Scan of Community-Based Enterprise Innovations and their Application to Detroit

a study commissioned by the Innovation Network for Communities
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Innovation Scan of Community-Based Enterprise Best Practices and Application in Metro Detroit

Executive Summary

This study highlights innovations and best-practices in development and maintenance of community based enterprise systems. Its focus is to find the innovations and practices best suited to help metro Detroit rebuild its best future, based on its unique strengths, perhaps as a global green manufacturing technology and urban agriculture innovation hub.

A "community based enterprise" (CBE) is defined as a company that is sustainable; locally-rooted; intentionally structured to provide community benefit; and committed to paying living wages. A CBE system is a set of norms including, but not limited to, social customs, bases for mutual trust, educational and/or research resources, laws, tax or financial incentives, that operate to support and grow CBEs; and a mutually beneficial support system that increases the potential success of each additional CBE, which, in turn, increases the strength of the whole system. This paper provides studies of a number of such cases, a taxonomy of big ideas leading to such innovations; types of innovations, sectors and strategies.

This study is the first step in actively seeking the best strategies for metro Detroit by: 1) providing the CBE innovation knowledge to a broad range of actors across the economic and social spectrum in Detroit; and 2) trial and error led by the Center for Community Based Enterprise and its partners, based on hypotheses drawn from studying these innovations and adapting them to the specific resources and challenges of metro Detroit.

I. Introduction

The core innovations in the community wealth-building field are driven by a newly evolving worldview including the following ideas.

We are experiencing, worldwide, the impact of corporate ownership so large that it is not regulated by any government. These uncontrolled business entities have a negative impact on the ability of government to serve its traditional role of providing social goods and services necessary to nurture community and social well-being such as health, education, child and elder care, etc. The recent government investment in, or takeover of, major banks throughout Western Europe and in the U.S. provides governments with an opportunity to require corporate social responsibility that is unprecedented since the advent of global corporations.

Many people are re-imagining market-based capitalism as a means for obtaining sustainable long-term social progress rather than a short-term individual gain. Consciousness is growing that local production, consumption, conservation and community ties are necessary parts of that sustainable path.

A number of important and innovative community based enterprise models have matured over the last 25 -50 years providing viable examples, such as those of: Mondragon, Emilia Romanga; many ESOP companies that choose to remain employee owned in the long term; and recognition in most countries in the world that employee ownership is a successful business development and social strategy.

Green technology has matured to become a respectable business strategy, and the necessity for greening society has become self-evident. Labor organizations experiment with employee ownership and work with environmentalists to get funding to train their members for "green collar" jobs. Environmental justice organizations organize training of inner city people for "green collar" jobs and place many of their trainees in new jobs with green companies. If and when government properly supports growth of green technology, these training operations and new companies will be the backbone of the new economy. The Obama administration has taken strong action to fund such programs. It is too soon to predict the outcome.

The hierarchical business model focused on the importance of huge physical capital assets and, based on the military command and control model for human interactions, has lost favor due to the rise of technology or idea-based businesses, created by young people and operated on a non-hierarchical ethos. The success of companies like Microsoft, Apple, Sun, Hewlett Packard etc, created a new view of corporate assets being primarily the people working in the companies. Many young people acquired wealth through these industries and have begun applying their business strategies to new philanthropies. A wide range of companies use tools such as open book and participatory management to engage and reward the creativity and unique gifts of every employee in the joint venture of community based businesses.

Together, these trends have given rise to a huge new economic category of "social enterprises", organized and operated by "social entrepreneurs", who are seeking a way to use market driven or profit making businesses to serve social as well as economic goals.

The "communist" or "socialist" label or taboo has ceased to be applied or, has lost its power to deter people from using these strategies to enable businesses to serve social ends. This phenomenon has opened social and economic space, allowing people from diverse circumstances to experiment with different versions of this idea, and get the necessary financial investment to develop them. Now we have a number of successful examples from which to work.

The economic challenges regarding competitiveness, social security, health care cost, aging population and historical trends [1]show that government alone is unlikely to have the resources or will to spend what needs to be spent to rebuild the US cities. However, local anchor institutions annually spend much more than all federal economic development programs[2]. Many universities and hospitals are stepping up to this challenge, for self-preservation as well as social responsibility reasons. The existing multiple financial and environmental crises have opened an historic door to new ideas. Labor, businesses, environmentalists, civic and foundation leaders, community development corporations and governments are all searching for new solutions our social and economic problems. We hope this study will be a useful aid in that process. This is the beginning of a long journey of discovery as we walk the road to community based enterprise while we build it.

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[1] Alperovitz, Dubb and Howard, "New Approaches are Needed to Curb Poverty", *The Chronicle of Philanthropy, volume 20, no. 3, November 2007.)*

[2] Id at ___.

II. Taxonomy of Community-Based Enterprise Ideas, Practices and Sectors

Table 1-A

Category #s
I = Idea
S = Sector
	Big Ideas and Strategies for successful, fully engaged community wealth creation	Overview	Supporting Organizations	Models and Best Practices	Articles and Publications	Authors

I-1	Participatory Employee Ownership		NCEO, OEOC, Beyster Institute	Springfield Remanufacturin g Corp.; Zingerman Community of Businesses; Southwest Airlines; Science Applications International Corp.	*Participatory Employee Ownership; The Real World of Employee Ownership;* *The Great Game of Business; The SAIC Solution; The History of an Experience*	Johhn Logue, et al; John Logue and Jacquelyn Yates; Jack Stack; Robert Beyster; Mondragon Cooperative Corporation
I-2	Open Book Management		Great Game of Business; National Center for Employee Ownership; Beyster Institute	Many GGB Businesses	*The Great Game of Business; A Stake in the Outcome*	Jack Stack; Corey Rosen; Robert Beyster
I-3	Labor Rents Capital			Co-ops, 100% ESOPs	*On the Role of "Capital" in Capitalist and Labor-Managed Firms; The Democratic Firm*	David Ellerman
I-4	Multiple Stakeholder Corporate Structures		The Divine Right of Capital; Fair Exchange;		*The Case for Introduciong Stakeholddr Corportations*	Majorie Kelly; Deborah Olson; Shann Turnbull
I-5	Sustainability Requires Local Proximity	Replace smokestack chasing w/ development of, and collaboration between local resources	BALLE, AMIBA; MCC; Emilia Romana		*The Great Turning; Deep Economy; Big Box Swindle; Going Local*	David Korten, Bill McKibben; Stacey Mitchell; Michael Shuman
I-6	More is Not Necessarily Better				*The Great Turning; Deep Economy*	David Korten, Bill McKibben

Category #s I = Idea S = Sector	Big Ideas and Strategies for successful, fully engaged community wealth creation	Overview	Supporting Organizations	Models and Best Practices	Articles and Publications	Authors
I-7	Building Values in Company DNA and Succession Planning		OEOC, Otalora; B-Lab; Social Venture Network	MCC, B Corps	*The Soul of Capitalism; Come Home America*	Bill Mckibben, William Greider; Terry Mollner
I-8	Right Livelihood – Good Values Inspire Good Businesses				*Building a Business the Buddhist Way; Mavericks at Work*	Geri Larkin; William Taylor
I-9	Sharing, Contact and Fairness Build Individual Happiness and Community				*Psychology of Sharing; Deep Econom;* *The History of an Experience*	David Erdal; Bill McKibben; Mondragon Cooperative Corporation
I-10	Sustainable Companies and Communities Require Continuous Education and RandD Investment			MCC, Emilia Romagna, Successful ESOPs and Coops	*Pensiamentos; Making Mondragon;Jobs of Our Own;* *Psychology of Sharing*	Fr. Arizmendi; William Whyte, Race Mathews, David Erdal, John Logue
I-11	Distributism – Decisions made at lowest level by knowledgeable participants			MCC, SAIC	*Pensiamentos; Jobs of Our Own; The SAIC Solution*	Fr. Arizmendi; Race Mathews; Robert Beyster
I-12	Innovation Requires Openness to Outsider Ideas				*Creative Cities; Mavericks at Work; Flght of the Creative Class*	Charles Landry, William Taylor; Richard Florida
I-13	Innovative Leaders Have Good Questions, not All the Answers				*Creative Cities;Mavericks at Work*	Charles Landry, William Taylor
I-14	Environment Determines Outcome				*Making the Impossible Possible*	Bill Strickland
I-15	Beyond GNP to Internalizing External Costs				*Paradigms in Progress; One World Ready or Not; Great Turning, Deep Economy*	Hazel Henderson; William Greider; David Korten; Bill McKibben
I-16	In the developed world, the **“Creative Economy”,** based on ideas is growing while the “industrial economy” is				*Flight of the Creative Class*	Richard Florida

Category #s I = Idea S = Sector	Big Ideas and Strategies for successful, fully engaged community wealth creation	Overview	Supporting Organizations	Models and Best Practices	Articles and Publications	Authors
	decreasing its economic and job creation significance. Regional economic success depends on the ability of communities to develop and engage the creativity of their residents and to attract creative people from outside.					
I-17	Inventor/ Labor Alliance to anchor local jobs using intellectual property rights. Use IP and labor leverage to get infringing companies to hire union labor as part of IP license agreement with inventor.		American Ingenuity Alliance	Hawaii Ingenuity Corporation		
I-18	Green New Deal –Partnership of government, business and coalition of: 1) labor, 2) social justice activists; 3) environmentalists; 4) students and 5) faith based organizations to create the new locally produced and conserved energy. Government support of green RandD, training and pilot programs; and polluter pay schemes will: 1) create jobs that cannot be outsourced; 2) lead to energy independence; 3) protect the planet and 4) create new skill training and jobs for at risk youth and displaced industrial workers.	Existing examples cited are non-profit organizations that have created green skills training, job placement, and worker co-ops.	NextEnergy; Northwest Sustainable Energy for Economic Development;	Rebuilding Center of United Villages; Sustainable South Bronx; Ella Baker Center; Build Up Detroit; Solar Richmond; Second Chance Inc.	*The Green Collar Economy*	Van Jones
I-19	Urban Agriculture, farmers markets, replacing industrial brownfields and urban decay, ending the "food desert" and teaching subsistence survival skills to undereducated and low skill people		Greening of Detroit; Fair Food Foundation	Detroit Agricultural Network; Growing Home		
I-20	Reinvention of Industrial Companies as Green Industries			EBO Group; YSI; Johnson Controls; Ameron Int'l.; General Electric, Itron	*Community-wealth.org and Making renewables pay-While many alternative energy startups struggle to turn a profit, diversified firms on the*	By Steve Hargreaves CNNMoney.com staff writer March 8 2007

Category #s I = Idea S = Sector	Big Ideas and Strategies for successful, fully engaged community wealth creation	Overview	Supporting Organizations	Models and Best Practices	Articles and Publications	Authors
					periphery are cashing in.	
I-21	Successful double or triple bottom line green energy businesses			EBO Group; YSI;		
I-22	Code Green: American economic and political power, depend on its energy independence. Leading the green revolution will restore the creativity of our people, create jobs, and make the US a respected world leader.		Co-op America (now Green America) + its Social Venture Network and Green Business Network		*Hot, Flat and Crowded*	Thomas Friedman

Table 1-B

Category #s I = Idea S = Sector	Sectors and Strategies Much of the following information comes from www.community-wealth.org, including the format of this matrix in this "Sectors" section.	Overview	Supporting Organizations	Models and Best Practices	Research Resources	Articles and Publications
	New Forms of Private Wealth Creation Ownership and Organization					
S-1	Overview of Many Community Wealth Building Strategies	www.community-wealth.org	Univ. of Maryland Democracy Collaborative		*Building Wealth; Making a Place for Communities*	Steve Dubb; Gar Alperovitz
S-2	Social Enterprise: Non-Profit Organizations that may have For Profit Subsidiaries			Southwest Housing Solutions		
S –3	Social Enterprise: For Profit Businesses with Multiple Bottom Lines		B-Lab; Social Venture Network; Green Business Network	Springfield Remanufacturing; SAIC;		
S-4	Cooperatives (Co-ops)		National Cooperative Business Ass'n., US Dept of	See community-wealth.org Strategies and		

Category #s I = Idea S = Sector	Sectors and Strategies Much of the following information comes from www.community-wealth.org, including the format of this matrix in this "Sectors" section.	Overview	Supporting Organizations	Models and Best Practices	Research Resources	Articles and Publications
			Agriculture; Industrial Cooperative Ass'n; International Cooperative Ass'n.	Models matrix		
S-5	Employee Stock Ownership Plans (ESOPs)		NCEO; ESOP Ass'n.	See NCEO.org data and list of 100 top ESOP companies		
S-6	Trust Owned Companies (Non-ESOP)			Scott Bader Commonwealth; Tullis-Russell;		Robert Oakeshott; David Erdal
S-7	Faith-based Enterprises		Not in community-wealth.org matrix	Vanguard CDC; Central Detroit Christian CDC		
S-8	Community Land Trusts (CLTs)	Purchase of land to build affordable housing that must be resold as affordable housing	See community-wealth.org Strategies and Models matrix	Champlain Housing Trust (Burlington, VT) www.champlainhousingtrust.org; Chicago Community Land Trust (Chicago, IL) http://egov.cityofchicago.org		
S-9	Green Collar Jobs Training and/or Creation		See community-wealth.org Strategies and Models matrix	See community-wealth.org Strategies and Models matrix		
S-10	Community Benefit Agreements		Good Jobs First, Partnership for Working Families; Community Legal Resources	Los Angeles Assn for a New Economy		Madeline Janis; Julian Gross; Greg LeRoy
S-10.1	Entrepreneurship Training w/ CBE Features			Lawrence Technological University's Osborn Entrepreneurship and Micro Enterprise		

Category #s
I = Idea
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	Sectors and Strategies
	Much of the following information comes from www.community-wealth.org, including the format of this matrix in this "Sectors" section.
		Overview	Supporting Organizations	Models and Best Practices	Research Resources	Articles and Publications

				Program		
S-10.2	Business Incubation w/ CBE Features			Tech Town		
S-10.3	Locally Focused Financing			The Reinvestment Fund, Shorebank, New Economy Initiative		
S-10.4	Locally Anchored Business Networks		BALLE, Detroit Synergy	Eastern Market Corporation; Evergreen Co-operative Group		
S-10.5	Successful Locally Anchored Businesses			Avalon Bakery, Eastern Market Corporation, Greening of Detroit and Capuchin Urban Agriculture, Black Food Security Network		
	Investment Policies and Strategies					
S-11	Best Practice Innovation Capacity Builders		The Reinvestment Fund; Innovation Network for Communities; Partnership for Working Families; Good Jobs First (?)			
S-12	Socially Responsible Investing		Social Venture Network; Investors' Circle; Corporation 2020	Social Investment Funds		
	Public Ownership and Wealth Creation Benefits					
S-13	Program Related Investments		Jacobs Foundation	Market Creek Plaza		
S-14	Reclaiming the Commons			Sky Trust; Alaska Permanent Fund; Texas Permanent	Sky Trust	Peter Barnes

Category #s I = Idea S = Sector	Sectors and Strategies Much of the following information comes from www.community-wealth.org, including the format of this matrix in this "Sectors" section.	Overview	Supporting Organizations	Models and Best Practices	Research Resources	Articles and Publications
				School Fund; seven states—Connecticut, Delaware, Maine, New Hampshire, New Jersey, New York, and Vermont—have joined together to form a regional cap-and-trade program (www.rggi.org) covering carbon dioxide emissions from power plants in the region.		
S-15	Fair Exchange		Capital Ownership Group; Center for Community Based Enterprise	Alaska Permanent Fund, Chrysler Loan Guarantee Act; U.S. government and VEBA ownership of General Motors and Chrysler	*Fair Exchange-Cornell LR Art*	Deborah Olson
	Place-Based Institutions					
S-21	Anchor Institutions		Maryland Democracy Collaborative; OEOC	Cleveland Greater University Circle Project; University of Pennsylvania		
S-22	University and Community Partnerships	See community-wealth.org Strategies and Models matrix	Carnegie Endowment ""Community Engagement" Classification of 76 institutions	Univ. of Penn. – housing subsidies for staff, university-assisted community schools, public school reform, urban nutrition, and faith-based programs. Portland State-core curriculum reform, training to increase the	See community-wealth.org Strategies and Models matrix	

Category #s I = Idea S = Sector	Sectors and Strategies Much of the following information comes from www.community-wealth.org, including the format of this matrix in this "Sectors" section.	Overview	Supporting Organizations	Models and Best Practices	Research Resources	Articles and Publications
				capacity of community-based organizations.		
S-23	Informal Sector – Gray Economy			Squatter communities w/ unclear title; Recuperated companies in Argentina; Barter clubs in Argentina	*The Mystery of Capital* Fa Sin Pat – Zanon Ceramic Factory; Argentine Cooperative Commerce Network; La Matanza Barter Club	Hernando DeSoto
S-24	Labor Organizations					
S-25	Environmental Organizations					

III. Summary of the key individuals and organizations that are exercising thought and practice leadership in the field.

Key Thought and Practice Leaders in CBE

Table 2-A Key Thought and Practice Leaders in CBE

Stage of development categories, where relevant = concept (C), design/ prototype (D); launch (L); scaling (S)
Idea numbers from Table 1A and sector numbers from Table 1B

Author/Bio	Publications	Ideas	Taxonomy Idea, Sector and Development Stage #
Beyster, J. Robert and Economy, Peter	*The SAIC Solution*	Provides an inside look at how Science Applications International Co. (SAIC) became one of the most successful research and technology companies in the world	I-1,2,7,11, 13 S- 3,5 Stage-S
Cavanaugh, John and Mender, Jerry	*Alternatives to Economic Globalization*	Describes steps you can take as a consumer, worker, depositor and investor and as a citizen to help transform the global economic system and create a better world!	
Clark, Susan and Gaile, Gary	*The Work of Cities*	Examines the new role of cities in a global economy	
DeSoto, Hernado	*The Mystery of Capital*	This book summarizes years of research into the reality of economic life in places as disparate as Haiti, Egypt, the Philippines, and his native Peru, and comes to a set of conclusions as to the causes of their failure to make their economies work. In much of Latin America, people as squatters, in homes they build on land they do not own. Their inability to gain title to the land they improved makes it impossible for them to obtain credit based on land ownership/ stewardship.	I-9 S-23
Ellerman, David Taught economics, mathematics, accounting, computer science, and operations research departments in various universities (1970-90), founded and managed a consulting firm in East	*On the Role of "Capital" in Capitalist and Labor-Managed Firms*; *The Democratic Firm*	Surplus return on business need not necessarily go to capital investors (shareholders). The "members" of a firm are the people who work there. Labor can rent capital. It is not required that capital rent labor.	I-9 S-23 Stage-C

Author/Bio	Publications	Ideas	Taxonomy Idea, Sector and Development Stage #
Europe (1990-2), and worked in the World Bank from 1992 to 2003 where he was an economic advisor to the Chief Economist (Joseph Stiglitz and Nicholas Stern). Now he is a visiting scholar at the University of California in Riverside.			
Fung, Archon, Hebb, Tessa and Rogers, Joel	*Working Capital – Power of Labor's Pensions*	Shows how pension funds have failed workers and how some innovative managers are trying to use pension fund assets to create good paying jobs. It gives examples of success stories, where pension funds have been invested ways that build communities and also provide high returns.	I-3,5,9,10, 15,18,20 S-2, 3,15, 17,18 Stage - L and S in Quebec
Gates, Jeff	*The Ownership Solution*	Provides a sweeping review of capitalism at its best and at its worst, and has skillfully shown us how a fundamentally different and better future could be shaped by weaving the thread of widespread individual responsibility through ownership into the fabric of society.	I-1,4,9,16 S-3, 15,17
Greider, Bill	*The Soul of Capitalism*	Reviews the historical nature of capitalism and offers sound advice on how to improve the integrity of the financial system in the United States.	I-1, 2,5,6,7,11,15, 18,22 S-2, 3,4,5,12,13,1 4,15,20 Stage - C
Henderson, Hazel	*Creating Alternative Futures, 2nd Ed.*	Collective writings that synthesize new thinking and approaches to guide industrial societies toward more equitable, ecologically sound and sustainable development.	I-5, 6,7,8,18,20,2 1,22 S- 2,3,13,15,17 Stage - C
Henderson, Hazel	*Paradigms in Progress*	A survival guide for our ride on the "tiger of change," offering new directions and expanded	I-5, 6,7,8,18,20,2

Author/Bio	Publications	Ideas	Taxonomy Idea, Sector and Development Stage #
		contexts for creating patterns of operation based on win-win models and a new planetary culture. It provides numerous examples of the new paradigm and outlines concrete steps toward it, including the use of renewable resources and chaos systems theory, the greening of social policy, and the pursuit of sustainable, gender-balanced development.	1,22 S-2,3,13,15,17 Stage - C
International Labour Office – Geneva	*Workers' Participation in Decisions within Undertakings*	Focuses on workers' participation in decisions within a company. Theoretical justification of workers' participation.	I-1 S-24 Stage - S
Kelly, Marjorie	*The Divine Right of Capital*	Exposes six aristocratic principles that corporations are built on, principles that we would never accept in our modern democratic society but which we accept unquestioningly in our economy. Kelly shows how to design more equitable alternatives - new property rights, new forms of corporate governance, new ways of looking at corporate performance - that build on both free-market and democratic principles.	I- 4, 5 ,6,7, 11,15, 21,22 S-3, 6, 13, 15, 17,18 Stage - C
Korten, David	*The Great Turning* *Yes* Magazine	A turning in cultural values from money and material excess to life and spiritual fulfillment, from a belief in our limitations to a belief in our possibilities, and from fearing our differences to rejoicing in our diversity.	I-4, 5, 6, 9, 15, 18, 22 S-3, 4,11, 15, 25 Stage - C Magazine focuses on Stages C and D
Larkin, Geri	*Building a Business The Buddhist Way*	A new spin on the principles of entrepreneurship, showing how to use Buddhism to build a business of integrity.	I-6, 7,8,9, 21 S-2, 3 4,7,15 Stage - L
LeRoy, Greg	*The Great American Job Scam*	Details how corporations dodge taxes in the name of jobs and what taxpayers can do about it.	I-5,14,15, 22 S-10, 20,24

Author/Bio	Publications	Ideas	Taxonomy Idea, Sector and Development Stage #
Logue, John and Yates, Jacquelyn	*The Real World of Employee Ownership*	Detailed survey information showing how employee-owned firms that "do it all," implement features such as employee participation and communication about finances, training, and cultural change, systematically outperform their conventional competitors.	I-1,2,3,4,7, 10,11,21 S-3,4,5,6, 11,17,18, 22, 24 Stage – L,S
Lydenberg, Steven	*Corporation and Public Interest – Guiding the Invisible Hand*	A series of recommendations about what can be done to create practical tools for investors, consumers, corporate managers, employees, regulators, and legislators to direct corporations toward the public interest.	I-4,7 11, 20,21 S-15 Stage - S
Mathews, Race	*Jobs of Our Own, Building a Stake-Holder Society*	History and analysis of distributism practices from 1880 theorists and the papal doctrine of *De Rerum Novarum* to practitioners in Nova Scotia and Mondragon. Mathews' evaluates the strengths and weakness of cooperative practices, and of the reasons why some continue while most have not. Mathews outlines the key features of successful "evolved distributism" following the principle of subsidiarity: 1) a higher body should not assume on behalf of a lower body functions which the lower body is able to perform itself: 2) avoid agency dilemma – involve workers in management decisions; 3) decisions should be made at the lowest possible level; 4) continuous education at all levels is necessary for low level decisions to be wise; 5) people are most thoroughly engaged in their role as worker, not as consumer. Voluntary joint ownership and control is far preferable to compulsory state ownership or laissez faire capitalism.	I-1,2,3,4, 5,6,7,9,10,11, 13 S-3,4,7,11, 21 Stage (for Mondragon) - S
McKibben, Bill	*Deep Economy*	A compelling case for moving beyond "growth" as the paramount economic ideal and pursuing prosperity in a more local direction, with regions producing more of their own food, generating more of their own energy, and even creating more of their own culture and entertainment.	I-18,19, 20,21 S-2,3,8, 10.3,10.4, 10.5 Stage - C,D
Mitchell, Stacy	*Big Box Swindle*	Illustrates how mega-retailers are fueling many of our most pressing problems, from the shrinking middle class to rising pollution and diminished	I-5,6

