefits of cooperation for businesses, members, and society, including business longevity, skill building for members, and access to business ownership and training in democratic decision making.⁷

Strategies for Cooperative Development

Cooperative development organizations employ a variety of development strategies to assist and build new cooperatives. Margaret Bau, a cooperative specialist with the U.S. Department of Agriculture conceptualizes these strategies as member initiated, incubated, and conversions.

In a member-initiated approach, a group of eventual co-op members initiate development and explore the feasibility and start-up of an enterprise. Cooperative developers might provide technical assistance, helping educate the group on various business issues and analyzing the feasibility of the enterprise. In an incubated approach, a development group conceptualizes, explores, and starts-up a business enterprise and then recruits members to take it over. Cooperative developers and partners might conduct feasibility analyses, prepare business plans, and plan for financing, later helping to recruit member-owners. In a conversion approach, an existing business transfers ownership to a shared model and cooperative developers might provide technical assistance similar to a member-initiated approach.⁸

Support for an Incubated Approach

Various examples of incubated approaches to cooperative development exist across the U.S., particularly in the worker-owned co-op space. In 2016, approximately 14% of worker co-ops in existence were developed using an incubated approach.⁹

The Arizmendi Association of Cooperatives supports the development of worker-owned businesses in the Bay Area of California. The association was founded in 1996 and currently includes six bakeries in the Bay Area, as well as a landscaping design/build enterprise.¹⁰ The Arizmendi model of development began with the replication of a successful cooperative model, the Cheese Board, and now uses a replication approach to start new cooperatives. The Association finds the site for a new cooperative using the same business plans of their existing cooperatives and secures funding for the enterprise. The Association then recruits and trains worker-owners for the new enterprise. This network of businesses provides mutual aid to one another. The individual cooperatives become members of the Association, which is itself a cooperative, and through their membership, contribute a portion of income to receive support services like education, legal aid, bookkeeping and others as well as to support cooperative

⁶ Williams, Richard. (2007). *The Cooperative Movement*. Burlington, VT: Ashgate Publishing Company. (p. 9-10)

⁷ Abell, H. (2014). "Worker Cooperatives: Pathways to Scale." Democracy Collaborative. Retrieved from <https://democracycollaborative.org/content/worker-cooperatives-pathways-scale>

⁸ Bau, M. (2016). Steps to Starting a Cooperative. [Powerpoint slides]. Retrieved from <http://www.uwcc.wisc.edu/howtostart/steps/Steps%20to%20Starting%20a%20Cooperative.pptx>

⁹ "2016 State of the Sector: Worker Cooperatives in the U.S." (n.d.) Democracy at Work Institute. Retrieved from <https://institute.coop/2016-worker-cooperative-state-sector-report>

¹⁰ "About the Association." (n.d.) Arizmendi Association of Cooperatives. Retrieved from <http://arizmendi.coop/>



development. According to the Association, this approach avoids some of the common barriers to cooperative development, including the tendency for cooperatives to be developed in industries with high failure rates and limitations on the availability of capital.¹¹

Prospera, a development organization focused on Latina immigrant women, began in 1995 as Women's Action to Gain Economic Security (WAGES). As of 2010, WAGES was supporting five home cleaning cooperatives that included 85 worker-owners. WAGES' incubation approach included worker recruitment and training, searching for and hiring management, and assisting with capitalization and business planning. Similar to the Arizmendi Association of Cooperatives, WAGES created a network in 2009 to provide mutual support across a number of cooperatives; the network includes services like joint branding and purchasing.¹² Today, Prospera identifies groups of potential worker-owners and supports them through a three year development process that includes training and technical assistance.¹³

In Ohio, the Evergreen Cooperatives were born out of a partnership between the Cleveland Foundation, the Democracy Collaborative, Cleveland Clinic, University Hospitals, Case Western Reserve University, the City of Cleveland, and local foundations in Cleveland, Ohio. The Evergreen Cooperatives are a network of three worker-owned cooperatives including a laundry service, a solar energy installer, and an advanced greenhouse. Partner organizations used a multi-pronged strategy to develop these cooperatives – leveraging purchasing by local anchor institutions, developing a network of community-owned cooperatives, and focusing on the green economy – to develop employment opportunities in low-resource communities and with “hard to employ” populations.¹⁴ The Evergreen Cooperatives also include a centralized support corporation. As of the spring of 2018, the Evergreen Cooperatives employed approximately 220 people with 43 as worker owners.¹⁵

Additionally, Ohio is home to the Cincinnati Union Co-op Initiative and the Greater Dayton Union Co-op Initiative, both organizations that are working to develop unionized worker owned cooperatives.¹⁶

The cooperative advocate, Hilary Abell, highlighted in the 2014 report *Worker Cooperatives: Pathways to Scale*, various strategies to worker cooperative development being used across the United States. She highlights an industry transformation strategy, single industry replication, a

¹¹ Marraffino, J. (2009). “The Replication of Arizmendi Bakery: A Model of the Democratic Worker Cooperative Movement.” Grassroots Economic Organizing (GEO) Newsletter, Volume 2(3). Retrieved from https://arizmendi.coop/wp-content/uploads/2015/03/The-Replication-of-Arizmendi-Bakery_-_A-Model-of-the-Democratic-Worker-Cooperative-Movement.pdf

¹² “Interview of Hilary Abell Executive Director, Women’s Action to Gain Economic Security (Oakland, CA).” (2010). The Democracy Collaborative. Retrieved from <https://community-wealth.org/sites/clone.community-wealth.org/files/interview-abell.pdf>

¹³ “Prospera: About.” (n.d.) Retrieved from <http://prosperacoops.org/who-we-are>

¹⁴ “The Cleveland Evergreen Cooperatives: Building Community Wealth through Worker-Owned Businesses.” The Democracy Collaborative. Retrieved from <https://community-wealth.org/sites/clone.community-wealth.org/files/downloads/article-wang-filion.pdf>

¹⁵ “Evergreen Cooperative Laundry Expands through Partnership with the Cleveland Clinic” (2018). Cleveland Foundation. Retrieved from <https://www.clevelandfoundation.org/2018/05/evergreen-cooperative-laundry-expands-through-partnership-with-the-cleveland-clinic/>

¹⁶ Cincinnati Union Co-op Initiative. (n.d.). Retrieved from <https://www.cincinnatiunioncoop.org/>; Greater Dayton Union Co-op Initiative. (2018). Retrieved from <http://gduci.org/>



place-based clusters strategy, institutional engagement, and an educational incubator or co-op academy strategy. These strategies are not necessarily mutually exclusive.¹⁷

Melissa Hoover and Hilary Abell, in the report, “The Cooperative Growth Ecosystem,” recognized the Bay Area of California and Cincinnati, Ohio, among other communities in the U.S., as places creating systemic cooperative development efforts. Based on this work, Abell and Hoover advocate for a framework of cooperative development, specifically for worker-owned enterprises, which uses system-wide efforts to support cooperatives in creating meaningful economic change. They describe the framework as, “encourage[ing] diverse stakeholders in the field of community economic development to invest in inclusive economic development by fostering cooperatively owned enterprises within a broader entrepreneurial ‘ecosystem.’”¹⁸ Figure 2 provides an overview of the elements that Abell and Hoover conceptualize in a Cooperative Growth Ecosystem.

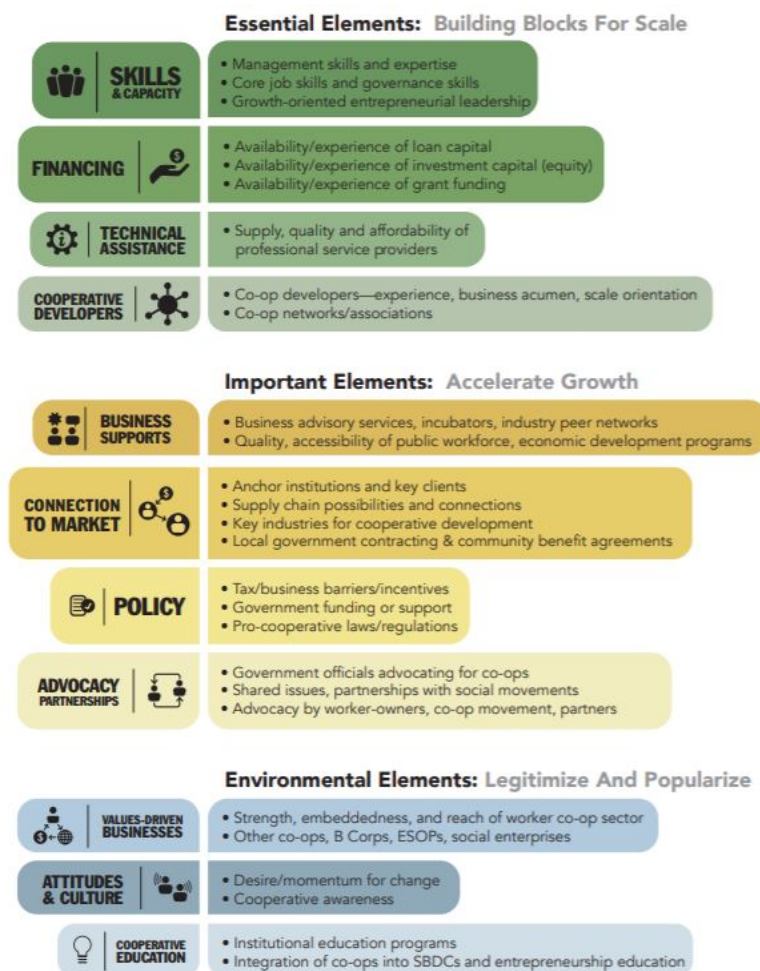


Figure 2. Elements of a Cooperative Growth Ecosystem by Melissa Hoover and Hilary Abell.

¹⁷ Abell, H. (2014). “Worker Cooperatives: Pathways to Scale.” Democracy Collaborative. Retrieved from <https://democracycollaborative.org/content/worker-cooperatives-pathways-scale>

¹⁸ Hoover, M. & Abell, H. (2016). “The Cooperative Growth Ecosystem: Inclusive Economic Development in Action.” (p. 1-2). Democracy at Work Institute & Project Equity. Retrieved from <https://institute.coop/sites/default/files/resources/Ecosystem%20Report.pdf>

Conclusions

Various organizations have used an incubated approach to support the development of cooperative businesses; these co-ops are creating valuable jobs, providing needed services, and engaging their communities. The successes and challenges of these organizations, along with the frameworks supported by cooperative advocates, are useful starting points for organizations or initiatives interested in a systematic approach to developing new cooperatives to help improve their communities.

Cooperate with the CFAES Center for Cooperatives

Connect with the Center for Cooperatives on Facebook (@OhioStateCooperatives), Twitter (@OSUCooperatives), and the Collaboration Nation blog (u.osu.edu/osucooperatives).

Visit the Center's website at go.osu.edu/cooperatives and Co-op Mastery: Beyond Cooperatives 101 at go.osu.edu/coopmastery.

Contact the Center for Cooperatives at osucooperatives@osu.edu or 740-289-2071 ext. 111.

This brief was authored by Hannah Scott, Program Manager of the CFAES Center for Cooperatives.