Author/Bio	Publications	Ideas	Taxonomy Idea, Sector and Development Stage #
		civic engagement. The second half offers an inspiring account of how a growing number of communities and independent businesses are effectively countering the chains and rebuilding their local economies.	S-10.4 Stage - L
NCEO	*Leveraged ESOPs and Employee Buyouts*	A tool for people interested in pursuing employee ownership plans, covering the rules, accounting, financing and other aspects associated with a leveraged ESOP.	I-1,11 S-3,5 Stage - S
NCEO	*The Journal of Employee Ownership Law and Finance*	A yearly journal containing updates on legal developments relating to ESOPs and similar company stock plans over the past year, including articles from several contributors.	I-1,11 S-3,5 Stage - S
Oakeshott, Robert	*Inspiration and Reality: Scott Bader Commonwealth*	Story of how Swiss-born Ernest Bader decided in 1951 to give the shares of his family company, Scott Bader, to a charity - the `Commonwealth' - of which his employees became members. Created a means of perpetual employee beneficial ownership of a business using a trust.	I-1,2,4,7, 11 S-3,6 Sage - S
Shenkar, Oded	*The Chinese Century*	Discusses the burgeoning Chinese economy of the twenty first century and its impact on the global economy in general and the USA in particular	
Schuman, Michael Attorney and economist, as well as the Vice President for Enterprise Development for the Training and Development Corporation, based in Bucksport, Maine; and a founding influence, along w/ David Korten, on Business Alliance for Local Living Economy (BALLE) –	*Going Local, Creating Self-Reliant Communities in a Global Age*	BALLE's focus is to build business networks and marketing alliances amongst locally owned businesses making or dealing in environmentally sustainable products. A manifesto for communities that want to take on corporate mobility and corporate power generally through community action and municipal political power	I-6,15,18, 20 S-3,10.4 Sage - L
Soros, George	*The Crisis of Global Capitalism*	Dissects the current crisis and economic theory in general, revealing how theoretical assumptions have combined with human behavior to lead to	

Author/Bio	Publications	Ideas	Taxonomy Idea, Sector and Development Stage #
		today's mess. He shows how unquestioning faith in market forces blinds us to crucial instabilities, and how those instabilities have chain-reacted to cause the current crisis—a crisis that has the potential to get much, much worse. Offering brilliant solutions to the global meltdown, based on years of Soros's own experience as a financier and philanthropist	
Stack, Jack	*A Stake in the Outcome*	Describes the practice of building a culture of ownership within one's business, aiming for long-term success. The book gives an overview of how to foster employees' enthusiasm, intelligence, and creativity in their positions.	I-2,10,11 S-3,4,5 Stage - S
Stack, Jack CEO of SRC (Springfield Remanufacturing Corporation)	*The Great Game of Business* (also the name of a consulting practice developed by SRC)	A complete picture of the philosophy and the best ways to implement a successful performance-based compensation and equity program.	I-2 S-5 Sage - S
Strickland, Bill President and CEO of Manchester Bidwell Corporation and its subsidiaries, Manchester Craftsmen's Guild (MCG) and Bidwell Training Center (BTC).	*Make the Impossible, Possible* www.bill-strickland.org	Building businesses in low-income neighborhoods in Pittsburgh	I-12,14 S-2,3,9, 10.5 Stage - S
Taylor, William and LaBarre, Polly Editor, *Fast Company* Magazine, which features stories on innovative companies.	*Mavericks at Work*	Profiles 32 remarkable US entrepreneurs who have battled bureaucracy and challenged the status quo, and won, while redefining success in their industries. The best businesses have core values that their employees and customers can believe in. The best leaders don't have all the answers, but ask the right questions and give employees room to experiment. Companies can increase success by seeking solutions to internal problems from external sources – open source systems. Offer a prize, on-line, for the best solution to a business problem. Etc.	I-12,13, 14,16 S-5 Stage - S

Author/Bio	Publications	Ideas	Taxonomy Idea, Sector and Development Stage #
Whyte, William and Whyte, Kathleen	*Making Mondragon*	A detailed depiction of the historical rise and sustenance of Mondragon, the thriving worker cooperative complex located in the Basque region of Spain.	I-1,2,3,4, 7,9,10,15, 16,20 S-3,4, 10.3,10.5, 11 Stage - S
Williamson, Thad, Imbroscio, David and Alperovitz, Gar	*Making a Place for Community*	Argues that misguided politics at the local, state and national level have damaged local community life in the United States. Offers brilliant solutions that defy conventional wisdom. Without busting the budget and halting development, the authors' smart new policies and grass-roots solutions, from land trusts to local ownership, show how to reign in sprawl and anchor jobs in the community.	I-1,7,15 S-1,2,3,4, 5,8,10,10.4 Stage - L
Worker Owner Institute	*Participative Employee Ownership, How it Works*	Institute closed Taxonomy on book	I-1,2,3,7, 10,11 S-2,5,6, 10.4 Stage - L
Zubillaga, Joxe Mari Azega and Etxabe, Mikel Ulazia	*The Economic System of Co-operative Societies*	The economic system of cooperative societies: Determining and applying cooperative results. The effect on worker-members. 2003.	I-1,11 S-4 Stage - S

Table 2-B – Organizations with Leading CBE Innovations or Projects

Organizations	People	Project	Ideas, Sector and Development Stage # (C= concept, D= design/prototype, L= launch, S= scaling)
American Independent Business Association (AMIBA)	Stacey Mitchell The Chair of AMBIA Author of *Big Box Swindle*	A proven tool for helping maintain unique community character, ensuring continued opportunities for entrepreneurs, building local economic strength, and preventing the displacement of locally-owned businesses by chains. Book illustrates how mega-retailers are fueling many of our most pressing problems, from the shrinking middle class to rising pollution and diminished civic engagement. The second half offers an inspiring account of how a growing number of communities and independent businesses are effectively countering the chains and rebuilding their local economies.	I-5 S-10.4 Stage - L
Boston Community Venture Fund and Boston Community Capital http://www.bcvund.com	Elyse Cherry	Leading community development venture capital fund that invests throughout the Northeast in high potential businesses that create a "double bottom line" of financial and social returns. Affiliated with Boston Community Capital, which is focused on building stronger communities in low-income areas. The US Department of the Treasury announced that Boston Community Capital has been awarded $70 million in New Market Tax Credits. BCC will use the award, one of the largest awards to a nonprofit organization in the country, to create a secondary market for community development investments.	I-5,11 S-10.3 Stage - S
Capital Ownership Group/Fair Exchange Project www.capitalownership.org		International network focused on distributive business ownership and community equity strategies.	I - 1,3,4,7,11,15 S - 3,4,5,6,8,14,15 Stage - D
Cleveland Anchor Institutions and Maryland Democracy Collaborative	Ted Howard	See – Evergreen Co-operative example in § V	I - 10,11 S - 1,2,3,4,9,10.3,10.4 Stage - L

Organizations	People	Project	Ideas, Sector and Development Stage # (C= concept, D= design/prototype, L= launch, S= scaling)
Coastal Enterprises, Inc.	Ron Phillips and Carla Dickstein	CDFI in Maine financing low-moderate income housing and community-based business, especially using New Market Tax Credits	I - 5,15 S - 5,8,10.3,11,12 Stage - S
Corporate Forms	Kent Greenfield	Creating new legal social responsibility requirements for corporations	I - 4,5,6,7,15,20, S - 3,11,14,15 Stage - C
Corporation 20/20 www.corporation2020.org	Marjorie Kelly Allen White	A national initiative to redefine corporations in a way that more explicitly recognizes corporate obligations to community welfare.	I - 4,5,6,7,15,20, S - 3,11,14,15 Stage - C
Program on Corporations, Law and Democracy (POCLAD)		Best known for proposing that states remove corporate charters from companies that violate public trust. 11 writers, educators, activists, former elected officials, directors of environmental, labor and human rights organizations, union organizers, and researchers exploring: a) how most corporate harms against life, liberty, property and democratic self-governance are regarded are legal; how corporations can deny their workers freedom of speech and other Bill of Rights protections; b) why decades of citizen resistance, and regulation have not shifted governing power to people and communities; c) what people can do to change this.	I - 4,5,6,7,15,20, S - 3,11,14,15 Stage - C
Emilia/Romagna		See Case Studies § V	I-1,2,3,4,5,7,9 S-2,3,4,10.2,10.3,10.4, 10.5,11,12 Stage - S
European Federation Of Employee Share Ownership (EFES)		Umbrella organization of employee owners, companies and all persons, trade unions, experts, researchers, institutions looking to promote employee ownership	I-1 S-4,5,10.4,10.5,11

Organizations	People	Project	Ideas, Sector and Development Stage # (C= concept, D= design/prototype, L= launch, S= scaling)
www.efesonline.org		and participation in Europe.	Stage - L
Industrial Cooperative Association (ICA) www.ica-group.org		national not-for-profit organization that seeks to create and save jobs through the development and strengthening of employee-owned cooperatives and community-based projects.	I-1,3,7,11 S-3,4,5,10.3,11 Stage - L
International Cooperative Alliance (ICA) www.ica.coop		independent, non-governmental association that unites, represents and serves cooperatives worldwide. Founded in 1895, ICA has 221 member organizations from 88 countries active in all sectors of the economy. Together these cooperatives represent more than 800 million individuals worldwide.	I - 1,11 S - 4 Stage - S
Jacobs Family Foundation		Market Creek – Community owned, planned and controlled shopping center and cultural hub	I – 4,5,7,8,9,11 S – 2,3,8,10.3,10.4,10.5, 11,13,14 Stage - L
Maryland Democracy Collaborative	Gar Alperovitz, Ted Howard, Steve Dubb	Creators of www.community-wealth.org; *Building Wealth; Making a Place for Community;* and working on the Cleveland Anchor Institutions local supply chain project	I - 1,4,5,7,15 S - 5,6,7,8,9,10,10.3, 10.5,13,15,21, 22 Stage - D
Mondragon www.mcc.es	Adrian Zelaia	a business group made of 264 companies organized in Financial, Industrial and Distribution, Research and Training divisions. MCC's mission combines the basic objectives of a business organization competing in international markets using democratic methods internally, with special emphasis on job creation, the promotion of its workers in human and professional terms and a commitment to the development of its social environment. MCC began with a single factory, which in 1956 manufactured oil stoves and paraffin heaters, into the leading industrial group in the Basque Country and 7th in the ranking in Spain, with sales of 13 billion Euros in	I - 1,2,3,4,5,6,7,9,10,11, 13 S - 3, 4,7,11,21 Stage - S

Organizations	People	Project	Ideas, Sector and Development Stage # (C= concept, D= design/prototype, L= launch, S= scaling)
		its Industrial and Distribution activities, 12 billion Euros of administered assets in its Financial activity and a total workforce of over 103,000 at the end of 2007.	
National Center for Employee Ownership (NCEO) www.nceo.org		NCEO is a private, nonprofit membership and research organization that serves as the leading source of accurate, unbiased information on employee stock ownership plans (ESOPs), equity compensation plans such as stock options, and ownership culture. NCEO is the main publisher and research source in the field, holds dozens of Webinars and live meetings annually, and provides services to our thousands of members.	I-1,2,10,12,15 S-5,10.5 Stage - S
National Cooperative Business Association www.ncba.coop	Leda Mack Paul Hazen	the lead national membership association for co-ops in all sectors of the economy. Their mission is to develop, advance and protect cooperative enterprise.	I-1 S-3,4,10.1,10.2,10.4, 10.5 Stage - S
National HRDI and former Oregon Ec. Dev. Director	Bob Baugh	Organizer of First Union Conference on the New Energy Economy – working w/ Blue-Green Alliance and Appollo Alliance	I-15,17,18,20,21,22 S-Labor Stage - C,D
North Lawndale Employment Network	Brenda Palms Barber	Beekeeping business with ex-offenders	I-19 S-2,3 Stage - L
Ohio Employee Ownership Center (OEOC) www.kent.edu/oeoc	John Logue	non-profit, university-based program established in 1987 to provide outreach, information, and preliminary technical assistance to Ohio employees and business owners interested in exploring employee ownership. The OEOC provides ownership training on a single and multi-company basis to existing employee-owned firms and is funded by grants from the Ohio Department of Development, private foundations, and dues from firms belonging to Ohio's Employee-Owned	I-1,2,3,4,5,7,10,11,12, 15,20 S-1,3,4,5,9,10.1,10.2, 10.3,10.4,10.5,11,15,21, 22 Stage - S – as education, network resource and EO network building Stage - L – as anchor institution supply chain

Organizations	People	Project	Ideas, Sector and Development Stage # (C= concept, D= design/prototype, L= launch, S= scaling)
		Network. It has been the electronic home of the Capital Ownership Group since 1997. It has a long history of mutual assistance with Michigan organizations.	
Ontario Labor Venture Fund	Ken Delaney		
Paraprofessional Healthcare Institute www.phinational.org	Steve Dawson	President. PHI works to improve the lives of people who need home or residential care—by improving the lives of the workers who provide that care. In New York City, PHI sponsors “Pathways to Independence,” a home care service and training network. PHI also works with federal agencies such as the Centers for Medicare and Medicaid Services and the U.S. Department of Labor to help create a more stable direct-care workforce.	I-1,10,14 S-2,3,4,10.1,10.2,10.5 Stage - S
Ohio Employee Ownership Center staff; retired CEOP of Republic Engineered Steel, Inc (RESI); Current CEO of Evergreen Laundry and Evergreen Solar	Jim Anderson	RESI had the most advanced joint labor-management collective bargaining agreement in the US. Employee owners made a significant profit when the ESOP sold to private owners.	RESI I-1,2,4,11 S-5,10.5 Stage – S (has since been sold to private investor)
Responsible Markets and American Ingenuity Alliance	Ian Chan Hodges	Organizing means for inventors and labor unions to work together to save jobs and protect IP rights.	I-17 S-2,11,12,15 Stage - C,D
ShoreBank	Mary Houghton	Community Development Financial Institution	I-5,7,8,10,11 S-1,2,3,10.1,10.2,10.3, 10.5

Organizations	People	Project	Ideas, Sector and Development Stage # (C= concept, D= design/prototype, L= launch, S= scaling)
			Stage - S
St. Mary's University Master of Management in Co-operatives and Credit Unions in Halifax	Tom Webb	Executive MBA program aimed at the special needs of cooperative and credit union managers. Part of the curriculum includes studying in Mondragon or Emilia Romanga.	I-1,2,3,4,5,6,7,10,11,15 S-3,4,8,10.1,10.3,10.5 Stage - L
Maryland Democracy Collaborative www.community-wealth.org	Steve Dubb	Initiated by the University of Maryland to advance a new understanding and practice of democracy for the 21st century. Its major research and action program focuses on asset based approaches to community wealth building.	See above Gar Alperovitz
The Reinvestment Fund	Jeremy Nowak	National leader in the financing of neighborhood revitalization	I-5,7,10 S-3,10.3,10.5,11,12 Stage - L,S
Tullis Russell	David Erdal	(See Case Studies § V) Tullis Russell Group Ltd became employee owned in 1994 in a pioneering capital reorganization program using a trust, the first of its type in the United Kingdom.	I-1,2,3,7,11 S-3,6,10.5 Stage - S
Zingerman Companies; including ZingTrain	Paul Saginaw	Highly developed system of turning employees into entrepreneurs and helping them start businesses, that are not franchises; and provides training in these methods via ZingTrain.	I-2,7,8,9,10,12,13,14 S-3,10.1,10.2,10.4,10.5, 11 Stage - S

IV. Key Statistics

The following chart is excerpted from: The report on *Enterprising Organizations: New Asset-Based and Other Innovative Approaches to Solving Social and Economic Problems-Enterprising Organizations In May 2005, The Aspen Institute, in collaboration with the Democracy Collaborative* – which convened practitioners, investors, foundation donors, elected officials, scholars, and reporters to generate ideas on how to advance community wealth building efforts. This report provides highlights from the discussion that ensued.

Community Wealth-Building Institutions: Key Features and Statistics

Institution/Form	Number (2005)	Assets (2005)	How It Builds Community Wealth
Community Development Corporations (CDCs)	4,000	More than $1 billion	Develops local business, retail, and community facilities
Community Development Finance Institutions (CDFIs)	718 (federally certified)*	$14 billion**	Provides financing for homeownership and small businesses in under-served communities
Cooperatives and Credit Unions	Approximately 48,000 businesses with more than 120 million members	Top 100 non-financial co-ops have $263 billion ; credit unions have $629 billion	Pools resources to finance businesses on "one member, one vote" ownership model.
Community Land Trusts (CLTs)	112 nonprofits with a combined 6,000 housing units*	Approximately $500 million	Uses nonprofit ownership of land to ensure permanently affordable housing and other services
Employee Stock Ownership Plans (ESOPs) and Employee Ownership	11,000, with more than 8 million members	$555 billion	Anchors wealth locally by rooting business ownership in the community
Municipal Enterprise	25,000 (many are water and sewer companies, but include other industries such as city-owned hotels)	2,000 public utility companies alone have $39.6 billion***	Uses local public ownership to provide services and generate non-tax local revenue
Nonprofit Social Enterprise	500*	More than $500 million	Raises revenue for community-benefit work through mission-related businesses
State and Local Pension Funds (economically targeted investments)	Used in some form by about half of all state pension funds	$43.6 billion (2 percent of state and local public pension dollars)	Invests public pension dollars to earn both social and economic returns
Approximate Total	**90,000**	**More than $1.5 trillion in assets — up from less than $100 billion in the 1960s**	**Combined strategies anchor capital and build wealth in local communities.**

V. Case Studies and Examples

A. **Anchor Institutions'** Innovative and Systemic Strategies to Build Wealth in Distressed Communities

Writing on June 1, 2009, the day GM declared bankruptcy, it is evident that the US economy is going through massive changes. Much of the wealth remaining in our cities is stored in the non-profit institutions created from the industrial wealth of the last generation.

In 1996, the latest year for which data is available, the more than 1,900 urban-core universities spent $136 billion on salaries, goods and services – nine times greater than federal direct spending on urban business and job development programs in the same year.[3]

Universities, hospitals, museums and foundations in a number of older industrial cities, anchored in and surrounded by decaying urban areas, have begun to use their role as major employers, developers and purchasers to revitalize the economy surrounding their institutions. The most common strategy is the development of housing for, and financial incentives for, anchor institution staff to live near their employer[4]. These housing strategies have helped spawn commercial development as well.[5]

A number of anchor institutions have taken a much deeper and more holistic approach to their relationship with their surrounding communities. Developing a strategy focused on "live local, buy local, work local" they use their purchasing power, role as employer and role as an education institution as well as their real estate development power, to include local residents, from distressed communities surrounding their institutions, in the economic, social and educational development of their "anchor" communities. Two of the most expansive visions that have generated innovative operating systems[6] are in Philadelphia and Cleveland.

1. University of Pennsylvania (Penn) and West Philadelphia – Enlightened Self-Interest

"The University of Pennsylvania shifted over 10 percent of its annual purchasing to local purchasing, thereby injecting an estimated $80 million into the West Philadelphia economy in 2006-2007. Penn aims to increase the amount to $120 million by 2010."[7] To accomplish this, Penn has instituted a system, which it has a since turned into a toolkit[8] for other anchor institutions, that includes a series of steps intended to enable a long-term engagement in the community. Beginning with a series of criteria to help an institution determine if it

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3 Michael Porter, Harvard Business School, 2002 – from Steve Dubb 2008 presentation "Building Wealth in Communities by working with Anchor Institutions".

4 Trinity College in Hartford invested $7 million of its endowment in neighborhood revitalization. Howard University, in collaboration with Fannie Mae created 307 units of new housing surrounding it, which in turn led to commercial development in formerly boarded up properties. www.community-wealth.org Anchor Institutions.

5 Id.

6 Their innovation systems are documented in Netter Center for Community Partnerships, University of Pennsylvania, *The Anchor Institution Toolkit*: A guide for neighborhood revitalization, March 2008; and Jacquelyn Yates, *Can "Anchor Institutions" Help Revitalize Declining Neighborhoods by Buying from Local Cooperatives? – The Evergreen Cooperative Initiative,* Ohio Employee Ownership Center 3/25/09; and Ted Howard, Steve Dubb and Gar Alperovitz, "Help Wanted: Green Businesses Seek Worker-Owners. Walk to Work. Good Benefits", *YES!* Summer 2009 p., 44.

7 Id.

8 Ibid. Note 4, *Anchor Institution Toolkit*

is an "anchor", it describes a system beginning with engaging community stakeholders in setting goals; tools to accomplish the goals; and a system for mastering and using the tools.

They described a framework[9] identifying six areas where colleges and universities can create a meaningful impact on job and business growth in economically disadvantaged areas, by making relatively modest changes in their operating, investing and learning functions:

1. purchasing goods and services
2. employment
3. developing real estate
4. creating business incubators
5. advising businesses and building networks
6. workforce development

The Anchor Institution Toolkit[10] ("Toolkit") describes how, in consultation with community stakeholders, Penn identified five goals: 1) Improve neighborhood safety, services and capacities; 2) provide high quality, diverse housing choices, 3) revive commercial activity; 4) accelerate economic development and 5) enhance local public school option. Next they identified tools, Five Initiatives, to leverage resource to accomplish these goals. Figure 1 identifies the five tools it used to revitalize West Philadelphia providing benefit for both the anchor and the community. Catalyzed to action by a tragedy in 1996, Penn was able to act on the basis of substantial pre-existing research and groundwork.

The Toolkit emphasized two key elements[11] essential to successfully using the proposed initiatives as tools for change:

1. using a multi-pronged integrated synergistic intervention on all the most pressing issues; and
2. the necessity for good communication and partnerships.

A multipronged approach has a greater chance at stability. But not all anchors have the same resources. Penn didn't and had to use collaboration to succeed. Penn did not begin on all the initiatives simultaneously, but started on the one over which they had the most control and could show measurable results - clean and safe.

[9] The framework is derived from "Leveraging Colleges and Universities for Urban Economic Revitalization: An Action Agenda", Joint study by Initiative for a Competitive Inner City and CEOs for Cities, 2003. This framework was elaborated specifically for health care institutions in Kauper-Brown, j. and Seifer, SD "Health Institutions as Anchors in Communities: Profiles of Engaged Institutions" Community-Campus Partnerships for Health, Seattle, Wa.(2006)

[10] Id.

[11] Rodin, J. *The University and Urban Renewal, Out of the ivory Tower and into the Streets* University of Pennsylvania Press, 2007

Figure 1 - **Tools of Change**

Five Initiatives

1 CLEAN AND SAFE INITIATIVE

a. Formation of a Business Improvement District

b. Greening and Streetscape Improvement

c. Neighborhood Lighting

2 HOUSING INITIATIVE

a. Employee Incentive programs for homeownership (Penn's mortgage programs)

b. Infill development

c. Rental initiatives

3 COMMERCIAL AND REAL ESTATE DEVELOPMENT INTIATIVE

a. Investment in retail by Penn Facilities and Real Estate (FRES)

b. Enhancement of Commercial Corridors

c.

4 ECONOMIC DEVELOPMENT INITIATIVE

a. Engage Locally

b. Economic Inclusion

c. Skills Development Center

d. Job training/internships

e. Apprenticeship program for construction trades

5 EDUCATION INITIATIVE

a. Connect Community and

b. University partnerships with local school district

i. University-assisted model

ii. University-assisted Community Schools model

iii. Education Management Contract

Historically, Penn, like many other urban universities, had often acted without collaboration with the affected community. Especially during the urban renewal period (1960's-1970's) Penn (like other urban peers) was seen as a bully, demolishing neighborhoods for its own self-interest, and generating protests and legal action from local community groups, building the campus with its back turned towards the community.

Finally, in the 1980's Penn invited community organizations to join its development planning group, which had been limited to other anchor institutions, and created the West Philadelphia Partnership (WPP). Penn faculty began to create academically based community service (ABCS) programs in West Philadelphia, and found that these programs provided great academic benefit to students as well as service to the community. Since 1990 there have been 150 ABCS courses.

In 1992, Penn created a Center for Community Partnership (CCP) to institutionalize these benefits and the concept that Penn needed to be a partner with its community in order to create sustainable change. Its mission was to be "Penn's primary vehicle for bringing to bear the broad range of human knowledge needed to solve the complex, comprehensive and interconnected problems of the American city so that West Philadelphia, Philadelphia, the University itself and society benefit". Creation of the center was a formal commitment to use the university's substantial resources to improve the quality of life in West Philadelphia. One of the strongest programs has been the University Assisted Community Schools. The improvement in these schools improved trust between the University and the community. However, creation of CCP, alone, was not enough to halt decline of the neighborhood. (In 2007, the CCP became the Netter Center for Community Partnership, based on a $10 million endowment from Barbara and Edward Netter.)

In 1994, Judith Rodin, a native of West Philadelphia, became president of Penn. Her vision to make Penn a leading urban university caused her to reform undergraduate education to integrate theory and practice. Penn made ABCS a core component of Penn undergraduate education. The ABCS programs focused on improving public schools and neighborhoods in West Philadelphia integrated with a strategy to advance university-wide research, teaching and service. CCP included participation of community members in identification of problems and planning implementation. This included monthly public meetings organized by the new Office of Government, Community and Public Affairs (OGCA) at which the university would present any plans that might have an impact on the community to answer questions. Faculty and staff formed an organization to advocate for deeper community involvement, Penn Faculty and Staff for Neighborhood Issues (PEFSNI) which led to community planning and action strategies for West Philadelphia including neighborhood organizations as active partners, and a number of white-papers on proposed collaborative strategies.

In 1996 the murder of a faculty member led to five Trustee-supported initiatives (described above) by Pres. Rodin called the West Philadelphia Initiatives, *Tools of Change*. The University determined that it was in its enlightened self-interest to expand community engagement instead of walling off the University, which had failed so thoroughly in the past. The Tools were not assigned to specific departments, but rather made a top priority of the University. Responsibility was delegated across all major departments to work with community members to reorient the University to this new priority.

Clean and Safe: To improve safety and security, Penn and other local anchors created the University City District (UCD) Business Improvement District (BID) creating a self-imposed tax on these non-profit institutions to pay for improvements in lighting, safety and streetscapes. UCD included representatives from local businesses and residential communities and provided some of the services within West Philadelphia beyond campus.

Housing: Penn acquired, restored and resold deteriorated and vacant properties in key locations, including a partnership with a local CDC on 20 properties. Penn provided financial incentives to Penn-affiliated families to buy or improve homes in the UCD area and a designated area of West Philadelphia. Since 1998, 1,300 loan transactions under this program were approved and 900 Penn affiliates purchased homes in the UCD. Penn brought in a private developer that invested $55 million to create an apartment, office, retail complex on land leased from the University. Penn raised $50 million to create the Neighborhood Housing Preservation and Development Fund to protect a critical inventory (200 rental units) of affordable housing for students, faculty, staff and community members.

Commercial Real Estate Development: The guiding principles for retail development were: a) start with significant university funds to attract other private developers; b) create retail in context with the existing neighborhood, complementing and not replacing the existing mix; and c) create new public spaces as part of the development to increase street life, pedestrian traffic and intermingling of community and university. Penn invested $90 million in Sansom Commons, including 300,000 square feet of retail, a hotel and new social magnet for university and community members. Penn spent $35 million and developed a Fresh Grocer supermarket, followed by a movie theater. Penn also worked with the city to recruit higher quality retail and restaurants to the UCD area. It used real-estate swapping and ground leasing of its properties in this process. The initial capital investment by Penn has attracted private investment. The former dividing line between university and community, 40th Street, is now a thriving commercial district used by both groups.

Economic Development and Economic Inclusion: "Penn used its purchasing power strategically to increase business opportunities for minority owned and community based businesses and to increase access of university related jobs to West Philadelphia residents."[12] Penn used its purchasing relationships to relocate or expand $7 billion per year of its business in University City. Penn increased procurement of goods and

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services from neighborhood suppliers by 400 percent from 1995 – 2004. Penn's "Buy West Philadelphia" program identified local vendors and helped local small businesses forge relationships with major national firms. The UCD anchors procurement services worked with the Pennsylvania Minority Business Enterprise Center to "bridge the gap between procure-to-pay technology business requirements and supplier capabilities."[13] Penn created a target of 20-25% of its construction contracts over $5 million be awarded to minority and women-owned businesses and to employ local people. Penn has a number of programs to encourage local residents to apply for jobs at Penn and hosts a program that offers paid employment opportunities for local high school students in its health system. It has been challenged in finding the skills it needs to fulfill these goals from the neighborhood.

As of 2008, approximately 35% of all Penn construction jobs have gone to minority and women workers and 26% of contracts have been awarded to minority and women owned businesses. In 2007 it purchased $86 million in goods and services from neighborhood businesses with $49 million going to minority vendors.[14]

Penn offers an apprenticeship program in labor and skilled trade professions for minorities and women to enter into trade union jobs, with 50 students in its first class in 2007. The Netter Center provides a Skills Development Center to prepare incumbent Penn employees for career advancement, which is now being used by its Health System.

Education: Over the past decade over 1,700 Penn students, faculty and staff have participated in 133 programs at 33 different public schools in West Philadelphia. The Graduate School of Education, Philadelphia Public Schools and Philadelphia Federation of Teachers are partners in development of one pre-K to 8 school. 82% of the students graduating from this school are admitted to selective high schools. Penn is moving forward to create a college prep high school for West Philadelphia as well. "Real estate values within the school's catchment area sky-rocketed – leading to faint cries of gentrification."[15] Penn's award-winning University-Assisted Community School (UACS) model is being used in seven local schools with extensive university participation.

Conclusion regarding Penn program: To date, the Penn program has been very successful in developing local real estate, creating a vibrant retail district (spurring $370 million in private investments), surrounded by better housing and cleaner, safer streets (lowering crime rates by 40% from 1996-2007). It has improved the educational quality of some local public schools, increasing construction job opportunities and used its purchasing power to increase the benefit to local businesses. From 1996 to 2007 it more than tripled its local purchasing from $20.1 million to $85.7 million. It has opened a serious relationship between the university and local community which has produced tangible results for the community. Based on a recent State Farm community survey, there is still concern that Penn find a more rational way to determine which neighborhood organizations it will work with and neighbors sought more focus on skill development for adults. In the Anchor Institutions Toolkit report, economic inclusion section was the shortest and least detailed.

2. Cleveland's Greater University Circle, the Cleveland Foundation and the Evergreen Cooperatives

The economic inclusion effort in Cleveland, described below, may be the most ambitious one to date by any anchor institution group.

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[13] Id p. 77

[14] Id p. 91

[15] Id p. 85

The following case study is an edited version (with inclusion of comments by this author) of Jacquelyn Yates' paper Can "Anchor Institutions" Help Revitalize Declining Neighborhoods by Buying from Local Cooperatives? – The Evergreen Cooperative Initiative – Ohio Employee Ownership Center, Kent State University 03/25/09 presented at a St. Louis Federal Reserve Bank Conference April 22-23, 2009. It is reproduced with permission from the Ohio Employee Ownership Center. Appendix A is the full text of Jacquelyn Yates' paper.

The Greater University Circle (GUC) neighborhood is an extension of the "University Circle" created by combining Cleveland's university campuses, cultural center and hospital district in the heart of the city with surrounding working-class and impoverished areas including parts of six neighborhoods (Glenville, Hough, Fairfax, Little Italy, Wade Park and Buckeye/ Shaker) in order to establish a safe, attractive, racially and economically diverse neighborhood without acute poverty, but also without throwing out or throwing away the people who live there now. The GUC project includes $2.5 billion in new construction and remodeling by the large, well-established anchor institutions (Case Western Reserve, Cleveland Clinic, University Hospitals, Cleveland Orchestra, Cleveland Art Museum), relocation and redesign of transportation hubs, new residential and retail facilities, three new high-performance high schools in an existing Board of Education landmark building, and a bold housing initiative to create new homeowners and renters.

Having described in some detail the more traditional real estate development efforts of such projects above in the section on Penn, we will focus here on the highly innovative economic inclusion strategy in the Cleveland GUC project, which is the creation of the Evergreen Cooperatives.

Nested within a multibillion dollar initiative to redevelop Cleveland's Greater University Circle area will be the Evergreen Cooperative Laundry, a private company owned by its employees, but created by a group of doting parent institutions. They are prepared to launch and nurture their little company through the early years so that it can in turn become the creator of an entire new generation of worker cooperatives in Cleveland.

The Evergreen Cooperative Laundry is to be an employee ownership initiative located within a large and complex web of partnerships directed toward the goal of creating a new urban neighborhood out of several old ones. The laundry and its future sister enterprises constitute an economic initiative that will accompany a surge of investments in large public and private anchor institutions in the University Circle neighborhood. The Evergreen Laundry is to be the first of a network of new employee-owned enterprises that will employ neighborhood residents and stabilize the local economy.

The first of its kind initiative in urban revitalization, the laundry is likewise to be the first of its kind as a new workers' cooperative with industrial scale capabilities, capitalized with loans and grants from philanthropic and public investors. It is the first enterprise in a planned family of cooperative enterprises that will employ neighborhood residents in new "green" businesses notable for their energy efficiency or for the development and manufacture of green technology.

The laundry is part of the economic inclusion strategy of the Cleveland Foundation, which has taken the lead in convening leaders and representatives from some 40 nonprofit institutions in the cultural center with city government, community development associations and other consultants, all brought together for the planning and creation of the new neighborhood.

The economic inclusion element of the project was born with a question: why were so few benefits flowing from the anchor institutions to their surrounding neighborhoods?

The nonprofit institutions, created by the industrial companies that have long since fled the city, remained behind, were remarkably successful nonprofit enterprises. They attracted students and clients from the entire nation. Hundreds of millions of dollars flowed through their treasuries every year. But very little of that flow benefited surrounding neighborhoods. Some of the neighborhoods were so blighted that they represented an obstacle for people wanting to use the hospitals, attend the university, go to concerts or visit the Art Museum or Botanical Gardens. People at the Foundation saw that the neighborhoods should participate, needed to participate, in the anchor institutions' success. But how to do it?

Economic inclusion and community wealth

The Greater University Circle project had been underway for more than a year by the time the idea of developing cooperatives was raised. With the major plans for development and redevelopment of buildings and transportation already well underway, and a housing incentive scheme set to go, the Cleveland Foundation was looking for ways to reach out to the neighborhoods' residents with an approach that promised more visible success than efforts the city had made in the past. "For years, I ran job training programs worth hundreds of millions of dollars, and yet when I looked around the neighborhoods, I thought, 'Where is the impact?'" said India Pierce Lee, Program Director for Neighborhoods, Housing, and Community Development at the Cleveland Foundation.

"This is a way to get the residents long-term employment and ownership," Ms. Lee said. The idea of cooperatives and employee ownership was first raised in a community wealth-building roundtable in December 2006, sponsored by three philanthropic groups: the Cleveland Foundation, the Gund Foundation and the Sisters of Charity. They invited the Democracy Collaborative at the University of Maryland, a nonprofit group with a philosophic commitment to economic stability as the foundation of democracy, to organize the event. The roundtable offered leaders of institutions in the Greater University Circle a close look at a new, capitalist, strategy for creating economic stability and financial assets for poor and working people.

The first goal of the roundtable was to bring together people who were working on various aspects of wealth-building, without much awareness of the efforts and results of others working on other parts of the problem with other approaches. They were "working in silos," with each effort and each group of practitioners isolated from the rest. The roundtable brought together representatives from the mayor's office, the Chamber of Commerce, the foundations, the six community development corporations operating in the GUC, the anchor institutions, several CEOs from employee owned firms in or near Cleveland, the Ohio Employee Ownership Center at Kent State University, and a few outside consultants with hands-on experience. "They not only met people from other silos, but we also brought in experts from outside Cleveland, where elements of the strategy for community wealth-building were being developed around the country -- for creating capital, anchoring it, creating anchored jobs, all to generate wealth for low and moderate income neighborhoods," said Ted Howard, Executive Director of the Democracy Collaborative.

The practitioners met people outside of their own silos, and they heard about the philosophy and research of the Democracy Collaborative. Ted Howard said:

> "Our view is that where democratic life gets created is really in communities where people reside. Not that national policy isn't important, but that if you want a "big D" democracy in which national life is really healthy and meaningful and vibrant, in which people express themselves as strong democratic citizens, where that really gets built is on the ground, in communities, so that's one place we start. And when we look at that –there are certain conditions that need to exist in a community that allow for that strong, healthy democratic life to flourish. One of which is… a sufficient amount of economic stability in the community. Not that there shouldn't be growth and expansion, but stability so that people are not scrambling for their next job and can't afford food for their family."

Research shows that businesses owned by their employees are unlikely to use overseas suppliers or sell out to foreign ownership, as have so many Ohio companies, because doing that might mean losing their work as well as their ownership. In a recent survey, Ohio's employee owned companies reported that they were less likely to outsource than their industry.

Other research has shown that employee-owned companies are a little more profitable than comparable conventional companies, an advantage that continues over many years like compound interest [16] Companies that are wholly owned by their employees, like the cooperative laundry, also enjoy considerable tax advantages because there is no corporate tax above and beyond what the employees receive as wage and retirement income.

If building democracy through building economic stability was to be the philosophy of the GUC project, how could it be implemented?

> "You must build assets. You must develop long term leadership, and you need assets to do that. Without it, you have the boom and bust of community development: because the people who you help succeed leave, then drugs and crime grow back and the community crashes again. This is the cycle that faces so many CDCs over and over. The trick to avoiding this cycle is to anchor both people and institutions by building assets in the community,"[17]

The roundtable participants wrapped up by brainstorming next steps. That was followed by six months of interviewing by the Democracy Collaborative. Said Howard,

> "We did about 120 interviews with people across the board, in all levels of these large anchor institutions, in community development corporations, the city government, the county government, business, right across the board, to explore with them what might be a strategy for the anchor institutions in the area to work together with them for mutual benefit."

Out of the roundtable and the interviews grew both a strategy and awareness of business opportunities. The Foundation's favored imagery for the strategy is a three-legged stool. A stool can't even support its own weight without at least three legs, and the three legs of the strategy were local purchasing by the anchor institutions, getting local residents into owning the enterprises that employed them, and taking advantage of emerging business opportunities to produce in a more energy efficient, green economy.

Evergreen Cooperative Laundry

The laundry itself was conceived when William Montague, Executive Director of the Cleveland Veterans Administration Medical Center, pointed out that the VA would soon be needing a vendor of laundry services, because the current laundry facility in Brecksville would be closed when the VA's Brecksville center closed and operations were consolidated in Cleveland. Since the VA is a federal facility, the laundry service would be competitively bid, and there was no guarantee that any business from the GUC would get the contract, but a feasibility study by the Ohio Employee Ownership Center (OEOC) showed that the demand for laundry service was strong.

About five years earlier, the Cleveland Clinic had built a state-of-the-art laundry facility for its laundry vendor, Sodexo[18], a French multinational with US headquarters in Gaithersburg, MD. The feasibility study

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[16] Joseph Blasi, Douglas Kruse and Aaron Bernstein, *In the Company of Owners* [New York: Basic Books, 2003] pp. 155-157

[17] Cicero Wilson, CEO of Mid-Bronx Desperados Corporation in New York City at the December 2006 roundtable.

[18] Sodexo, a facilities services provider, started out as a food service provider in 1966, and gradually converted to providing a broader range of services. In 1998, Sodexho merged with Marriott Management Services, at the time one of the largest food services companies in North America. It went public on the New York Stock Exchange in 2002.

revealed that although commercial laundries are known to pay low wages, in fact, they are profitable businesses whose earnings go to owners and shareholders, not the employees. Making the employees owners meant that an employee owned laundry could immediately provide jobs paying a little better and with better benefits than the going rate for such work and could also be a wealth-builder for employees over the years.

So there were two legs of the stool – a local laundry service for anchor institutions and wealth-building through ownership. But can a laundry really be green, with its voracious appetite for strong chemicals, hot water and steam? It turned out that it could at least be greener than the competition, by using the most efficient machines, minimizing the use of chemicals within the requirements of its customers, recycling water, using waste heat to preheat its hot water, and eventually installing solar panels for heating hot water and generating electricity.

To get the laundry up and running, the Ohio Employee Ownership Center provided from its staff Jim Anderson, a former CEO experienced with employee ownership and large scale industrial processes. He took on the challenge of launching and leading the laundry in the crucial months of operation required to qualify for bidding on the federal contract. In the meantime, leaders of some private health care institutions in the area expressed an interest in patronizing the laundry.

Anderson began by visiting the VA laundry in Brecksville, to which the Cleveland VA's linen was making a 40-mile round trip every day. He saw the operation and learned that bidders for the federal contract at the VA must have demonstrated capacity and a business track record. That knowledge set the timetable for starting the Evergreen Cooperative Laundry. Anderson then visited other potential customers, including Cleveland Clinic (CC) and University Hospitals (UH). He found that both institutions are currently contracted – CC with Sodexo for about 10 more years, and UH with Paris Company, headquartered in DuBois PA. UH sends laundry to a Paris Company facility in Ravenna, OH. In his search for laundries to visit, Anderson came across MandL Supply in Akron. MandL sells commercial laundry equipment, and they opened the door for Anderson to visit some large and small facilities in Ohio. With CC and UH out of the immediate picture as customers, Anderson, with business consultant Stephen Kiel, began to develop a picture of the potential customer base in a 10-county area around GUC. They found 53 hospitals and 259 nursing homes washing an estimated 246 million pounds of laundry per year.

Anderson, taking on the role of chief marketing officer, visited some of the nursing homes. He found that although most hospitals were already outsourcing their laundry, most nursing homes were not. He developed an educational marketing approach, helping the nursing homes to understand what it cost to do their laundry in-house. "A typical reaction would be, 'Our costs are somewhere around 15 cents a pound,' and when we get done with [a cost study], we find out that their costs are somewhere between 60 and 70 cents a pound, so they're off by a factor of four or five," reported Anderson. With his informational approach, he had opened a door to a huge market. Nursing homes involved in the GUC project immediately expressed interest in becoming customers of the new "green" laundry. They could use their current laundry space for profitable activities and retrain and redeploy their current laundry employees into better jobs in their growing business. It was a solution where everyone would benefit.

"We can probably break even at 2 percent of the market, make money at 3 or 4 percent, and we're still a very small share of a growing market," observed Anderson. Kiel, who wrote the business plan for the laundry, observed, "The most important thing is that we're not looking to penetrate [the market] a great deal in order to reach our hurdle. We're building this facility to go to about 15 million pounds so the business plan calls for us to grow over a 10 year period of time to 10 million pounds We have the capacity to grow beyond that just by making minor investments in additional equipment. We've got the footprint and the capacity to do 15 million, but at 10 million pounds we're looking to penetrate 4% of the marketplace. We think that is a practical challenge and something that is achievable."

The laundry will be launched as a cooperative. As a legal entity, a cooperative is a private company equally owned and democratically controlled by its members, in this case its employees. But the Laundry is unusual among worker-owned cooperatives. Cooperatives usually begin with a few workers pooling their work and their small personal funds to build up the enterprise. However, the laundry must have expensive machinery from the outset. It will receive a substantial capital investment from foundations and public investment to purchase its equipment and help from state and local government to train its employees. Management, provided by the OEOC, will hire employees from the neighborhoods who will then become co-op members after meeting the probationary period and applying to join. The membership fee will be paid through a wage check off.

Anderson and Kiel planned for six months to launch the laundry -- two months to finalize and order equipment, two months to install the equipment, and two months of training for the employees. The equipment was ordered on July 2, 2008. But funding proved more difficult to obtain than anticipated, delaying the opening from late winter 2008 to late summer 2009.

Modern commercial laundries are capital intensive, and lenders are always dubious of start-ups. In addition, the timing was bad: ECL's search for financing kicked into high gear about the time the 2008 banking crisis shut down lending. Indeed, the initial bank which was interested in providing both $1.5 million in commercial debt and $1.5 million in New Market Tax Credits, National City Bank, ended up being purchased by Pittsburgh PNC bank because of National City's problems in a deal widely assumed to have been brokered by Federal authorities. Putting the financing together took six months longer than expected and required Cleveland Foundation guarantees to First Merit, the local commercial lender which ultimately put in half the loan which National City originally proposed to do. Shorebank, which stepped in for the other half, got first position on the machinery and equipment, enhanced by the fact that it owns the real estate. Still, most of the financing came from the City of Cleveland, the Cleveland Foundation, and publicly subsidized New Market Tax Credits through US Bank (see Table 1). The financing could never have been put together without the commitment and support of the Cleveland Foundation.

Table1. Financing Evergreen Cooperative Laundry

Senior debt:

- First Merit (local commercial bank) 750,000
- Shorebank 750,000
- City of Cleveland 1,500,000

"Equity" (sub-debt through Evergreen Coop Development Fund)

- New Market Tax Credits 1,500,000
- Cleveland Foundation 750,000

Working capital:

- City of Cleveland 200,000
- Common Wealth Revolving Loan Fund 250,000

Total 5,700,000

The laundry washing and drying equipment is made in the U.S., and they are the very latest and most efficient. To reduce the energy needs of the laundry, heat from the used water will be recycled to heat clean water and the laundry will use the "greenest" chemicals acceptable to its customers. It will have skylights to take advantage of natural daylight, and plans to add rooftop solar panels in the future to further conserve gas and electricity.

The laundry building is located in the Shore Bank Complex on 105th and Elk in the Glenville neighborhood, near the boundary of the GUC project. The neighborhood has been hard hit by economic reverses. The facility is on a bus line and there is nearby daycare for workers. The lead employees have been identified, and they are beginning to participate in the development of the laundry and its workforce. Anderson expects to hire the employees from the GUC neighborhood, including several veterans. He has identified and hired an experienced manager for the laundry and is currently looking for someone with experience in maintenance and a leader for operations to be the lead personnel for the new firm. The maintenance specialist is expected to visit the manufacturing plant and see how the machines are constructed. The maintenance specialist will receive training on operation, maintenance and repairs from the manufacturer. The leader of operations will learn to operate all the machines and train the other employees. Together, these three will train the other employees in the operations of the equipment in the laundry.

The final two months of startup will be devoted to training the rest of the employees.
With a workforce drawn from people who may have been out of work for a long while, there will be substantial training for all jobs. Jim Anderson:

> "There were four issues that we knew we needed to address as we were hiring : (1) basic job skills – Towards Employment - will be providing this training; (2) environmental sustainability practice/procedures –E4S will be contracted to provide sustainability procedures and practices training; (3) equipment operations – the suppliers have committed resources to support our training and (4) employee-ownership training – business metrics and understanding (how to read and comprehend an income statement, and balance sheet) that Ohio Employee Ownership Center will lead this training initiative."

Anderson continued:

> "And then there's a fifth kind of training that goes to [the reality of] the employee who gets a call from home: "We've got a problem, and I need you to leave work and come here to solve the problem." Typically, that employee, who is probably the most responsible person in the home, then needs to leave work to deal with the problem. We need to have, on site, accessible to us, immediately, folks who can provide intervention for the employee, someone who could say, 'You have responsibility to your family and to your job. Let's figure out how to get somebody in your home to deal with those issues in the future. In a conventional workplace, if that problem were to come up, you would deal with it through discipline. Somebody would do their job that day and you would give them time off. So that's a fifth component of training that's going to be critical to the success of the enterprise. I say that for a social reason but also for a business reason, because it's something that would differentiate this laundry from its competitors, never mind that no other laundry would have the green facilities that we have. The training is definitely connected to our whole business picture: We're going to have higher quality and lower costs, because we're going to have significantly reduced turnover. If we begin to have a lot of turnover, we're not going to have the quality or lower costs, and this laundry is going to disappear. But being an employee owner, with your own vested account generating income and funds for you in the future, is going to provide some glue to keep you here in the company."

Despite its annual goal of 5 million of pounds of laundry per year at startup, expanding to perhaps 15 million pounds over 10 years, Evergreen Cooperative Laundry isn't expected to take anyone's job. Health care laundry is a growing business area, with nursing homes and hospitals flourishing and expanding to serve the growing number of retirees.

Growing Employee Ownership: The Evergreen Cooperative Development Fund

However, the horizons for Evergreen are farther out than just creating a successful business. The laundry is expected to be just the first new employee owned enterprise in the GUC. Six or seven additional business opportunities identified by Howard's interviews were selected for their feasibility. These include a solar panel installation and service company and an industrial scale greenhouse. Says Howard,

> "What we are trying to create is a network of cooperatively owned enterprises. One of the things that we believe will help make that work is the Evergreen Cooperative Development Fund. It will be a nonprofit fund that will receive monies, certain kinds of commercial loans, grant monies and so forth, and we'll use them to help seed the creation of new cooperative businesses in this area. It will be a kind of venture capital [effort] targeted specifically at cooperative development, and the incorporation papers and bylaws of each new cooperative firm will designate that a percentage of profits will go into the cooperative development fund, once the firm is profitable."

The Evergreen Cooperative Development Fund (ECD) for creating more cooperative enterprises will be launched along with the Laundry. After repaying its startup debts to commercial banks and the ECDF, each successful new business will contribute a portion of its profits to the Fund.

Howard recognizes that not every new business can succeed, even with all the help in the world. Having a variety of enterprises going at one time will spread the risks of failure and increase the probability that some will succeed. And if just some succeed, they can grow and expand to employ more neighborhood residents.

How long will all this take? Howard observes that it took a long time for the economic decline in Cleveland to get to where it is today. "In the 1950s there were over 800,000 people who lived here and now there's less than 450,000."

Other businesses being considered by the Evergreen Cooperative Development Fund include: 1) a solar energy cooperative that will be to lease roof space from the anchor institutions, on which it will install solar panels to generate electricity that it will sell the electricity back to the institutions; 2) a hydroponic greenhouse and 3) a home health care business.

3. Other Resources describing anchor institution efforts include:

a. **"Health Institutions as Anchors in Communities: Profiles of Engaged Institutions"** Jen_Kauper-Brown. and Sarena D. Seifer, Community-Campus Partnerships for Health, Seattle, Wa.(2006)[19]

This report was commissioned by the Annie Casey Foundation in 2006 to show how health institutions serve as instruments of community and economic development. It also describes the variety of anchor roles they play in Seattle, WA.

The report shows that health care institutions have a clear understanding of their economic impact on their communities and its importance. It provides a framework for leveraging the assets of health institutions (Adapted from "Leveraging Colleges and Universities for Urban Economic Revitalization: An Action Agenda", a Joint Study by Initiative for a Competitive Inner City and CEOs for Cities, 2003.

This report demonstrates the enormous growth in the healthcare sector, growing from 7% of GDP in 1970 to 14.7% in 2002. (As of March 2009, the Kaiser Family Foundation *Report on Trends in Health Care Costs and Spending* reported that health care spending in 2009 is projected to be 17.6% of US GDP.) Health institutions are usually one of the largest employers in urban and rural communities. Their existence also results in a wide arrange of additional jobs through their need for suppliers and vendors. This report recommends that they look to local residents first to fill these positions.

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[19] **"Health Institutions as Anchors in Communities: Profiles of Engaged Institutions"** Jen_Kauper-Brown. and Sarena D. Seifer, Community-Campus Partnerships for Health, Seattle, Wa.(2006)

EXAMPLE:

1. Cambridge Health Alliance operates a program (STARS) which helps current employees advance into health-related positions in key workforce shortage areas: Lab, nursing, pharmacy, bilingual medical office practice, etc.
2. Abbott Northwestern Hospital joined with the city, county, state and national law enforcement; private businesses and community organizations to form the Phillips Partnership – they provide the education arm of the partnership thru HCI (Health Careers Institute) – graduates are guaranteed employment at one of the three area hospitals.
3. Through Sinai Health Systems participation as a member of the "Premier" Supplier Diversity Program Committee, a Sinai Health System Policy was developed defining a "*goal of the System is to enhance business relationships with minority vendors"*. Sinai established the Family Enterprise Institute which trains and supports entrepreneurial education for local families to launch businesses.

These are just three of the many such examples in the report.

b. Building Wealth in Communities by Working with Anchor Institutions – a power point presentation by Steve Dubb regarding the work being done in Cleveland and the Greater University Circle Initiative.

Three examples given are:

1. Mayo Clinic (Rochester, MN)– donated $7 million to provide rental housing, community land trust housing and home ownership.
2. Swedish American Health System (Rockford, IL) – homeownership assistance programs for low income employees
3. Health Alliance (Cincinnati, OH) – set and exceeded $23 million target for purchasing from local minority suppliers.

For up-to-date information from Steve Dubb of the Democracy Collaborative on Anchor Institution efforts see www.commmunity-wealth.org/strategies/panel/anchors.

c. Asset based Community Development Institute (ABCD)
www.abcdinstitute.org

This institute is at the center of a large and growing movement that considers local assets as the primary building blocks of sustainable community development. ABCD is located at the School of Education and Social Policy at Northwestern University, Evanston, IL.

ABCD is currently working with students, Northwestern faculty and other organizations to develop the next generation of civic leaders. A few of their partners are: The Coady International Institute, Antigonish, Nova Scotia; Grassroots Grantmakers; The Greater Rochester Health Foundation, Rochester, NY; The Bank of Ideas, Australia; Public Allies and Partners for Livable Communities.

d. **"Leveraging Colleges and Universities for Ur**ban Economic Revitalization: An Action Agenda", a Joint Study by Initiative for a Competitive Inner City and CEOs for Cities, 2003.

The Initiative for a Competitive Inner City (ICIC) and CEOs for Cities joined forces to get a great understanding of the advanced role of colleges and universities in urban and inner-city economic development. For over a year they surveyed 20 colleges and universities. They interviewed more than 100 professionals in the field and 10 university presidents. This report is the framework they developed to accelerate urban economic revitalization.

Some institutions they noted were already taking action:

- Howard University – teamed with Washington, D.C. government and Fannie Mae and corporate partners to transform 45 abandoned, university owned properties into more than 300 housing units.
- University of Pennsylvania – increased purchasing from its surrounding inner-city neighborhoods. Penn requires its large national vendors to joint-venture with local firms.
- Columbia University – partnered with a number of local organizations to identify candidates for positions available at the university
- Virginia Commonwealth University – formed a joint venture with the state of Virginia and the City of Richmond and created Virginia Bio-Technology Research Park, the Center brought new interest and new jobs.

Through suggestions and questions put to the college and university leaders the following strategies were developed:

- To create urban economic development - Former President Rupp of Columbia University initiated an economic development strategy to channel more university purchasing and contracting to businesses in Upper Manhattan.
- To create a high-level coordinator to oversee and advance efforts - University of Illinois at Chicago, its Great Cities community engagement program initiated and grew rapidly because there was a special assistant to the chancellor in charge of coordinating the entire program.

e. Beyond the Campus: How Colleges and Universities Form Partnerships with their Communities

This book was written by David J. Maurrasse in 2001. Mr. Maurrasse provides an in-depth study of 4 example schools and offers a passionate appeal for community partnerships.

B. European Regional Industrial Cooperative Models

1. The Mondragon Experience

Appendix B is the Mondragon Cooperative Corporations' publication describing its own history *"Mondragon Corporacion Cooperativa (MCC) – The History of an Experience"* (July 2006). Mondragon is a democratically organized inter-related group (now a corporation www.mcc.es) of worker owned cooperatives, schools, research, retail and a support organization employing 103, 000 with assets over 26 billion euro, broad equity ownership and leadership roles for average workers.[20] Mondragon is a cooperative experience in the Basque region of Spain that began in the year 1956 and has grown into one of the top 7 companies in Spain.

This highly successful group has shown that, beginning with nothing but community solidarity and the willingness to study and work hard, a community can create a group of cooperatives that generate significant wealth, enable superior business competitiveness, and retain higher levels of capital internally to reinvest for continuous growth of the group.

The Mondragon mission is to produce and sell goods and services in a democratic method that allows the organization to distribute the assets generated for the benefit of its members and the community as a measure of solidarity.

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[20] Mondragon Cooperative Corporation 2007 Annual Report

Fr. Jose Maria Arizmendiarrieta came to Mondragon in 1941 as a young priest. Mondragon was and is an industrial town in the mountains above Bilbao, where the Basques have lived for thousands of years. The Basques had sided with the Republic that was defeated by Franco. At that time the Basque language was banned, their capital city Guernika, was destroyed and their children were leaving to find jobs elsewhere. Fr. Arizmendi began to teach about creating a community based on human dignity, freedom, solidarity, self-discipline, continuous education and self-management. They created an industrial school so that the youth could learn skills.

In 1956, the first graduates of the school bought a company that made stoves using funds from everyone in town. Fr. Arizmendi used his powers of persuasion and his word to guarantee loans from those who had money. They organized it as a worker cooperative, named ULGOR, now known as FAGOR. Eventually all the loans were repaid as promised.

In 1959 the priest persuaded the group to create a bank for the companies and the community members. It developed an entrepreneurial division that became the research and development engine for the group's development over the next several decades.

The manufacturing cooperatives created second level service cooperatives jointly owned by the manufacturing cooperatives and worker members.

As of 2007 MCC is a business group with[21] 103,731 people working in over 200 related cooperatives in manufacturing, service, banking, insurance, education and retail. The group assets are worth 32.8 billion euro. Total group annual sales are 16.4 billion euro with retained earnings of 792 million euro. The Mondragon Bank administers 13.5 billion euro in assets. Worker members own 2 billion euro in assets. 873 worker members sit on governing bodies. It runs an engineering university, schools and its own insurance and social service system.

Key Features in Mondragon Success[22]

- Fr. Arizmendiarrieta's grand vision of the future (beginning with individual dignity) and his influence over students and disciples when implementing his ideas.
- People are given priority over capital. This results in a high level of worker involvement in the company, through direct participation in both capital and management - creating a positive atmosphere of consensus and collaboration.
- A decidedly business-like approach to the cooperative phenomenon, in which company profitability and planned, rigorous and demanding management efficiency are seen as basic principles.
- Re-investment of practically all resources generated.
- Ongoing adaptation to the changes in the environment.
- Creation of efficient inter-cooperation instruments: in finance, social welfare, innovation, research and development, co-ordinated job management in situations of crisis.
- Highest level of importance attached to training, including formal education at MCC University Faculties and Professional Schools and Lifelong Training linked to professional refresher courses and advanced courses.

Appendix C is a synopsis of Mondragon Basic Principles as described in "Corporate Management Model", Mondragon Corporacion Cooperativa 2009

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[21] From MCC's 2007 Annual Report www.mcc.es

[22] The Key Features of Mondragon's Success is adapted from the FAQ section of the Mondragon Cooperative Corporation website www.mcc.es.

Conclusions on the Applicability of the Mondragon Experience to Detroit 2009

Policies that aided MCC survival during recession included:

- Capitalizing Profits – no distributions to members during recessions;
- Pooling profits between the member co-ops to help the weaker ones get through cash crises;
- Flexible hours depending on work load;
- Relocation of workers from one member co-op to another to balance workloads;
- Compensation policy – average highest to lowest pay in a company is generally 5:1 with the highest being 9:1;
- Worker members have to make the hard decisions themselves. Voting of member shares is a requirement, not an option;
- The Mondragon Bank was a hands-on lender and advisor. Each loan had a godfather, who watched over the company. The bank continued to invest and participate in management until the business became profitable.

Advantages the Basques had when they started Mondragon, that are not available in Detroit in 2009 are these.

- The Basques have cultural and religious homogeneity, and a deep attachment to their location.
- They were led by a priest in whom they had enormous trust and whom they revered as a teacher and moral leader.
- Most Basques (then and now) want to live in the Basque country in communities near their families.
- Their culture promotes equality in social status.
- When they began their companies in the 1950's Spain was economically isolated from the rest of the world and great consumer demand for goods had developed during the depression, Spanish Civil War and World War II. Any products they made in their early years could be sold. None of these conditions exist in Detroit today.

The biggest differences are that there is: 1) a great lack of trust amongst people in Detroit; and 2) the global market is extremely competitive.

Detroit can learn a lot from Mondragon about how to create a very efficient group of companies that treat their workers fairly, while requiring all workers to take responsibility for the success of the company and for their own continuous education. Mondragon is continuously developing and improving on its efficient management system (Appendix C) that balances the needs of all parties and provides for oversight to protect against abuses of the system by individuals. Over the years, Mondragon has developed sophisticated systems, based on trial and error that can be very instructive.

The Ohio Employee Ownership Center (OEOC) has followed many of Mondragon's models in the creation and development of its Employee Owned Network and in developing the Evergreen Cooperative system in Cleveland. OEOC has developed or works with a number of cooperative development financial pools, a cooperative insurance program for local employee owned companies and provides education on management to employee owned companies. Cleveland is sufficiently similar to Detroit, that it is reasonable to believe that systems which work in Cleveland should be adaptable to Detroit.

2. The Cooperative Community Cluster in the Emilia Romagna Region of Italy

Emilia Romagna, unlike Mondragon, is a diversified "cluster" model. Small firms operating in cooperative networks are the key.

Emilia is the Po Valley region including the cities of Farrara, Parma, Modena, Piacenza and Bologna. Romanga, stretches along the Adriatic coast from Rimini to Ravenna. It is a region of small companies with high wages, highly functional local government and intense local democracy. Emilia Romagna is home to approximately four million people. Emilia Romagna contains 8,000 cooperatives.

Appendix D is Prof. John Logue's excellent recent case study of Emilia Romagna and its lessons for northern Ohio. ***"Economics, Cooperation and Employee Ownership: The Emilia Romagna model** – in **more detail."*** 5/1/06 found at http://dept.kent.edu/oeoc/oeoclibraty/imeialromagnalong.htm John Logue is a professor of political science at Kent State University and has been the director of the Ohio Employee Ownership Center since 1982.

Applicability of the Emilia Romagna Experience to Detroit in 2009

Prof. Logue concludes that there are many lessons to be learned for Ohio (that are equally applicable to Michigan) from Emilia Romagna. These include many ways the government and the legal system can enable world competitive community based businesses with incentives to created rooted capital.

Worker coops in Emilia Romagna date back to the 1890's . In the there were 2700 of them in the region.

After World War II the left-wing government became a major supporter of small local businesses and cooperatives. It encouraged institutions to assist in the creation of small businesses and cooperatives and created means for them to work together successfully. The umbrella organization for family owned businesses is led by the Communist led CNA, because, although the businesses are individually owned the CAN provides a range of joint services for them that the cooperatives get from their central organizations.

Promotion of Small Businesses, Cooperatives and Clustered Services

The regional government economic development agency provides "industrial sector service centers" to help create clusters of small businesses. They share services in research and development, purchasing, education and training, workplace safety, technology transfer, marketing and distribution, exporting and more. It provides for the densest concentration of small businesses in the industrialized world.

This means, for instance, that Wal-Mart has steered clear of Italy because it cannot compete well with Coopitalia, which is the largest retailer in Italy. However, Coopitalia is comprised of 169 local retail cooperatives and 4 million consumer members, with a highly democratic and decentralized structure.

Access to Capital and Indivisible Reserves

The Italian cooperative law of 1947 provides special tax treatment to encourage self-capitalization by creating the concept of "indivisible reserves". Earnings can be contributed to the indivisible reserves tax free (saving 40%), but they must be reinvested in the company, or if the company dissolves or is sold, in another cooperative rather than being distributed to the members. Members get patronage dividends and annual interest on their membership fees.

1992 amendments to the co-op laws enabled "social cooperatives".

The 1992 amendment also required all cooperatives to contribute 3% of their profits to cooperative development funds run by the various cooperative federations. These fees are earmarked for starting new cooperatives or growing existing ones.

Using this 3% fund, one of the coop development funds, Coopfond, has, since 1992, raised $290 million and invested $340 million. It can take up to a 50% equity position in new co-ops and provide 30% of equity in conversion of existing businesses to co-ops. Coopfond can create loan guarantee pools and can support co-op education and social economy functions. Between 1994-2001, Coopfond supported 109 co-op start ups with $48 million in equity and $17 million in loans, leveraging $288 million in investments and creating 4640 jobs.

Contrast this to ESOPs, where all the tax benefits go to the current generation of plan participants, nothing is retained for future employees. The taxpayer subsidizes these companies, but employees can and do choose to sell them, taking the value of the tax deductions for themselves and returning nothing to future generations or the other taxpayers.

Over time, the indivisible reserves build up to substantial capital. One firm that began in 1963, currently had $1millon in member fee accounts but $12 million in indivisible reserves. The indivisible reserves are considered as "intergenerational mutuality" and not as property of the individual members of the cooperatives.

Cooperative Collaboration Across Sectors

Employee owned co-ops are incorporated under the same laws as agricultural co-ops and credit unions (unlike in the U.S.) And also unlike the U.S. all these types of consumer, producer, and employee cooperatives are members of the same federations and interact regularly.

Much of their strength, like in Mondragon, is in the creation of secondary cooperatives like financial institutions, insurance companies, joint training and research and development centers.

Some of the cooperatives are quite large and own non-cooperative subsidiaries and sometimes majority positions in publicly traded companies. The non-cooperative subsidiaries can lead to values conflicts as they have in Mondragon.

Cooperative federations, such as Legacoop, provide tax preparation, accounting, payroll and legal services, training and development, occupational safety and health consulting, collective bargaining, waste disposal, and lending an equity investment from the cooperative development funds. Legacoop charges 4/10 of 1% of sales for membership.

Unipol, a regional co-op insurance company is Italy's 3rd largest with 5400 employees. It is owned by cooperatives, trade unions, farmers and family business owners. It was a pioneer of social accounting in Italy.

With Italian wages and benefits, the Emilia Romagna cooperatives have to compete in the global market, and cannot do so on wages. So they must innovate. They have 30% of Italy's patents with 7% of its population.

Appendix F displays results from David Erdal's 1999 PhD Thesis at St. Andrews "The Psychology of Sharing" which shows that people who live in communities with many cooperatives are better off in multiple life dimensions than comparable people in towns with fewer cooperatives.

In March 2006 *Owners at Work*[23] Interviewed Matt Hancock an expert on Emilia Romagna. He reported that as of that time:

Two thirds of the active Emilia Romagna co-ops are worker owned. Those range from heavy industry to precision equipment, from gigantic ceramic presses to service co-ops. The co-ops, as a network, supply a flexible manufacturing system as contractors with larger non-co-op firms. However, even the non-co-op firms in the region are focused on competing on quality and innovation, and not on low wages. Some of these

[23] Winter 2005-06 *Owners at Work*, Ohio Employee Ownership Center

are now moving from an informal arrangement to a more formal arrangement. There are two new models emerging.

1. In the first model the lead co-op firm emerges and coordinates the network. This is one of the firms that used to be small but has gotten larger and is now beginning to assemble equipment or have entire assembly lines
2. The other model is more of a virtual firm where smaller private firms are setting up their own virtual company - like a second tier co-op. They are creating their own customer that will interface with the market for them. This allows them to collectively bid on jobs and then source things collectively. The most advanced of these companies is Deco. Deco is made up of 17 small firms that are in a formal network. They have their own brand.

This arrangement could be part of a strategy for U.S. auto suppliers to collaborate in new green manufacturing ventures. In order to compete globally, they will need to choose proprietary products on which they can afford to pay U.S. wages. They will need to keep moving to new products as the old ones lose their proprietary protection. In order to succeed in such a sophisticated community development strategy, cooperation based on a commitment to local relationships is likely a key component.

Mark Hancock believes one of the reasons Emilia Romagna's network of cooperatives works so well is that they have many people who are technically competent. They know how to run the machinery and design components. Clearly this is a similarity with the large number of highly skilled unemployed people in SE Michigan.

C. Trust Owned Companies and Rooted Capital

1. Employee Stock Ownership Plans (ESOPs) as a tool for rooted capital – pros and cons

An employee benefit plan that holds stock and has tax advantages in buying stock

An ESOP is a type of tax qualified defined contribution employee benefit plan, similar to a 401(k) plan, except that it is intended to be invested primarily in employer stock.[24] An ESOP can own any percentage of a U.S. sub-chapter S[25] or sub-chapter C corporation. There are a variety of tax advantages to a company that creates an ESOP, or to individual taxpayers who sell their stock to an ESOP. Because an ESOP is a tax qualified employee benefit trust, the trustee must act in the best interests of the employees as retirees not as current employees. Therefore, an outside offer to buy an ESOP company at more than the fair market value[26] has often caused trustees to sell to private outside interests, even when that might threaten the jobs of the current ESOP participants.

ESOPs have been used for multiple purposes and are generally beneficial to companies, employees and communities.

Employee ownership (EO) using employee stock ownership plans (ESOPs) has been a tax advantaged means of broadening ownership, creating a market for sellers, providing employee benefits without using cash, and providing tax advantaged expansion loans for companies – beginning in 1974. In 1975 there were aproximately1,600 plans covering 250,000 people. As of 2007, there are approximately 9,734 plans covering

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[24] Internal Revenue Code (IRC) Sections 4975(e)(7), 401(a) and 409.

[25] IRC Sec. 1361 (c)(6)

[26] An ESOP is required to have an annual valuation by an independent appraiser to determine the proper value at which shares are purchased by the company or redeemed from ESOP participants. The trustee is responsible to get the best value he can for the participant as a retiree. IRS Sec. 4975(e)(7) and ERISA Sec. 406-408.

11.2 million people with total ESOP assets of $928 billion in 2007. [27] Participative employee owned companies compared to comparables have: 1) increased productivity and profitability; 2) increased resilience and likelihood of firm survival 3) positive shareholder return ; 4) higher wages and benefits for average employees in employee owned firms. (See Appendix E for additional statistics.)

Employee ownership helps retain jobs

(Source: Presentation by Prof. John Logue at the Ohio Employee Ownership Center Annual Conference, April 2009, statistics from Kent State Ohio Employee Ownership Survey) Ohio ESOP companies outperformed conventional competitors on job retention and capital reinvestment from 2000 – 2008. During the same period: Ohio has lost 317,600 manufacturing jobs and more than 29% of its manufacturing base. Ohio Employee Owned Network companies' employment dropped 1%, not 29%, over the same period (24 of the 37 companies are in manufacturing). The reasons given by the companies and the OEOC are that employee owned companies are: 1) far less likely to outsource; 2) have an average of 2 times higher rates of capital investment; and 3) often have more employee participation in making business decisions.

How ESOPs have evolved from a transitory ownership tool into a good tool for creating rooted capital

During the period of 1975 - 2000 (until S corporations were entitled to create ESOPs) ESOP was generally a transitory ownership stage for a company. In privately held companies, the company is obliged to distribute the cash value of participant shares when a vested participant terminates employment. Therefore the company takes on a substantial "repurchase liability" when it creates an ESOP. When only C corporations had ESOPs, this created a huge pressure to sell the company or go public if the company stock value grew significantly and a large number of employees neared retirement age.

An ESOP in an S corporation is not liable to pay federal income taxes. S corporation profits in the ESOP are only taxed to individual ESOP participants when they take a distribution. Consequently, an ESOP in an S corporation is a very tax advantageous way to accumulate cash. Often this cash is used to expand or purchase other companies.

ESOP stock in an S corporation is required to be valued at the fair market value for another buyer (which would presumably not have an ESOP). Therefore the huge tax saving for the ESOP in the S company is not reflected in the required fair market valuation. In turn, this valuation differential makes it easier for an S ESOP trustee to find less value in an outside purchase offer than in retention of ESOP ownership.

Thus it is highly advantageous for an S corporation to become 100% owned by an ESOP and to remain that way. In fact, since the tax advantaged S corporation ESOP has been available it has been much easier for ESOP companies to become perpetually employee owned. This is an important and relatively recent new tool for community based enterprise development and expansion.

S corporations that become 100% owned by an ESOP have, to date, had the greatest ability to retain their employee ownership over the long term. In recent years, the most popular form of ESOPs are those that own large portions of S corporations. There is growth of majority to 100% S Corporation ESOP owned companies, using their cash to expand. Anecdotal information from the author's experience is that many of these intend to remain employee owned long term.

[27] A Statistical Profile of Employee Ownership, Feb. 2008 National Center for Employee Ownership, www.neco.org/lib/eo_stat.html9/30/2008

"Sustainable ESOPs"
In 2008-09 there is a trend developing in the mainstream ESOP world to discuss long-term sustainability of employee ownership. It is likely that the collapse of other traditional capitalist market based entities has made many employee owners and their companies aware of the local control and economic self-determination made possible by employee ownership.

Although an ESOP cannot own LLC membership shares, an ESOP owned S corporation could be a member of an LLC, as can a cooperative. Thus, there are now more tools for majority employee owned companies to obtain equity financing allowing the equity investor to have the type of control equity investors like over their investments, without having to relinquish the employee ownership of the partner company. There are not yet many examples of LLC-co-op or LLC-S corp. ESOP companies, because most companies with ESOPs are owned and managed by people who are focused primarily on growing shareholder value and not necessarily on retention of the employee ownership as a community value.

The stock in an ESOP is owned by a trustee. The employees (plan participants) are trust beneficiaries. Under the law, the issues on which an ESOP participant can direct the voting of his/her stock can be limited to infrequent major corporate reorganizations or sales of substantially all the assets. However, there are many ESOPs that pass through significant voting rights, and many more that have very participative management systems. There is substantial evidence that participative employee owned companies enjoy significant financial and innovation benefits. (See Appendix E.)

As you can see from the table below, a lot of wealth has been created for employees through ESOPs in the U.S.

A Statistical Profile of Employee Ownership (Updated February 2009 from National Center for Employee Ownership www.nceo.org) Estimated Number of Plans and Employees; Value of Plan **Assets**[28]

Type of Plan	**Number of Plans (as of early 2009)**	**Number of Participants (as of the end of 2006)**	**Value of Plan Assets (as of the end of 2006)**
ESOPs, stock bonus plans, and profit sharing plans primarily invested in employer stock	11,400	13.7 million	$925 billion
401(k) plans	1,000	7 million	$275 billion
Broad-based stock option plans	3,000	9 million	(several hundred billion; not realistic to estimate)
Stock purchase plans	4,000	11 million	(not realistic to estimate)

[28] *Available data do not allow us to make estimates beyond 2006 with confidence for the number of participants and plan assets.

There are many financially successful, highly participative and community conscious ESOP companies. (See Appendix E.)

ESOPs have a structural flaw that works against accumulation of community capital

Unlike the cooperative system in Mondragon or Emilia Romagna, in U.S. employee stock ownership schemes, the employee owners' stock includes their proportional ownership of all the ESOP company's assets. This creates a repurchase liability on the company that in many instances has forced the employee owned company to sell itself to private interests in order to acquire the cash required to pay out retired ESOP participants. Whereas, in the MCC and ER co-op systems a portion of the retained earnings of the company remain undivided as a community asset, used for reinvestment in the company or in other related cooperatives.

That is why the Center for Community Based Enterprise (C2BE) has structured Ingenuity US, L3C (IUS), as a mission-driven low-profit limited liability company, that explicitly mimics the community capital building structure of the Mondragon and ER cooperatives, by declaring that half of its profits will remain in the company to grow it or other community based enterprises. Cooperative law in Michigan is not well suited to creation of such a structure that also has the flexibility to easily include other business partners, so we are developing one under the L3C law just passed in Michigan in January 2009. As C2BE and IUS develop, we may evolve toward a cooperative structure such as the one being developed for the Evergreen Cooperatives under Ohio law.

2. Charitable Trust Owned Companies

As the following examples of Scott Bader Commonwealth and Tullis Russell Group show, companies that have key governance features controlled by a charitable trust can keep a company rooted as a community asset in perpetuity.

a. Scott Bader

Since 1963 the Scott Bader chemical company has been wholly owned by a charitable trust, the Scott Bader Commonwealth, which is a "Trusteeship Company" and a registered charity[29]. It is a complex system designed to keep the company rooted in the community, to reinvest capital in the company, to encourage and practice participatory democracy for employees regarding the company and to provide charitable giving in the community with advice from the employees.

The company was established in 1921, by Ernest Bader, who intended to create a social enterprise with extensive employee involvement. "Employees are expected to become members of the Commonwealth, and as such have responsibility for ensuring the company is sustainable for the benefit of future generations. As of 2004, 77% of the firm's 625-member workforce were members of the Commonwealth."[30]

Commonwealth membership is available upon successful completion of a probationary period. Before hire, recruits learn of the requirements to help maintain the social purposes of the company as a social asset, to work cooperatively and respect human dignity. Members may become members of a Members' Assembly which is the body to which the Scott Bader Board of Directors and the Commonwealth Board are ultimately responsible. The sixteen Assembly Members include six from the U.K., two each from South Africa and France, one each from Croatia and Dubai and one from members in the rest of the world.

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[29] Scott Bader Company, JOL (Job Ownership Limited) Case Study, Nov. 2004 found at ww.jol.org.uk

[30] Scott Bader Case Study, Employee Ownership Association found at www.employeeownership.co.uk

The Commonwealth Board is responsible for charitable giving and philosophical oversight.

A ten-member Group Board is responsible for running the business - strategic business decisions, financial performance and policy. The Group Board includes four elected employee representatives, of whom two are Assembly Members.

There is a Community Council of 15 that is consulted on day-to-day issues, and as of 2004 another community council was being created in South Africa.

"Each year 60% of the profits must be ploughed back into the business to ensure its sustainability, and no profit share is payable unless an equal amount is paid in to a charitable fund."[31]

The company is a polymer manufacturer with annual revenue of £150 million, with operations in the U.K., Croatia, Dubai, France and South Africa. As of 2003 the company employed 625 people, 302 in the United Kingdom and 323 are located elsewhere.

In 1950 the Bader family owned a majority of the shares. By 1951 the Bader family decided to put their shares in a trust and allow the employees to have a say in running the business. Over 90% of the company shares were placed in the charitable trust in the form of a company limited by guarantee. The Bader family retained 10% of the shares, with voting rights equal to the remaining 90%. In 1963 that remaining 10% was passed over and now 100% of the shares are held in the trust. The trust ownership of shares in the operating company is now considered a "social investment" for the purposes of the Charity Commission and is intended to maintain the structure in perpetuity.[32]

There is no financial return to employees from their Trust membership, although they have profit sharing in their capacity as employees. No employee can have a direct financial stake in the company through the direct share ownership. Employee pay is based on individual performance and annual bonuses related to the share of profits and distributed according to the Constitution.

There are also Trustees who are "guardians of the constitution" with two representatives each from the Group Board and the U.K. Community Council. They have specific responsibilities if the company gets into a loss position or if there are proposals to alter the Commonwealth Constitution in ways that are adverse to the Commonwealth's values.[33]

b. Tullis Russell

This example combines employee ownership, profit sharing and participation with a paternalistic protection of the company as a community asset. The "golden share" held by the charitable trust means the company cannot be sold off to benefit individual shareholders removing the company as a benevolent employer in the community. The "golden share" structure is unique to trust ownership. It is not incorporated in regular employee ownership schemes in the U.K. or U.S. One of the flaws of the U.S. ESOP system is that the tax advantages created by the system are not aimed at anchoring the capital in the local community. The tax benefits go to the sellers and to the individual employees as pension benefits.

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31 Id.

32 Id.

33 Id.

The structure described below is complex, largely because the employee ownership began before there was a statutory structure for employee ownership in the U.K.

Tullis Russell is a paper and board manufacturing company in the U.K., founded in 1809, with annual sales of £140 million and 800 employees. It began its path to employee ownership in the 1940's when 75% of the shares were inherited by three family members and 25% were transferred to a charitable trust, the Russell Trust. Its trustees are responsible for acting in the best interests of the employees. They can veto any sale of the company and appoint directors.

In the 1980's the 40 family members who held shares wanted to realize the cash value without compromising the firm's independence and values. David Erdal was the only family member actively involved in the business. In 1985 he suggested extending the employee ownership using a profit-sharing scheme, under which 7.5% of pre-tax profits were used each year to buy shares from the family members and provide shares and profit sharing to employees. As this was slow and not tax efficient, in 1987 the company used a "case law ESOP"[34] establishing an employee benefit trust (EBT). The Trust purchased a block of shares from the family, and employees wishing to sell shares, using a bank loan that was repaid by the company from its profits.[35]

In 1994, after legislation existed to make a UK form of ESOP, Tullis Russell restructured to enable an employee buyout, and retain the goals of the charitable trust. They created a new company, the Tullis Russell Group (TRG). TRG purchased all the shares in Tullis Russell in return for TRG stock and loan stock. Family members converted 55% of their holding to loan stock, while the Russell Trust, EBT and 90% of individual shareholders accepted one for one conversion of shares in the old company to shares in TRG. Since 1994, the £19 million in loan stock was converted back to shares and distributed to employees using a tax-approved Share Inventive Plan (SIP)[36].

The Russell Trust retains a "golden share" to prevent the sale of more than 10% of assets and any changes to the rules of association that govern the business.[37] This paternalistic arrangement allows broad employee ownership and participation in the firm, without fear that the employees will sell off the company. The company recognizes a union in which about half the employees are members.[38]

Tullis Russell has a Share Council made up of 13 employee members elected by staff, four appointed by the company, an independent member and David Erdal as an honorary member. The Share Council has meetings with the Board twice yearly to ask the board members questions and discuss company strategy. Council members receive monthly performance reports. The firm recently established an information and consultation body made up of union members and the Share Council.[39]

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[34] At the time there was no UK law enabling employee stock ownership trusts, so all such trusts were created privately and their tax status determined by case law.

[35] Employee Ownership Association Case Study – Tullis Russell found at www.employeeownership.co.uk

[36] Id.

[37] Id.

[38] Id.

[39] Id.

VI. Edge of Innovation

A. Big Emerging Ideas and their Stage of Development - marked next to each innovation in brackets as follows: (C = concept, D = design/ prototype, L = launch, S = scaling)

1. Locally based sustainability – strategic involvement with global corporate system based on clear local community values

   a. Mondragon [S]

   b. Emilia Romagna [S]

   c. Michael Schuman - *Going Local* – BALLE [L]

   d. William McKibben –

      i. building sustainable communities based on voluntarily engaging in a process aimed at group benefit (ahead of individual profit) self-sufficiency – not tied to the global corporate system – key ingredient in US = energy self-sufficiency; Vermont; Time Dollars [C –D]

      ii. Happiness Index vs. GNP in Bhutan (p. 217); Kerala, India – former untouchables create land reform and a very egalitarian community that is very poor, cannot attract outside investment and has high longevity and 100% literacy (pp. 219-220)

   e. David Korten –

      i. Walking away from the Global Economy by creating self-sufficient local economies [C]

      ii. *Yes* Magazine – focuses on [C and D]

   f. Business Alliance for a Local Living Economy (BALLE) [L]

   g. American Independent Business Association (AMIBA) [L]

2. Changes in the Concept of Ownership

   a. Labor rents capital – David Ellerman [C]

   b. Shareholder Primacy is not sustainable

      i. Corp 2020 [C – D]

      ii. POCLAD – removing corporate charters from companies that are not socially responsible [C]

      iii. B Corps [D]

3. Multiple simultaneous strategies

   a. IN4C

   b. Greater University Circle Project - Cleveland [D]

   c. The Reinvestment Fund [L – S]

4. Evolution of EMPLOYEE OWNERSHIP to a Worldwide phenomenon in multiple forms:
    a. ESOPs – NCEO statistics [S]
    b. Global popularity of EMPLOYEE OWNERSHIP [L – S – depending on country]
    c. Growth in interest and number of co-ops as corporate economy implodes? [C – D]
    d. Growth in Stock Option Plans – (argument as to whether this is actually ownership)
5. Collective Economic Action beyond Labor Unions
    a. Partnership for Working America [L]
        i. LAANE [L – S]
    b. Community Benefit Agreements [S]
    c. Workers' Centers [L]
6. Greening Economy/ Energy Independence
    a. Co-op America/ Green America [S]
        i. Green Pages [S]
        ii. Green Business Network [L]
        iii. Social Venture Network (SVN) [D-L]
        iv. Fair Trade Certification for products and TransFair Certification for Importers [L-S]
        v. Green Festivals [S]
    b. Government Investment in Green Tech
        i. Requirement of serious green tech advances in exchange for $25 billion bailout to auto industry [D]
        ii. NextEnergy and focus of Granholm on Renewable Energy Tech as one of priorities of Michigan 21st Century Jobs Fund w/ the $2 billion focused investment in 4 strategic target growth industries– Similar in PA, MA, NY, CA [L – S]
    c. Blue-Green Alliance and Apollo Alliance [C]
        i. labor protections to go into green energy job creation bills
        ii. re-employ industrial workforce building green infrastructure and energy sources
    d. Green Collar Job Training by Environmental Justice Groups
        i. Detroiters Working for Environmental Justice – Build Up Detroit program – green collar job training for inner city folks w/ 85% job placement and partnership w/ Southeast Michigan Sustainable Business Forum

ii. Sustainable South Bronx – creating Bronx River greenway; green roofs, green job training for inner city residents

B. Workplace Participation [S]

1. National Center for Employee Ownership (NCEO) and Ohio Employee Ownership Center (OEOC) and Blasi and Kruse – Studies showing Participatory employee ownership leads to stronger, more profitable and long standing companies [L – S]

2. Jack Stack – *Great Game of Business* [S]

3. William Taylor - *Mavericks at Work* and *Fast Company* [S]

C. Partnership between Foundation and Neighborhood to Create and Share Business Asset Ownership

1. Jacobs Family Foundation and Market Creek Center [L]

VII. Community Based Enterprise Entities or Assistance Sources in Detroit – (*This table is the beginning of an ongoing project of the C2BE Advisors. David Spitzley is creating a wiki for internal use by our advisors to continuously update and correct the following data set. We are working to revise the format to fit within a more useable taxonomy. When we are sufficiently comfortable with it, we will put a version of it on the public part of the website. We may retain a private wiki or open the wiki to the public.*

Table VII – Detroit Community Based Enterprises and Assistance Resources

PEOPLE	ORGANIZATION	CBE PROJECT/ ASSISTANCE	Ideas, Sector and Development Stage
	Michigan BALLE	Network of BALLE "Local First" organizations developing in communities throughout the state.	[L]
	Sustainable Detroit www.sustainabledetroit.org	Organization focused on tying together local groups that are doing Adamah-like work around SE Michigan	
	Detroit Synergy http://www.detroitsynergy.org	A virtual organization. A member-driven organization, supporting projects initiated and led by individuals in collaboration with community partners. Some of the projects Detroit Synergy is involved in are: Project Clean, Habitat for Humanity, Rediscovery Detroit, Shop Detroit and many others.	
Adams, Rev Charles	Hartford Memorial Baptist Church www.hartfordchurchdetroit.org	AGAPE "Love" House for charitable and community ministries offers needed social services such as Medical Referral, Free Clothing, Daily Senior Citizens' Program, Hunger Task Force, Bookstore, Taping Ministry, Scholarship and College Preparation Programs, KAFO and KENTAKE Academies	

PEOPLE	ORGANIZATION	CBE PROJECT/ ASSISTANCE	Ideas, Sector and Development Stage
		for Boys and Girls, Public Health Consortium, Legal Referral, Child Visitation Program for incarcerated mothers, W.I.C. Program, Telefriend Latchkey Program, Narcotics Anonymous, Alcoholics Anonymous, REACH Program for AIDS awareness, education and support and the Hartford Economic Development Foundation	
Anthony, Reverend Wendell	Freedom Institute President of the Detroit Chapter of the NAACP www.freeinst.org	Buy in Detroit Urban think tank to gather information regarding minority health issues, economic development, etc.	
Atkinson, Ashley	Detroit Agricultural Network www.detroitagriculture.org	Gardening Resource Program. Works in collaboration with the Greening of Detroit, Earthworks Capuchin Soup Kitchen and Michigan State University Extension to support urban gardening initiatives and programs in the city. To promote and foster urban agriculture and the sustainable use and appreciation of urban natural resources.	
Bobinchak, Ed	Great Lakes Capital Fund http://www.capfund.net	Non-profit community developing financing corporation operating in Michigan, Wisconsin, Indiana and Illinois.	
Boggs, Grace	Activist, author and speaker. The Boggs Center Detroit Summer www.boggscenter.org	The Boggs Center - a community center and think tank to draw together individuals and organizations from diverse backgrounds. Detroit Summer, a multi- racial, inter-generational collective working to transform themselves and the community by confronting problems with creativity and critical thinking.	
Brush, Lisa	Statewide Stewardship Network http://www.stewardshipnetwork.org	Helping people care for land- what to do to remediate the land in Detroit – Nature Conservancy on steroids	
Butler, Keith	Word of Faith www.woficc.com	Agape House – providing crisis care, job training and education. Coming soon is the Children Center Project. They also intend to build a Gym and Fitness Center as well as Senior Citizen Housing.	
Carmody, Dan	Eastern Market http://www.detroiteasternm	Creating a new resource to engage the community with food, farm, and nutrition-relation educational programs, add visitor	

PEOPLE	ORGANIZATION	CBE PROJECT/ ASSISTANCE	Ideas, Sector and Development Stage
	arket.com	amenities, and enhance the market as an attractive destination through the construction a new Market Services and Food Education Center.	
Chapman, Robert	WARM Training www.warmtraining.org	Nonprofit organization training people in weatherization and construction related trades. Also providing: Energy Counseling Green Building Home Repair Workshops Housing Inspections Conferences	
Charlton, Randal	TechTown www.techtownwsu.org	Community of entrepreneurs, investors, mentors, search providers and corporate partners creating an entrepreneurial village in Detroit to promote new businesses	
Cleveland, John	Urban Sustainability Association	Renewable energy business potential in Detroit	
Coady, Christine	Michigan Interfaith Trust Fund www.interfaithtrust.org	Provides low interest loans to small businesses to promote community economic development in Detroit.	
Crouch, Patrick	Capuchin Soup Kitchen www.cskdetroit.org	25,000 sq. ft. urban farm program producing food for the 2,000 hot meals served daily in two locations. Collaborates with other food growing and delivery programs in the Detroit area.	
DeSantis, Maggie	Warren Conner Community Development Coalition www.warrenconner.org	WCDC is a Detroit Eastside community development corporation and coalition of organization. They developed a shopping center at the formerly blighted corner of Mack and Alter. Three main programs- Rebuilding Communities, Youth on the Edge... of Greatness, and Partnership for Economic Independence. Project G.R.O.W. is a 3-year initiative to nurture community farming and development of food related businesses on the Eastside of Detroit and Highland Park. This is one of many projects sponsored by Warren/Conner and other organizations.	
Davis, Scott Alan	Vanguard Community Development	Serves the North End neighborhood of Detroit with programs in youth services, in-fill	

PEOPLE	ORGANIZATION	CBE PROJECT/ ASSISTANCE	Ideas, Sector and Development Stage
	www.vanguardcdc.org	housing construction, commercial real estate development, small business development services and community organizing.	
Dorn, Patrick	Cass Corridor Neighborhood Development Corporation www.casscorridor.wordpress.com	Rehabilitates and builds decent, safe and affordable housing and manages eight multi-unit properties.	Dorn, Patrick
Ellis, Bishop Charles III	Greater Grace Temple www.greatergrace.org	Ellis Manor Apartments for Seniors Banquet Hall and Conference Center	
Friesen, Tom	Architectural Salvage Warehouse of Detroit www.aswdetroit.org	Dedicated to salvage reusable building material to reduce landfill use, provide jobs in deconstruction and offer building materials at below market cost to the community	
Goddeeris, Tom	Grandmont Rosedale Development Corporation www.grdc.org	Works to preserve and revitalize the Grandmont Rosedale communities through its Housing Development and Commercial Revitalization Programs.	
Hernandez, Hector	Mexicantown Community Development Corporation www.mexicantown.org	Aiming to foster economic development in the Hispanic community. Goals are marketing, cultural programs, maintenance and improvement of parks and streetscapes, business training and incubation, reuse of vacant land and development of the Mexicantown International Welcome Center and Mercado.	
Herrada, Elena	Centro Obrero Workers Center http://criticalmoment.org/issue16/herrada	Filed a class-action lawsuit on behalf of marginalized workers at a parts plant; Helped dislocated workers find union jobs at a plastics plant; Participated in an organizing drive, held "Know Your Rights" workshops; and Provided education on labor rights and economic realities in Detroit for immigrant, people-of-color and low-wage workers	[L]
Holley, Reverend Jim	The Historic Little Rock Baptist Church	Charter school, a job placement center, two commercial strip malls, a convalescent center, and a medical services	
Hughes, Keith	Intellectual Property Commercialization Group (IPCG)	For-profit business licensing auto industry IP to other industries. Commitment to saving and creating jobs in Detroit.	

PEOPLE	ORGANIZATION	CBE PROJECT/ ASSISTANCE	Ideas, Sector and Development Stage
Johanan, Lisa	Central Detroit Christian CDC www.centraldetroitchristian.org	Projects include Breakthrough Enrichment and Youth club providing homework assistance as well as spiritual guidance to the youth; Medicaid Outreach Assistance and Motor City Makeover, which organized communities to help clean up Central Detroit.	
Josaitis, Eleanor	Focus Hope www.focushope.edu	Community building efforts to improve the community. Extensive Technical, Industrial and Engineering Education and Career Training Programs for non-traditional students.	
McCoy, Don	Performance Disaster Restoration http://www.pdrcs.com	2 entrepreneur networks of black entrepreneurs.	
McKay, Timothy J.	Greater Corktown Development Corporation www.corktowndetroit.org	Currently working on three residential infill projects with roughly 50 units.	
Miller, Edward J. (Chip)	Detroit Investment Fund www.detinvfund.com	Invests in local initiatives with the potential to stimulate economic development within Detroit, while	
Morris, Tawnya	Abayomi Community Development Corporation www.abayomicdc.org	Provides community and economic development, education and recreation programs to over 5,000 youths. Provides home repair assistance to seniors, is developing an asset-building program modeled on the individual development account approach, and has plans to expand to areas of commercial real estate development.	
Mosey, Sue	University Cultural Center Association President www.detroitmidtown.com	Supports physical maintenance and development of Midtown Detroit. Launched major initiative in 2003, to improve Woodward Ave, Midtown's main thoroughfare. "Coordinates $20 million worth of development including mixed-use commercial/housing on Woodward Avenue, the "Inn on Ferry Street" a B&B using historic buildings, and a $3.5 million greenway connecting the medical center and midtown cultural buildings.	
Murray Ed.D, Dr. Vincent J.,	Bagley Housing Association www.bagleyhousing.com	Not-for-profit that provides resources for community development in the Hubbard Richard and Farms districts of Detroit. Goal is to improve housing for low and moderate-	

PEOPLE	ORGANIZATION	CBE PROJECT/ ASSISTANCE	Ideas, Sector and Development Stage
		income families; foster commercial development; attract institutional improvement and development; promote jobs and address the needs for sustainable neighborhoods.	
Naimi, Matt	Recy-clean Co. www.recy-clean.com	First person in Detroit doing recycling. Could scale, making Detroit a major hub for waste reprocessing – Detroit could do the trash of Toronto, etc.	
O'Brien, John	Norwest Detroit Neighborhood Development www.ndndhomes.org	Committed to building affordable housing for low and moderate-income residents in the city's Brightmoor community.	
Olson, Deborah	Center for Community-Based Enterprise www.c2be.org	The Center for Community-Based Enterprise, Inc. (C2BE) supports and connects entrepreneurs, community and resources to grow "community-based enterprises" (CBEs): companies that are sustainable; locally-rooted; intentionally structured to provide community benefit; and committed to paying living wages.	
Pfeiffer, Jessica	Michigan Opportunities and Resources for Entrepreneurs (MORE) http://www.themoreprogram.com/	New program aimed at keeping recent college grads in the state	
Schmidt, Susan	Director of Food Services for Henry Ford	Created an alternative supplier network – vision of different food system Consciously trying to create a demand for locally grown produce, meats and poultry that will, in turn, propel farmers to think locally.	
Score, Mike	MSU product center score@msu.edu Also a member of the MSU C.S. Mott Group for Sustainable Food Systems.	Agricultural innovation counselor for Michigan State University, working full time for its Product Center through MSU Extension. Food security product accelerator. Good at creating business plans, loves community	
Secci, Nick	Chef at Henry Ford	Local slow food movement leader. Food security conferences Three years ago, Seccia began looking for Michigan farmers by posting to an organic farming Web site, www.newfarm.org. Since then, he's gathered a small network of farm	

PEOPLE	ORGANIZATION	CBE PROJECT/ ASSISTANCE	Ideas, Sector and Development Stage
		suppliers, getting speckled eggs produced by Arcana and Barred Rock chickens, heritage pigs from another, milled organic wheat from a century-old mill and enlisting several farmers to grow vegetables and other produce for The Henry Ford.	
Smith, Linda	*United Streets Networking And Planning: Building A Community* U-SNAP-BAC http://www.usnapbac.org	A consortium of 7 neighborhood organizations and 4 businesses associations currently working to revitalize Detroit's eastside. Also owns a housing subsidiary. Provides counseling, mentoring, workshops, meetings, community forums and neighborhood cleanup efforts.	
Stough, Bill	Southeast Michigan Sustainable Business Forum	A resource for the development and implementation of sustainable businesses. SMSBF membership consists of 71 people/businesses.	
Tandy, Kim	University Commons	A 501(c)(3) organization created to spearhead and oversee the commercial development of Livernois from 8 Mile to the Lodge and McNichols from Livernois to Wyoming. Key stakeholders include University of Detroit-Mercy, Marygrove, Northstar Community Development Corporation, Shoppers Coop, local business associations, and local community organizations.	
Thiess, Bill	Detroit Edison Credit Union www.detedcu.org	Organized to provide financial services to Detroit Edison employees, it has grown to provide loans and savings services to more than 28,000 members.	
Tillford, Vincent	Re-Stores-Habitat http://www.habitatdetroit.org/Restore/	As part of the Habitat for Humanity project, the Re-Store works by recycling materials and goods that would otherwise end up in landfills, ReStore helps preserve natural resources and reduces waste disposal costs.	
Turman, Rev Kevin	MOSES – Detroit www.mosesmi.org	Affiliated with the Gamaliel Foundation. Working to improve the quality of life in neighborhoods where their members lived. Working on healthcare in Michigan, transportation in the Detroit Area, and bringing quality food and jobs to Michigan.	
Underwood, Kathryn	Detroit Planning Commission	Green Tea events to promote biking in	

PEOPLE	ORGANIZATION	CBE PROJECT/ ASSISTANCE	Ideas, Sector and Development Stage
	www.m-bike.org/	Detroit.	
Van Camp, John	Southwest Solutions www.swsol.org	Piquette Project – housing homeless veterans in Detroit Providing decent, affordable housing and support services, and actively participating in neighborhood revitalization and economic development	
Victor, Jackie	Avalon Bakery (Avalon International Breads)	Bakery dedicated to supporting the local economy and employing local residents.	
Waters, Ray	Shorebank Detroit www.shorebankcorp.com	Strengthening communities and creating healthier environments by lending to small local businesses, homebuyers, rehabbers, affordable-housing developers, green builders, and faith-based organizations.	
Wendler, Kathy	Southwest Detroit's Business Association www.southwestdetroit.com	Established in 1957, the Southwest Detroit Business Association fosters innovation, drive and commitment in the community. Working with investors, entrepreneurs, customers, and neighbors to capitalize on Southwest Detroit's competitive advantage. SDBA supports the community's vision for a healthy, vibrant neighborhood. Pursuing economic development to stimulate investment and grow community wealth in the Mexicantown and nearby areas of southwest Detroit. Disburses grants for real estate development and provides technical assistance and assists with community planning and organizing.	
Wickstrom, Todd	Mercury Coffee Bar	A restaurant using food to drive economic development in the city	
Wilkins, Donele	Detroiters Working for Environmental Justice www.dwej.org	Formed in 1994 to address the disproportional burdens faced by people of color and low-income residents in environmentally distressed communities. Programs include: Green jobs workforce training program; Youth On Patrol Against Pollution, (YOPAP); Environmental Services-Home Intervention Team, (HIT); Community Hazard Awareness Training Seminars, (CHATS); Build Up Detroit, (BUD).	

PEOPLE	ORGANIZATION	CBE PROJECT/ ASSISTANCE	Ideas, Sector and Development Stage
Williams Ed.D., Geneva J.	City Connect Detroit www.cityconnectdetroit.org	Seeks to facilitate collaboration between non-profits, governments, businesses, grant makers and others in the metro Detroit area.	
Williams, Guy	G.O. Williams and Associates	Firm provides business and project development for developers, non-profit organizations and local units of government. He is also on the Board of Directors for Detroiters Working for Environmental Justice.	
Wimberley, Mike	Friends of Detroit and Tri-County http://www.friendsofdetroit.com/	Provides human services, vocational training and life management skills.	
Witt, Rebecca Salminen	Greening of Detroit Executive Director www.greeningofdetroit.com	Founding partner of Gardening Resource Program. Green Corps Program employees Detroit's youth to maintain planting sites citywide. Community Gardens Neighborhood Tree Planting Neighborhood Nurseries	I.- 5, 9, 10, 11, 12, 14, 16, 18, 19,22 S-2,3,7,8,9,23,25 Stage (S)
Younger, Deborah	LISC Detroit www.lisc.org/detroit	Projects include hosting a Block Watch Summit to help tackle the vacant properties in Detroit's neighborhoods. Neighborhoods NOW is another project of LISC Detroit that has four major focuses: the Strategic Investment Areas initiative in the city of Detroit, the Metro Detroit Regional Investment Initiative focusing on Detroit and its inner ring suburbs, organizational development and capacity building, and the crucial issues of public policy and land use. The SafeGrowth program, another project, is designed for professionals in community development, design, planning, law enforcement and crime prevention. It introduces participants to basic and advanced 1st Generation CPTED (minimizing the physical opportunity for crime) as well as 2nd Generation CPTED (minimizing the site-specific social conditions that generate crime opportunities).	

Zachary, Ernie	Zachary and Associates www.zacharyandassociates.com	Detroit based firm specializing in all phases of economic development. Provides consulting to the public/private arena. Has also performed various marketing studies in the Greater Detroit Area.	
	Cooperative Optical Services, Inc. www.coopoptical.com	Largest non-profit vision care services in the state of Michigan. Group contributes to health care cost containment in eye care by providing funded program coverage at reasonable rates.	
	The Hub of Detroit www.thehubofdetroit.org	The Hub of Detroit is a non-profit, full-service retail bike shop. Funds raised by The Hub support our free youth and adult education program, Back Alley Bikes.	

VIII. Highest Potential Opportunities for Advancing Innovation

A. Innovations Holding Highest Potential for Implementation in Detroit

1. Sources of Information on Existing Detroit CBE Efforts:

Answering this question requires a study or scan of the community based enterprise efforts already underway in Detroit (including those described in Section VIII above); and an assessment of the underutilized (natural, human, technological and business) resources available within the City. Due to upheaval within the city government, there is not central source of such information. Resources to contact include:

a. Detroit Economic Growth Corporation

b. Detroit LISC

c. City of Detroit – Ofc. Of Neighborhood and Community Revitalization (ONRC)

d. Greening of Detroit/ Detroit Agricultural Network

e. Eastern Market

f. Next Detroit Opportunity Fund

g. Detroit Investment Fund

h. Great Lakes Capital Fund – Detroit

i. Community Councils in the 13th, 14th and 15th Congressional Districts – Examples of specific local CBE efforts include

   i. University Commons;

   ii. Cork Town – Mercury Café and Slows BBQ Café

   iii. Southwest Solutions housing and business development

j. Greater Detroit Network of Social Entrepreneurs

k. Catherine Underwood at City Planning

l. Michigan Opportunities and Resources for Entrepreneurs

m. Great Lakes Entrepreneur Quest

2. Organizations that have adopted specific neighborhoods in Detroit:

a. LISC

b. Skillman Foundation

c. City of Detroit

d. Community Foundation

B. CBE Innovation Recommendations for Detroit

We created the Center for Community Based Enterprise, Inc. (C2BE) a 501(c)(3) non-profit to support and connect entrepreneurs, community and resources to grow "community-based enterprises" (CBEs): companies that are sustainable; locally-rooted; intentionally structured to provide community benefit; and committed to paying living wages. Our vision is to create a business resource center and co-operative that serves, and is made up of, community-based enterprises, enabling collaboration between sustained economic growth for member businesses and good local jobs. Its proposed strategies are to:

- Find, support, connect and scale-up local community-based enterprises (CBEs).
- Catalyze collaboration across all strata of the community to create new products and jobs.
- Help non-traditional entrepreneurs create or expand businesses.
- Identify growing market niches using Metro Detroit's unique skills, technology and untapped intellectual property resources and help local CBEs exploit them.

Based on the unique resources of southeast Michigan described below and the CBE innovations described above, we have been seeking to develop any or all of the following programs as opportunities and/or resources become available.

1. Current Programs

a. Education for Culture Change toward Community-Based Enterprises

Funded by the Skillman Foundation and Detroit LISC, C2BE is presenting a series of events focused on helping existing organizations and CBE projects in Detroit learn from experiences and best practices elsewhere to inspire them to create new CBEs, and foster collaboration among local stakeholders. This effort has generated interest and demand for technical assistance services.) See **Appendix G** for specifics.

b. Urban Grocery Store Pre-Feasibility Study, Speaker Event and Ongoing technical assistance

C2BE performed a prefeasibility study for the Detroit Supermarket Task Force to guide their work on bringing stores providing fresh food to inner city neighborhoods. As their effort narrowed down the location, we organized with them a speaker event, attended by 285 community members, to learn from others who had been successful in creating community focused grocery stores in inner city Philadelphia. Our executive director, in an independent role as legal counsel to the union, is providing legal assistance to create the community owned business structure. To the extent possible this effort will support the Detroit Economic Growth Corporation's effort to copy Pennsylvania Food Trust and The Reinvestment Fund systems and strategy to apply to new food development and marketing system in Detroit with Greening of Detroit, Detroit Agricultural Network, Eastern Market Association, and community owned grocery store effort of UFCW SCD.

2. Planned Programs (not yet funded)

a. Localizing Metro Detroit Anchor Institution Supply Chain

Working with the leaders and purchasing departments of local universities, hospitals, governments, foundations, along with Shorebank, the Cultural Center Association (and possibly other organizations such as Greening of Detroit, Detroit Agricultural Network and Eastern Market Association and Community Development Corporations, TechTown, etc) C2BE will identify products/services they use that are not currently provided by locally owned businesses. We will propose feasibility studies on five potential businesses that could be created locally to serve those needs; seek commitments from the relevant anchor institutions; and structure the businesses that are feasible. If necessary, we will develop an expediting function to enable efficient local procurement. C2BE will facilitate business structures (such as employee ownership) to ensure continued local presence, and incorporation of green business practices.

b. Community Business Resource Network – Finding, Connecting, Supporting CBEs

C2BE will link our region's existing community-based enterprises (CBEs) into a "Community Business Resource Network," which will generate business by matching CBEs' resources to unmet needs. The Network will broker mutually beneficial business relationships to help CBEs scale up. This mutual support strategy has proven effective in the Ohio Employee Owned Network (http://dept.kent.edu/oeoc/network), which has served 93 companies for 20 years, providing joint purchasing, education and resource sharing. Community-based enterprises in southeastern Michigan would benefit from a comparable mutual assistance program. By joining the Community Business Resource Network, metro Detroit CBEs will find opportunities to cooperate and provide services to each other; buy in bulk, etc., thus enabling them to scale up.

c. Ingenuity US, L3C – Innovation Broker - Redeploying Auto Industry People and Intellectual Property

C2BE's mission driven for-profit sister, Ingenuity US, L3C, is a low-profit limited liability company (L3C) that will demonstrate model CBE practices while generating jobs and revenue for C2BE's long-term sustainability. Serving as an "innovation broker," IUS will focus on redeploying southeastern Michigan's underutilized intellectual property, technology and human resources to manufacture new products for growth markets in the new energy economy, while developing a more patient, rooted capital structure. IUS will help laid-off, highly skilled workers, engineers and managers—who may lack some entrepreneurial skills—to create or join emerging businesses by providing them access to intellectual property, a diverse network of advisors, creative product development resources, and help finding investors. IUS will connect its protégé businesses with the C2BE Community Business Resource Network to help them be locally-rooted, efficient and highly competitive.

C2BE and IUS propose: a) to create locally rooted, stable businesses and good jobs, to put auto suppliers, unemployed engineers and workers back to work creating new products from IP that has been unused in the auto industry for years; and b) that the President's Auto Task Force should require GM and Chrysler to begin developing the unused IP in their portfolios within 6-12 months, or be required to license it to a public interest entity that will use it to create jobs for Michigan Workers.

C2BE has been discussing partnerships on this effort to develop underutilized green auto IP with the Intellectual Property Commercialization Group, the Engineering Society of Detroit, the Michigan Manufacturing Technology Center, an IP Insurance company, government agencies, policy makers and others.

d. Creation of Backroom and Support Resources for CBEs and a Community Products and Services Cooperative

Provide matchmaking to help local CBEs, learn about each other, develop synergies and scale up: i.e. share backroom functions; contract with each other for services; develop partnerships.

Work with Southwest Housing Solutions existing backroom program for southwest Detroit small building contractors and a similar program being developed by the Greater Detroit Social Innovation Network to broaden the backroom function into a broader set of business functions for CBEs and community development corporations, etc.

Expand on the backroom to develop in IUS a product and service co-operative based on the Argentine barter club system, but more robust and involving cash too. For example, the co-operative or LLC membership system could enable company or individual members to provide and receive services from other co-op members at half the normal market rate (or alternative arrangements approved by 2/3 of the membership.)

Use the management resources organized within this LLC or co-operative to help create new green businesses for the thousands of people who will receive “green job training”, the hundreds who will soon be run through entrepreneurship training programs – working in conjunction with the Detroiters Working for Environmental Justice, the SE Michigan Sustainable Business Forum, companies and workforce development institutions creating green jobs training programs., etc.

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Cleveland's Greater University Circle, the Cleveland Foundation and the Evergreen Cooperatives

The following case study is an edited version of Jacquelyn Yates' paper *Can "Anchor Institutions" Help Revitalize Declining Neighborhoods by Buying from Local Cooperatives? – The Evergreen Cooperative Initiative* – Ohio Employee Ownership Center, Kent State University 03/25/09 presented at a St. Louis Federal Reserve Bank Conference April 22-23, 2009. It is reproduced with permission from the Ohio Employee Ownership Center.

The Greater University Circle (GUC) neighborhood is an extension of the "University Circle" created by combining Cleveland's university campuses, cultural center and hospital district in the heart of the city with surrounding working-class and impoverished areas including parts of six neighborhoods (Glenville, Hough, Fairfax, Little Italy, Wade Park and Buckeye/ Shaker) in order to establish a safe, attractive, racially and economically diverse neighborhood without acute poverty, but also without throwing out or throwing away the people who live there now. The GUC project includes $2.5 billion in new construction and remodeling by the large, well-established anchor institutions (Case Western Reserve, Cleveland Clinic, University Hospitals, Cleveland Orchestra, Cleveland Art Museum), relocation and redesign of transportation hubs, new residential and retail facilities, three new high-performance high schools in an existing Board of Education landmark building, and a bold housing initiative to create new homeowners and renters.
Having described in some detail the more traditional real estate development efforts of such projects above in the section on Penn, we will focus here on the highly innovative economic inclusion strategy in the Cleveland GUC project, which is the creation of the Evergreen Cooperatives.

Nested within a multibillion dollar initiative to redevelop Cleveland's Greater University Circle area will be the Evergreen Cooperative Laundry, a private company owned by its employees. Its creators closely resemble doting parents who anticipate offspring small but mighty. They are prepared to launch and nurture their little company through the early years so that it can in turn become the creator of an entire new generation of worker cooperatives in Cleveland.

The Evergreen Cooperative Laundry is to be an employee ownership initiative located within a large and complex web of partnerships directed toward the goal of creating a new urban neighborhood out of several old ones. The laundry and its future sister enterprises constitute an economic initiative that will accompany a surge of investments in large public and private anchor institutions in the University Circle neighborhood. The Evergreen Laundry is to be the first of a network of new employee-owned enterprises that will employ neighborhood residents and stabilize the local economy.

The first of its kind initiative in urban revitalization, the laundry is likewise to be the first of its kind – a new workers' cooperative with industrial scale capabilities, capitalized with loans and grants from philanthropic and public investors. It is the first enterprise in a planned family of cooperative enterprises that will employ neighborhood residents in new "green" businesses notable for their energy efficiency or for the development and manufacture of green technology.

The laundry is part of the economic inclusion strategy of the Cleveland Foundation, which has taken the lead in convening leaders and representatives from some 40 nonprofit institutions in the cultural center with city government, community development associations and other consultants, all brought together for the planning and creation of the new neighborhood.

The economic inclusion element of the project was born with a question: why were so few benefits flowing from the anchor institutions to their surrounding neighborhoods? The nonprofit institutions, created by the industrial companies that have long since fled the city, remained behind, were remarkably successful nonprofit enterprises. They attracted students and clients from the entire nation. Hundreds of millions of dollars flowed through their treasuries every year. But very little of that flow benefited surrounding neighborhoods. Some of the neighborhoods were so blighted that they represented an obstacle for people wanting to use the hospitals, attend the university, go to concerts or visit the Art Museum or Botanical Gardens. People at the Foundation saw that the neighborhoods should participate, needed to participate, in the anchor institutions'success. But how to do it?

Economic inclusion and community wealth

The Greater University Circle project had been underway for more than a year by the time the idea of developing cooperatives was raised. With the major plans for development and redevelopment of buildings and transportation already well underway, and a housing incentive scheme set to go, the Cleveland Foundation was looking for ways to reach out to the neighborhoods' residents with an approach that promised more visible success than efforts the city had made in the past. "For years, I ran job training programs worth hundreds of millions of dollars, and yet when I looked around the neighborhoods, I thought, 'Where is the impact?'" said India Pierce Lee, Program Director for Neighborhoods, Housing, and Community Development at the Cleveland Foundation.

"This is a way to get the residents long-term employment and ownership," Ms. Lee said. The idea of cooperatives and employee ownership was first raised in a community wealth-building roundtable in December 2006, sponsored by three philanthropic groups: the Cleveland Foundation, the Gund Foundation and the Sisters of Charity. They invited the Democracy Collaborative at the University of Maryland, a nonprofit group with a philosophic commitment to economic stability as the foundation of democracy, to organize the event. The roundtable offered leaders of institutions in the Greater University Circle a close look at a new, capitalist, strategy for creating economic stability and financial assets for poor and working people.

The first goal of the roundtable was to bring together people who were working on various aspects of wealth-building, without much awareness of the efforts and results of others working on other parts of the problem with other approaches. They were "working in silos," with each effort and each group of practitioners isolated from the rest. The roundtable brought together representatives from the mayor's office, the Chamber of Commerce, the foundations, the six community development corporations operating in the GUC, the anchor institutions, several CEOs from employee owned firms in or near Cleveland, the Ohio Employee Ownership Center at Kent State University, and a few outside consultants with hands-on experience. "They not only met people from other silos, but we also brought in experts from outside Cleveland, where elements of the strategy for community wealth-building were being developed around the country -- for creating capital, anchoring it, creating anchored jobs, all to generate wealth for low and moderate income neighborhoods," said Ted Howard, Executive Director of the Democracy Collaborative.

The practitioners met people outside of their own silos, and they heard about the philosophy and research of the Democracy Collaborative. Ted Howard said:

> "Our view is that where democratic life gets created is really in communities where people reside. Not that national policy isn't important, but that if you want a "big D" democracy in which national life is really healthy and meaningful and vibrant, in which people express themselves as strong democratic citizens, where that really gets built is on the ground, in communities, so that's one place we start. And when we look at that –there are certain conditions that need to exist in a community that allow for that strong, healthy democratic life to flourish. One of which is… a sufficient amount of economic stability in the community. Not that there shouldn't be growth and expansion, but stability so that people are not scrambling for their next job and can't afford food for their family."

Research shows that businesses owned by their employees are unlikely to use overseas suppliers or sell out to foreign ownership, as have so many Ohio companies, because doing that might mean losing their work as well as their ownership. In a recent survey, Ohio's employee owned companies reported that they were less likely to outsource than their industry.

Other research has shown that employee-owned companies are a little more profitable than comparable conventional companies, an advantage that continues over many years like compound interest [1] Companies that are wholly owned by their employees, like the cooperative laundry, also enjoy considerable tax advantages because there is no corporate tax above and beyond what the employees receive as wage and retirement income.

If building democracy through building economic stability was to be the philosophy of the GUC project, how could it be implemented?

> "You must build assets. You must develop long term leadership, and you need assets to do that. Without it, you have the boom and bust of community development: because the people who you help succeed leave, then drugs and

[1] Joseph Blasi, Douglas Kruse and Aaron Bernstein, *In the Company of Owners* [New York: Basic Books, 2003] pp. 155-157

> crime grow back and the community crashes again. This is the cycle that faces so many CDCs over and over. The trick to avoiding this cycle is to anchor both people and institutions by building assets in the community,"[2]

The roundtable participants wrapped up by brainstorming next steps. That was followed by six months of interviewing by the Democracy Collaborative. Said Howard,

> "We did about 120 interviews with people across the board, in all levels of these large anchor institutions, in community development corporations, the city government, the county government, business, right across the board, to explore with them what might be a strategy for the anchor institutions in the area to work together with them for mutual benefit."

Out of the roundtable and the interviews grew both a strategy and awareness of business opportunities. The Foundation's favored imagery for the strategy is a three-legged stool. A stool can't even support its own weight without at least three legs, and the three legs of the strategy were local purchasing by the anchor institutions, getting local residents into owning the enterprises that employed them, and taking advantage of emerging business opportunities to produce in a more energy efficient, green economy.

Evergreen Cooperative Laundry

The laundry itself was conceived when William Montague, Executive Director of the Cleveland Veterans Administration Medical Center, pointed out that the VA would soon be needing a vendor of laundry services, because the current laundry facility in Brecksville would be closed when the VA's Brecksville center closed and operations were consolidated in Cleveland. Since the VA is a federal facility, the laundry service would be competitively bid, and there was no guarantee that any business from the GUC would get the contract, but a feasibility study by the Ohio Employee Ownership Center (OEOC) showed that the demand for laundry service was strong.

About five years earlier, the Cleveland Clinic had built a state-of-the-art laundry facility for its laundry vendor, Sodexo[3], a French multinational with US headquarters in Gaithersburg, MD. The feasibility study revealed that although commercial laundries are known to pay low wages, in fact, they are profitable businesses whose earnings go to owners and shareholders, not the employees. Making the employees owners meant that an employee owned laundry could immediately provide jobs paying a little better and with better benefits than the going rate for such work and could also be a wealth-builder for employees over the years.

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[2] CiceroWilson, CEO of Mid-Bronx Desperados Corporation in New York City at the December 2006 roundtable.

[3] Sodexo, a facilities services provider, started out as a food service provider in 1966, and gradually converted to providing a broader range of services. In 1998, Sodexho merged with Marriott Management Services, at the time one of the largest food services companies in North America. It went public on the New York Stock Exchange in 2002.

So there were two legs of the stool – a local laundry service for anchor institutions and wealth-building through ownership. But can a laundry really be green, with its voracious appetite for strong chemicals, hot water and steam? It turned out that it could at least be greener than the competition, by using the most efficient machines, minimizing the use of chemicals within the requirements of its customers, recycling water, using waste heat to preheat its hot water, and eventually installing solar panels for heating hot water and generating electricity.

To get the laundry up and running, the Ohio Employee Ownership Center provided from its staff Jim Anderson, a former CEO experienced with employee ownership and large scale industrial processes. He took on the challenge of launching and leading the laundry in the crucial months of operation required to qualify for bidding on the federal contract. In the meantime, leaders of some private health care institutions in the area expressed an interest in patronizing the laundry.

Anderson began by visiting the VA laundry in Brecksville, to which the Cleveland VA's linen was making a 40-mile round trip every day. He saw the operation and learned that bidders for the federal contract at the VA must have demonstrated capacity and a business track record. That knowledge set the timetable for starting the Evergreen Cooperative Laundry. Anderson then visited other potential customers, including Cleveland Clinic (CC) and University Hospitals (UH). He found that both institutions are currently contracted – CC with Sodexo for about 10 more years, and UH with Paris Company, headquartered in DuBois PA. UH sends laundry to a Paris Company facility in Ravenna, OH. In his search for laundries to visit, Anderson came across M&L Supply in Akron. M&L sells commercial laundry equipment, and they opened the door for Anderson to visit some large and small facilities in Ohio. With CC and UH out of the immediate picture as customers, Anderson, with business consultant Stephen Kiel, began to develop a picture of the potential customer base in a 10-county area around GUC. They found 53 hospitals and 259 nursing homes washing an estimated 246 million pounds of laundry per year.

Anderson, taking on the role of chief marketing officer, visited some of the nursing homes. He found that although most hospitals were already outsourcing their laundry, most nursing homes were not. He developed an educational marketing approach, helping the nursing homes to understand what it cost to do their laundry in-house. "A typical reaction would be, 'Our costs are somewhere around 15 cents a pound,' and when we get done with [a cost study], we find out that their costs are somewhere between 60 and 70 cents a pound, so they're off by a factor of four or five," reported Anderson. With his informational approach, he had opened a door to a huge market. Nursing homes involved in the GUC project immediately expressed interest in becoming customers of the new "green" laundry. They could use their current laundry space for profitable activities and retrain and redeploy their current laundry employees into better jobs in their growing business. It was a solution where everyone would benefit.

"We can probably break even at 2 percent of the market, make money at 3 or 4 percent, and we're still a very small share of a growing market," observed Anderson. Kiel, who wrote the business plan for the laundry, observed, “The most important thing is that we’re not looking to penetrate [the market] a great deal in order to reach our hurdle. We‘re building this facility to go to about 15 million pounds so the business plan calls for us to grow over a 10 year period of time to 10 million pounds We have the capacity to grow beyond that just by making minor investments in additional equipment. We’ve got the footprint and the capacity to do 15 million, but at 10 million pounds we’re looking to penetrate 4% of the marketplace. We think that is a practical challenge and something that is achievable.”

The laundry will be launched as a cooperative. As a legal entity, a cooperative is a private company equally owned and democratically controlled by its members, in this case its employees. But the Laundry is unusual among worker-owned cooperatives. Cooperatives usually begin with a few workers pooling their work and their small personal funds to build up the enterprise. However, the laundry must have expensive machinery from the outset. It will receive a substantial capital investment from foundations and public investment to purchase its equipment and help from state and local government to train its employees. Management, provided by the OEOC, will hire employees from the neighborhoods who will then become co-op members after meeting the probationary period and applying to join. The membership fee will be paid through a wage check off.

Anderson and Kiel planned for six months to launch the laundry -- two months to finalize and order equipment, two months to install the equipment, and two months of training for the employees. The equipment was ordered on July 2, 2008. But funding proved more difficult to obtain than anticipated, delaying the opening from late winter 2008 to late summer 2009.

Modern commercial laundries are capital intensive, and lenders are always dubious of start-ups. In addition, the timing was bad: ECL’s search for financing kicked into high gear about the time the 2008 banking crisis shut down lending. Indeed, the initial bank which was interested in providing both $1.5 million in commercial debt and $1.5 million in New Market Tax Credits, National City Bank, ended up being purchased by Pittsburgh PNC bank because of National City’s problems in a deal widely assumed to have been brokered by Federal authorities. Putting the financing together took six months longer than expected and required Cleveland Foundation guarantees to First Merit, the local commercial lender which ultimately put in half the loan which National City originally proposed to do. Shorebank, which stepped in for the other half, got first position on the machinery and equipment, enhanced by the fact that it owns the real estate. Still, most of the financing came from the City of Cleveland, the Cleveland Foundation, and publicly subsidized New Market Tax Credits through US Bank (see Table 1). The financing could never have been put together without the commitment and support of the Cleveland Foundation.

Table 1. **Financing Evergreen Cooperative Laundry**

Senior debt:

- First Merit (local commercial bank) 750,000
- Shorebank 750,000
- City of Cleveland 1,500,000

"Equity" (sub-debt through Evergreen Coop Development Fund)

- New Market Tax Credits 1,500,000
- Cleveland Foundation 750,000

Working capital:

- City of Cleveland 200,000
- Common Wealth Revolving Loan Fund 250,000

Total 5,700,000

The laundry washing and drying equipment is made in the U.S., and they are the very latest and most efficient. To reduce the energy needs of the laundry, heat from the used water will be recycled to heat clean water and the laundry will use the "greenest" chemicals acceptable to its customers. It will have skylights to take advantage of natural daylight, and plans to add rooftop solar panels in the future to further conserve gas and electricity.

The laundry building is located in the Shore Bank Complex on 105th and Elk in the Glenville neighborhood, near the boundary of the GUC project. The neighborhood has been hard hit by economic reverses. The facility is on a bus line and there is nearby daycare for workers. The lead employees have been identified, and they are beginning to participate in the development of the laundry and its workforce. Anderson expects to hire the employees from the GUC neighborhood, including several veterans. He has identified and hired an experienced manager for the laundry and is currently looking for someone with experience in maintenance and a leader for operations to be the lead personnel for the new firm. The maintenance specialist is expected to visit the manufacturing plant and see how the machines are constructed. The maintenance specialist will receive training on operation, maintenance and repairs from the manufacturer. The leader of operations will learn to operate all the machines and train the other employees. Together, these three will train the other employees in the operations of the equipment in the laundry.

The final two months of startup will be devoted to training the rest of the employees. With a workforce drawn from people who may have been out of work for a long while, there will be substantial training for all jobs. Jim Anderson:

> "There were four issues that we knew we needed to address as we were hiring : (1) basic job skills – Towards Employment - will be providing this training; (2) environmental sustainability practice/procedures –E4S will be contracted to provide sustainability procedures and practices training; (3) equipment operations – the suppliers have committed resources to support our training and (4) employee-ownership training – business metrics and understanding (how to read and comprehend an income statement, and balance sheet) that Ohio Employee Ownership Center will lead this training initiative."

Anderson continued:

> "And then there's a fifth kind of training that goes to [the reality of] the employee who gets a call from home: "We've got a problem, and I need you to leave work and come here to solve the problem." Typically, that employee, who is probably the most responsible person in the home, then needs to leave work to deal with the problem. We need to have, on site, accessible to us, immediately, folks who can provide intervention for the employee, someone who could say, 'You have responsibility to your family and to your job. Let's figure out how to get somebody in your home to deal with those issues in the future. In a conventional workplace, if that problem were to come up, you would deal with it through discipline. Somebody would do their job that day and you would give them time off. So that's a fifth component of training that's going to be critical to the success of the enterprise. I say that for a social reason but also for a business reason, because it's something that would differentiate this laundry from its competitors, never mind that no other laundry would have the green facilities that we have. The training is definitely connected to our whole business picture: We're going to have higher quality and lower costs, because we're going to have significantly reduced turnover. If we begin to have a lot of turnover, we're not going to have the quality or lower costs, and this laundry is going to disappear. But being an employee owner, with your own vested account generating income and funds for you in the future, is going to provide some glue to keep you here in the company."

Despite its annual goal of 5 million of pounds of laundry per year at startup expanding to perhaps 15 million pounds over 10 years, Evergreen Cooperative Laundry isn't expected to take anyone's job. Health care laundry is a growing business area, with nursing homes and hospitals flourishing and expanding to serve the growing number of retirees.

Growing Employee Ownership: The Evergreen Cooperative Development Fund

However, the horizons for Evergreen are farther out than just creating a successful business. The laundry is expected to be just the first new employee owned enterprise in the GUC. Six or seven additional business opportunities identified by Howard's interviews were selected for their feasibility. These include a solar panel installation and service company and an industrial scale greenhouse. Says Howard,

> "What we are trying to create is a network of cooperatively owned enterprises. One of the things that we believe will help make that work is the Evergreen Cooperative Development Fund. It will be a nonprofit fund that will receive monies, certain kinds of commercial loans, grant monies and so forth, and we'll use them to help seed the creation of new cooperative businesses in this area. It will be a kind of venture capital [effort] targeted specifically at cooperative development, and the incorporation papers and bylaws of each new cooperative firm will designate that a percentage of profits will go into the cooperative development fund, once the firm is profitable."

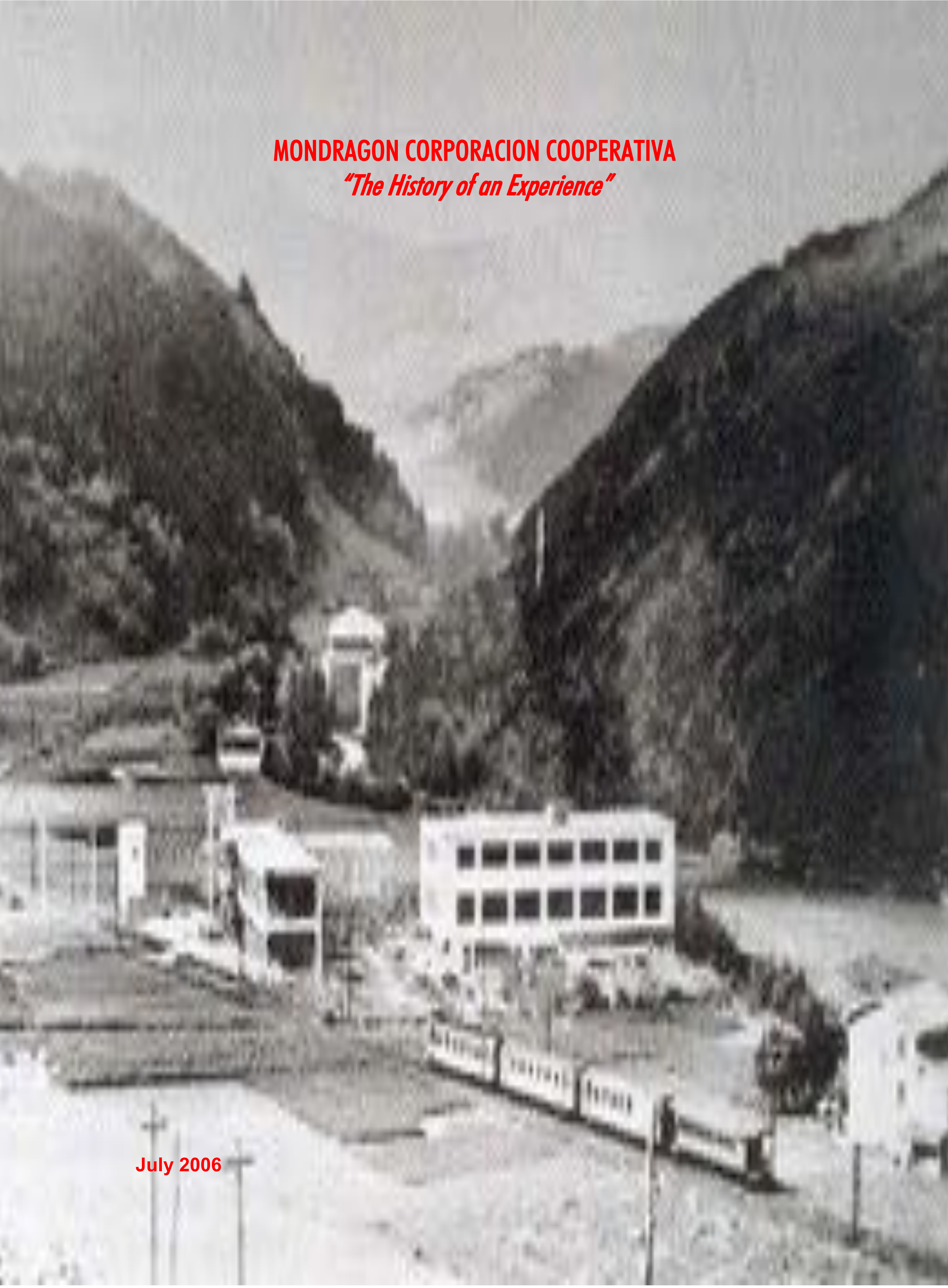
The Evergreen Cooperative Development Fund (ECD) for creating more cooperative enterprises will be launched along with the Laundry. After repaying its startup debts to commercial banks and the ECDF, each successful new business will contribute a portion of its profits to the Fund.

Howard recognizes that not every new business can succeed, even with all the help in the world. Having a variety of enterprises going at one time will spread the risks of failure and increase the probability that some will succeed. And if just some succeed, they can grow and expand to employ more neighborhood residents.

How long will all this take? Howard observes that it took a long time for economic decline in Cleveland to get to where it is today. “In the 1950s there were over 800,000 people who lived here and now there’s less than 450,000.”

MONDRAGON CORPORACION COOPERATIVA

"The History of an Experience"



July 2006

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INTRODUCTION

The development of what is now known as the Mondragón Corporación Cooperativa has, throughout its long history, been based on the firm conviction that the "Experience", as it is commonly called within the organisation, is a phenomenon in constant evolution, in tune with what occurs in its social environment, to which it aims to make a positive contribution. It has therefore been obliged to continually reinvent itself.

Adaptation to the environment in which it carries out its activities, an environment in constant economic, social and political evolution, is seen as a vital necessity, not only in order to ensure survival, but also to enable the Corporation to continue pursuing its established objectives.

In the effort to turn this theory into a reality, MCC has always, and continues to strive for balance, albeit tenuous, between apparently paradoxical aspects of the co-operative business environment such as:

- *Efficiency and democracy*
- *Economic and social concerns*
- *Equality and hierarchical organisation*
- *Private interests (of staff and the companies) and the general interest*
- *Identification with the co-operative model and co-operation with other business models.*

And yet, it is from this tension created by the coexistence of a co-operative business culture and the pressing need to adapt to an ever-changing reality that the Corporation's innovative approach to organisation springs, an innovative approach that influences each co-operative, the organisation as a whole and its relations with the outside world.

- *striving for business efficiency in ever-changing markets*
- *discovering ways of resolving conflicts through co-operation, not confrontation*
- *experimenting with original management styles in keeping with the Basic Corporate Principles*

This process of constant adaptation that characterises the Corporation's history has demonstrated its worth time and time again during the periods subsequent to its implementation. Yet there is a price, sometimes very high, and we have often had occasion to discover for ourselves just how hard it is to leave the well trodden path and embark on an adventure into the great unknown.

THE FIRST STEPS

The event which laid the very first stone of the building now known as MCC was undoubtedly the arrival in Mondragón of a young priest named José María Arizmendiarrieta.

With some projects it is almost impossible to identify the single spark which lit the flame, often because such a spark simply does not exist. In this case, however, the writing is on the wall and even those of us who were not lucky enough to have played an active role in the group’s initial development can clearly see that Father José María was indeed the fundamental driving force behind the whole experience.

Despite being an unverifiable hypothesis, all of us at MCC share the firm conviction that without his influence, the so-called Mondragón co-operatives would never have been formed.

Such was the ability of the young 26-year-old priest who, dynamic, enterprising and bursting with ideas, arrived in Mondragón in 1941 to look after the youth of the parish.

Fourteen years passed between the date of his arrival in the town and the appearance of the first manufacturing company, which demonstrates that his primary concern was not the development of business activity but rather the welfare of his parishioners and his desire to provide opportunities for all and to correct the acute social deficiencies of a population still suffering from the disastrous consequences of a civil war.

During the period between his arrival and the constitution of Talleres Ulgor, now called Fagor Electrodomésticos, Father José María worked tirelessly with the young people of the parish, organising a multitude of sporting, cultural and educational activities.

Gradually, some of those young people began to stand out as a result of their collaboration in the activities organised by Father José María, making a concerted effort to combine work and study and gaining the knowledge and values that would later lead them to become the instigators of a complicated and admirable undertaking: that of turning the often vague and sketchy ideas of their mentor into tangible and successful business realities.

The essence of the formative task undertaken during these initial years constitutes an ideal towards which many entities still strive today: the ability to combine the presentation and definition of an idea with a method that ensured that those to whom a theory was explained later became the people responsible for its application. People learned through listening, debating and doing.

Two years after his arrival in Mondragón, Father José María founded the Professional School, the seed which would later become Mondragon Unibertsitatea - the University of Mondragón. This institution has played a vital role over the decades, training many of those who later became key figures in the development of the co-operative project.

Their many years of organisational experience and educational training meant that the young people attained an extraordinary degree of maturity and the preparation they required to face the next stage, in which they were to play a central role. Under the guidance of their mentor and undisputed leader, they decided to embark on an original business development project.

EVOLUTION

The history of the Corporation can be divided into the three principal stages outlined below, each one being intrinsically intertwined with the organisational models adopted.

FIRST STAGE: 1956-1970

The first fifteen years were characterised by a development boom which, in response to the long awaited revival of the Spanish economy during the second half of the 50s, resulted in the creation of a large number of co-operatives following the incorporation of Fagor in 1956, at that time manufacturing paraffin stoves and heaters.

The intuition, a quality often overlooked, and bravery of those pioneers met with a favourable response from a domestic market that, being isolated from the outside world, readily absorbed all that the manufacturing industry could offer.

At that time the possession of manufacturing licenses was central to all production activity, since the know-how required to develop own makes was simply not available. This unwanted and restrictive dependency did not pass unnoticed, and before long the co-operatives began to set up their own R&D departments with the aim of developing their own products, thereby avoiding both the need to pay royalties and the limitations imposed by the obligation to export to specific countries.

As their commercial networks spread throughout Spain, the co-operatives began to make tentative gestures towards expanding into foreign markets, well aware that, despite the low profits involved in the short term, internationalisation was the way of the future.

This conviction led to a greater involvement in international fairs and the setting up of commercial networks in Europe and Latin America. At the beginning of the subsequent decade, in 1971, this approach was further reinforced with the signing of the preferential treaty between Spain and the European Community.

The dynamism of this first stage is evident in the fact that by the end of the 1960s, the total number of co-operatives had risen to 41. Some of these were spin-offs from Fagor, others had their origins in the Business Division of Caja Laboral and yet others were formed by autonomous groups or as a result of the transformation of public limited companies, etc.

We should also underline the proliferation of groups of people concerned about the development of their town or region that approached the organisation with the aim of identifying products that, after being subjected to the corresponding viability studies, would then form the basis for the constitution of a co-operative.

Some important initiatives from this period which would later play a key role in the development of MCC were:

- ***ESKOLA POLITEKNIKOA***

The project initiated in 1943 by Father José María with the creation of the Professional School was further developed during the 60s with the construction in 1962 of a new Polytechnic School, attended by over 1,000 students studying mechanics, electricity, electronics, casting, technical drawing and automation. The centre was officially recognised as an Industrial Engineering School in 1969.

Linked to this initiative, the Alecop (Co-operative Educational and Working Activity) Co-operative was formed in 1966 in an attempt to promote equal opportunities combining work and study within a single project.

- ***CAJA LABORAL***

In 1959, four years after the formation of the first co-operative, Father José María proposed the idea of creating a financial entity which would channel public savings into co-operative development. This stroke of genius resulted in the constitution of an entity which became the backbone of the co-operative project, enabling a growth rate that would have otherwise been impossible with just the internal resources of the different initiatives.

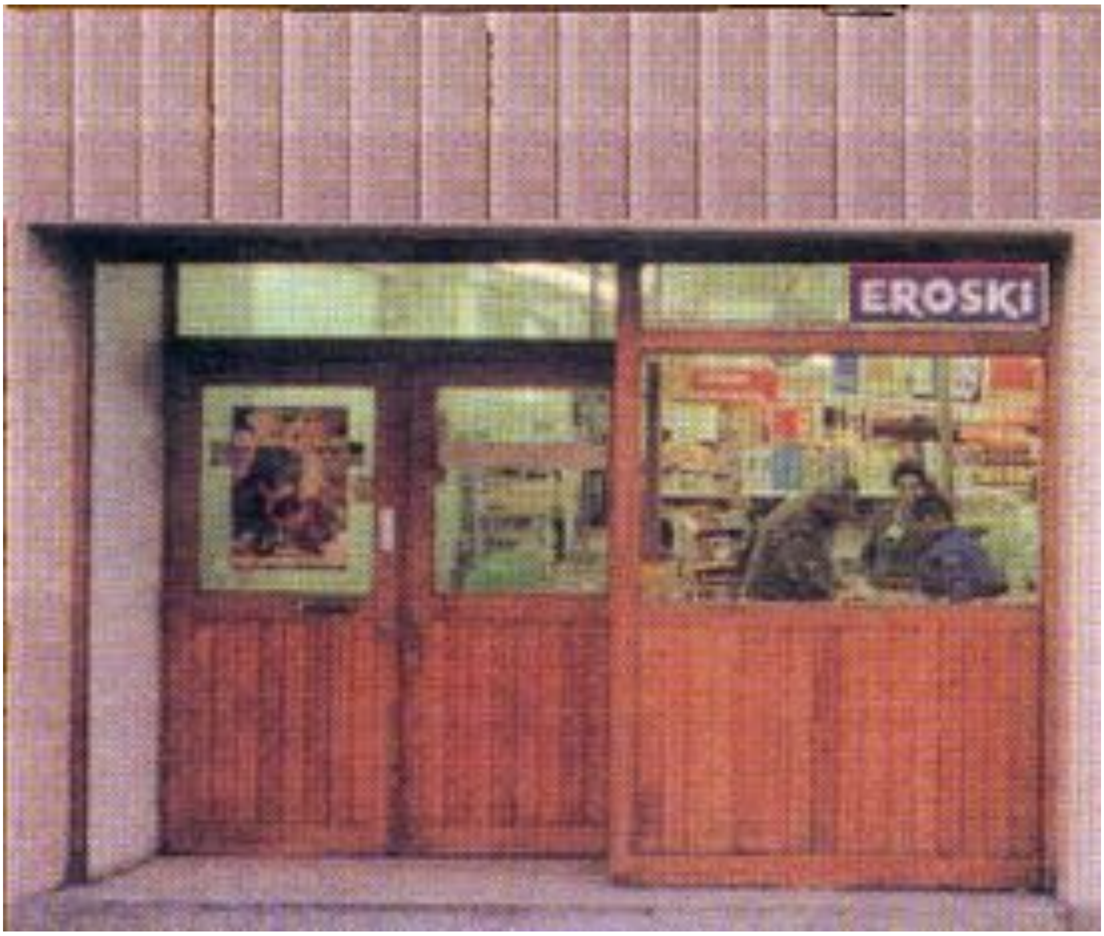
But Caja Laboral's achievement far exceeded its initial, mainly financial purpose, and for many years its Business Division not only provided fundamental support to co-operatives expanding into new areas and new organisations that emerged in a wide variety of geographical locations, but also offered vital advice and backing.

- ***LAGUN-ARO***

1959 was also the year in which Lagun-Aro was created with the aim of resolving the problem that arose when the government refused to allow co-operative members to qualify for Social Security benefits, maintaining that they were owners as opposed to employees.

Making a virtue of necessity, the co-operative members formed Lagun-Aro, which in addition to fulfilling its specific function admirably, also became a valuable learning experience. By managing their own quotas and benefits, the co-operative population obtained a greater degree of responsibility and realism, a logical result of the realisation that all benefits entail their corresponding costs.

- ***EROSKI***



The end of the 60s, 1969 to be precise, saw the creation of Eroski, which despite having little impact on the period in question, is worth mentioning as a result of its later importance.

Fruit of the merger of nine small local co-operatives, its creation opened the door to a new sector in much need of transformation, in which isolated co-operatives were out of their depth and, as history has shown us, ultimately doomed to extinction.

- ***ORGANISATION***

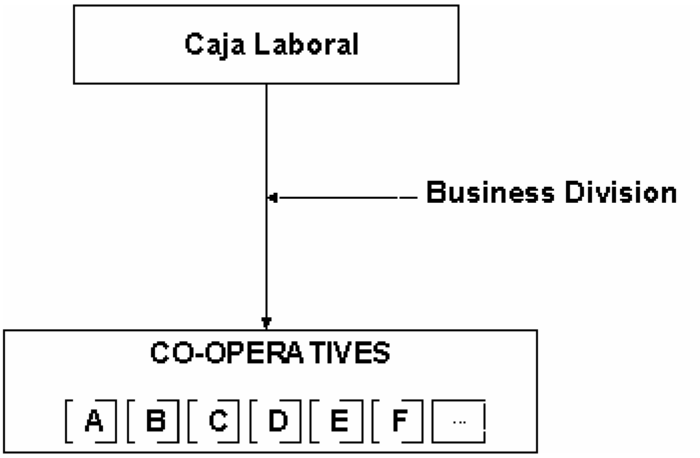
During this period, the different co-operatives had no common ties except that of their association with Caja Laboral, which was regulated by articles of partnership detailing the group's only common requisites.

This was, incidentally, another of the functions carried out by Caja Laboral for many years, i.e. that of head of the group and sole common reference.

In light of this, some co-operatives felt the need to establish links between themselves, and in 1964 the Ularco Group was formed in the Mondragón area. This Group would later serve as a reference for other co-operatives, although the seed would not bear fruit for many years to come.

The Ularco Group was governed by a multilateral contract based on "*a system of mutual commitment and solidarity with the community whose objective is to promote the optimum and dynamic merging of the needs of the working community and the demands of modern trading companies with adequate technical, financial and marketing forces".*

Nevertheless, the group's organisational set-up remained essentially uncomplicated, with each co-operative facing the future as an individual entity with financial backing and management support provided by Caja Laboral and its Business Division respectively.



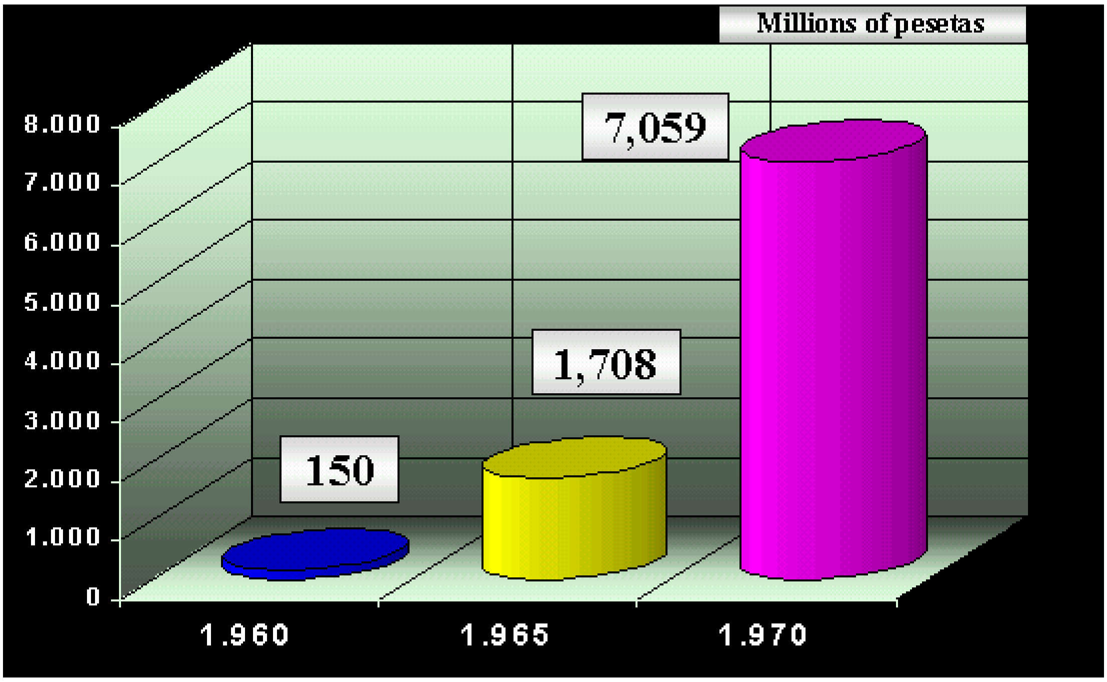
The group's achievements at the end of the period are reflected in the table below:

Millions of pesetas

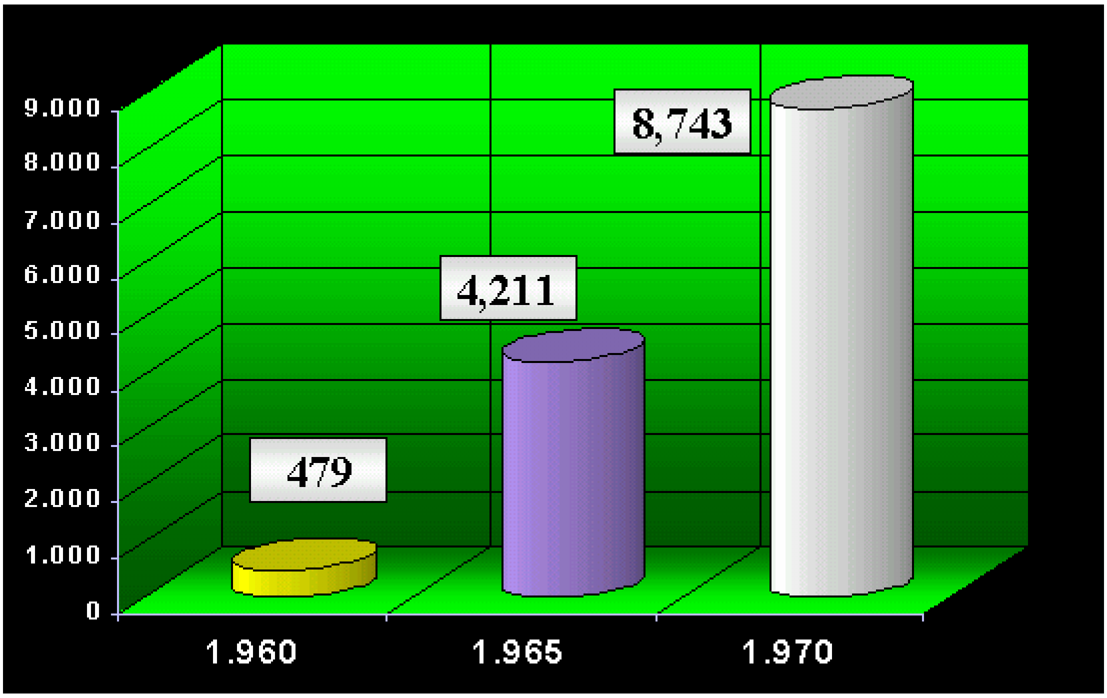
1970	
Sales	**7,059**
Exports	**786**
Assets under Administration - Caja Laboral	**3,204**
Equity Fund - Lagun-Aro	**147**
Num.Co-operatives	**40**
Jobs	**8,743**

Exports for the Industrial Group were recorded at just over 11% of the total sales, a by no means insignificant sum for the period in question.

Sales


Millions of pesetas
8.000
7.000
6.000
5.000
4.000
3.000
2.000
1.000
0
7,059
1,708
150
1.960
1.965
1.970

Jobs


9.000
8.000
7.000
6.000
5.000
4.000
3.000
2.000
1.000
0
8,743
4,211
479
1.960
1.965
1.970

SECOND STAGE 1970-1990

Initially, the second stage was characterised by the same dynamism as the first, with extraordinary increases in sales and employment rates as well as in the number of co-operatives themselves.

It was during this initial period, in 1974, that IKERLAN was founded as a research centre whose objective was to study technological advances for their eventual use in industrial applications.

Once again, the far-sightedness of the co-operative members becomes evident in their realisation that the future would demand the permanent offer of a wide range of options capable of satisfying all customer requirements and expectations.

Based on the needs of the individual co-operatives, the IKERLAN project was made possible by the support provided by Caja Laboral and the professionals supplied in part by the Mondragón Polytechnic School, whose activities now included technological development.

Otalora was also created during this period as a centre specialising in management studies and co-operative training and dissemination. The centre was to play a vital role in ensuring a constant supply of management staff who, in addition to essential professional experience, also possessed a deep sense of responsibility, were fully committed to both the business project and the co-operative principles and were aware of the obligatory social control to which their community was subject.

The boom which, in general terms, the co-operatives had enjoyed since their creation came to an abrupt and brutal end at the beginning of the eighties with the onset of the economic recession. One of the most distressing symptoms of this period was the emergence of the hitherto unknown concept of mass unemployment, which rose to over 20%.

The co-operatives did not escape the effects of the economic crisis. A significant number showed negative profits and labour surpluses became, for the first time, a variable to be taken into account. A few companies were even forced to close down. Luckily, not all the co-operatives were affected to the same degree, and those who had had the foresight to develop their exportation activities now found themselves in a position to weather the storm with relative ease.

It was a period of setbacks and vexations during which the co-operatives were forced to operate in unknown circumstances, vigorously applying the techniques outlined in the model and creating new instruments, such as unemployment cover, which had been unnecessary in the past.

One positive aspect of the recession was that it served to highlight the far-sightedness demonstrated by the founders in creating institutions such as Caja Laboral and Lagun Aro, since they constituted a fundamental basis from which to combat the ever increasing problems experienced by the co-operative business world.

Indeed, on the whole, co-operative companies weathered the recession better than the area's private companies, demonstrating once again the advantages of a model in which the involvement of the workforce is intrinsic to the company's makeup.

Among the many policies that contributed to the survival of the Mondragón co-operatives, the following are some of the most important:

- ***Capitalisation of Profits***

  The policy of capitalising profits enables the co-operatives to constantly reinforce their resources, strengthening resistance in some cases and enhancing development possibilities in others.

  It is important to remember that of the total profits, only the 10% earmarked for the Social Works Fund actually leaves the company. The remaining 90%, including the members' share (dividends), is capitalised. Members may not cash in their dividends until they either leave the co-operative or reach retirement.

  Profit pooling, another generalised practice, also helped alleviate the situation of the worst-hit co-operatives by enabling the transfer of resources from other organisations in a less critical position.

- ***Flexible calendars***

  A practice which attempts to adapt the annual working calendar to the varying work load. The excess or deficiency of accumulated hours from the first half of the year are compensated for during the following six months. If, after the end of this period, a balance has not been reached, then the equivalent economic sum is paid, capitalised or subsidised.

- ***Relocations***

  Surplus members are given preference for, and have the obligation to accept, a position in another co-operative, either as a temporary or definitive measure, depending on whether the situation of their former co-operative is transitory or permanent.

- ***Remuneration policy***

  Since the remuneration policy is intrinsically linked to the economic-financial situation of the co-operative, during the recession annual dividends in some companies were actually negative.

  There were also many years when either one or both extra wage packets were capitalised.

➢ ***Financial Restructuring***

Accumulated losses caused such a decrease in company assets that in some cases measures had to be taken to replace lost capital. In a system where the worker members are the sole owners, it fell to them to deal with this financial restructuring.

Given that the members relied entirely on wages received from the co-operative, wages that were often affected by the policies mentioned above, it was not uncommon for them to apply for individual loans, granted by *Caja Laboral* on very generous terms, in order to cover the cost of replacing lost capital.

The intervention of Caja Laboral proved more decisive than ever during this period of crisis. In addition to subsidising loan interest, sometimes by as much as 100%, in the most extreme cases it also wrote off the original debts, either partially or entirely, although all such activities were dependent on an initial Viability Plan which justified the effort expended by all parties.

It is important to note that all the aforementioned measures, some of which were fairly harsh, were adopted during General Assemblies attended by all members under the principle of one member one vote. At this point we would like to pay tribute to the wisdom, responsibility and commitment of those that did not shrink from their assigned role in the face of difficult circumstances.

The application of all these policies, the improvement of management techniques, the introduction of strategic planning as a complementary element to annual management plans and the modification of the economic scenario during the second half of the eighties enabled the co-operatives to recover from the crisis and enter a new era of positive growth.

Nevertheless, the experience of the past decade seemed to affect the development of new co-operatives and gradually, activity in this area ground practically to a halt. Instead, the co-operatives began to incorporate non-co-operative companies from the sectors in which they were based into the Mondragón group, with the aim of reinforcing their position on the market and reducing the immense size difference that separated them from their main competitors, the majority of which were multinational organisations.

International development was characterised by an increase in exports, the entrance into new markets through the establishment of commercial delegations in a variety of countries and even an initial step towards internationalising production activities with the creation of manufacturing plants in Mexico and Thailand.

Meanwhile, Caja Laboral continued to develop, increasing its number of branches and, despite its relative youth, making its presence felt among the other financial entities within the Basque Country. It also opened branches in Madrid and Barcelona, thus sparking an interesting debate about the validity of developing co-operative activities outside the initial area of origin.

Eroski expanded rapidly throughout the Basque territory leaving its competitors trailing far behind and becoming the undeniable market leader. It opened its first hypermarket in Vitoria and towards the end of the eighties began to look to the future, reflecting on its chances of maintaining its position as a leading company within a reduced market in which it would inevitably have to compete with international organisations.

Teaching activities were reinforced by both the expansion of existing institutions and the creation of new ones.

- ***ETEO**, for Administration and Company Management training*
- ***IRAKASLE ESKOLA**, University Teacher Training College*
- ***TXORIERRI** Polytechnic School*
- ***LEA-ARTIBAI** Polytechnic School*

Training continued to be one of the cornerstones of the development of the Mondragón Co-operative Corporation.

> **Organisation**

At the end of the seventies and beginning of the eighties, the seed sown by the Ularco Group (later to become Fagor) began to take root in the other co-operatives, who eventually formed Regional Groups, although the level of consolidation was extremely varied. The importance of this process lies in the general realisation of the need for organisations which would unite the co-operatives, enabling them to engage in joint activities that would optimise results far better than individual ventures.

During the eighties, debates about the future of the Group intensified as Spain joined the European Community and opinions abounded about the consequences this would have for the Spanish economy in general and our Corporation in particular.

A number of different studies were conducted and countless debates organised in order to determine the way in which the Corporation could remain true to its underlying Values yet still respond to the demands of the modern market. Finally, in December 1984, the Co-operative Congress was created to give definition to the group as a whole. During the founding session, the Basic Articles of the Congress and the Basic Articles of the Group Council were approved, and the members of the Standing Committee appointed to act during the intervals between Congress meetings.

This was an important step forward, since for the first time the co-operatives had common bodies to discuss and co-ordinate the transformations required to enable the group to respond successfully to the changes occurring in both the markets and society as a whole

The role played by Caja Laboral until that time now changed, and its activities became increasingly orientated towards specifically financial concerns much more in keeping with the new organisational model being implemented by the group.

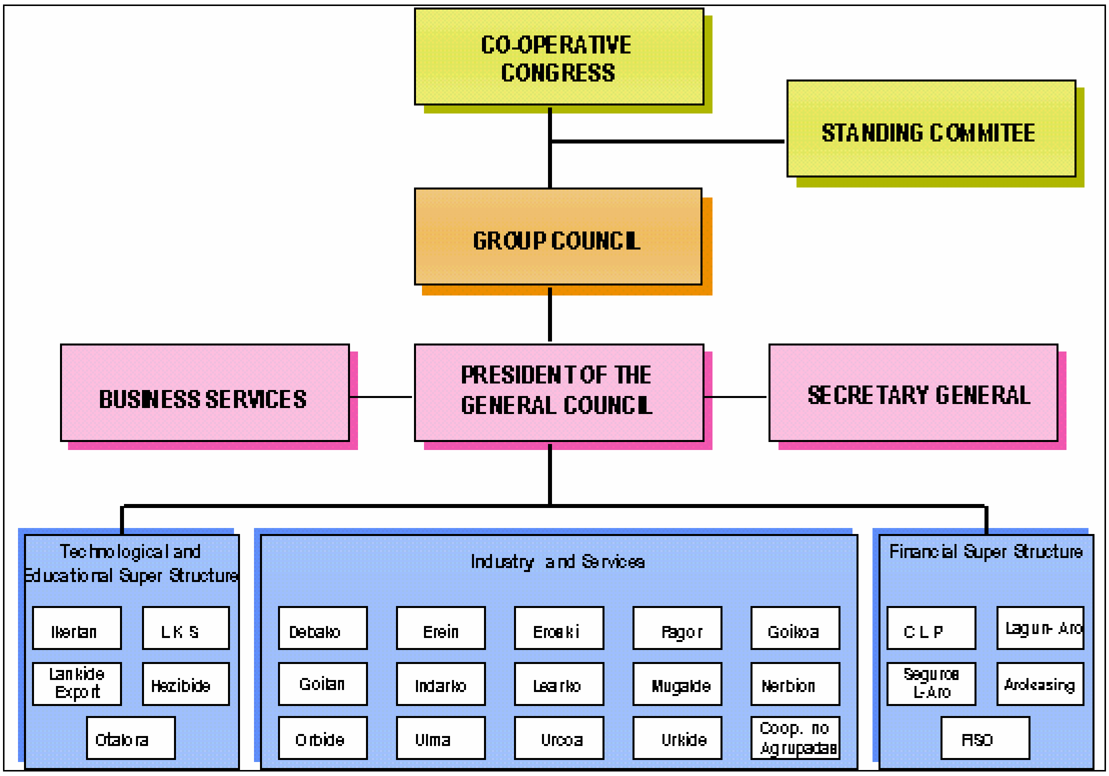
Despite these changes, the co-operatives' core organisational element continued to be the Regional Groups, which were based on geographic proximity. However, the group gradually began to understand that the future was going to require a more business-like and less sociological approach.

Two new Congress meetings were held during this period, one in 1987 and one in 1989, during which the Basic Principles that underpin the whole co-operative experience were approved, as well as the Principles governing the Treatment of Capital. The first interco-operative funds (FISO and FEPI, etc.) were also established at this time.

The approval of the Basic Principles constitutes an important milestone in the Corporation's history, since it marked the end of a period in which doctrines were created by individuals and governed by a single moral authority, and the beginning of a period in which they were established by a more complicated process of proposal, debate and democratic approval.

From hereon, the Principles, which bring together the ideas developed by Father José María, international co-operative thought and the perspective of our individual co-operative community, served as the cornerstone of the entire project. Whereas up until then the experience had been based on shining ideals and moral guides, their official approval provided the co-operatives with definite, binding principles which accurately expressed the community's convictions.

Organisational structure of the Mondragón Co-operative Corporation (Regional)



- **Significant variables**

Millions of pesetas

1 9 9 0	
Sales	**303,363**
Exports	**47,918**
Assets under Administration - Caja Laboral	**311,112**
Equity Fund – Lagun-Aro	**90,917**
Num. Co-operatives	**109**
Jobs	**23,130**

THIRD STAGE: 1990

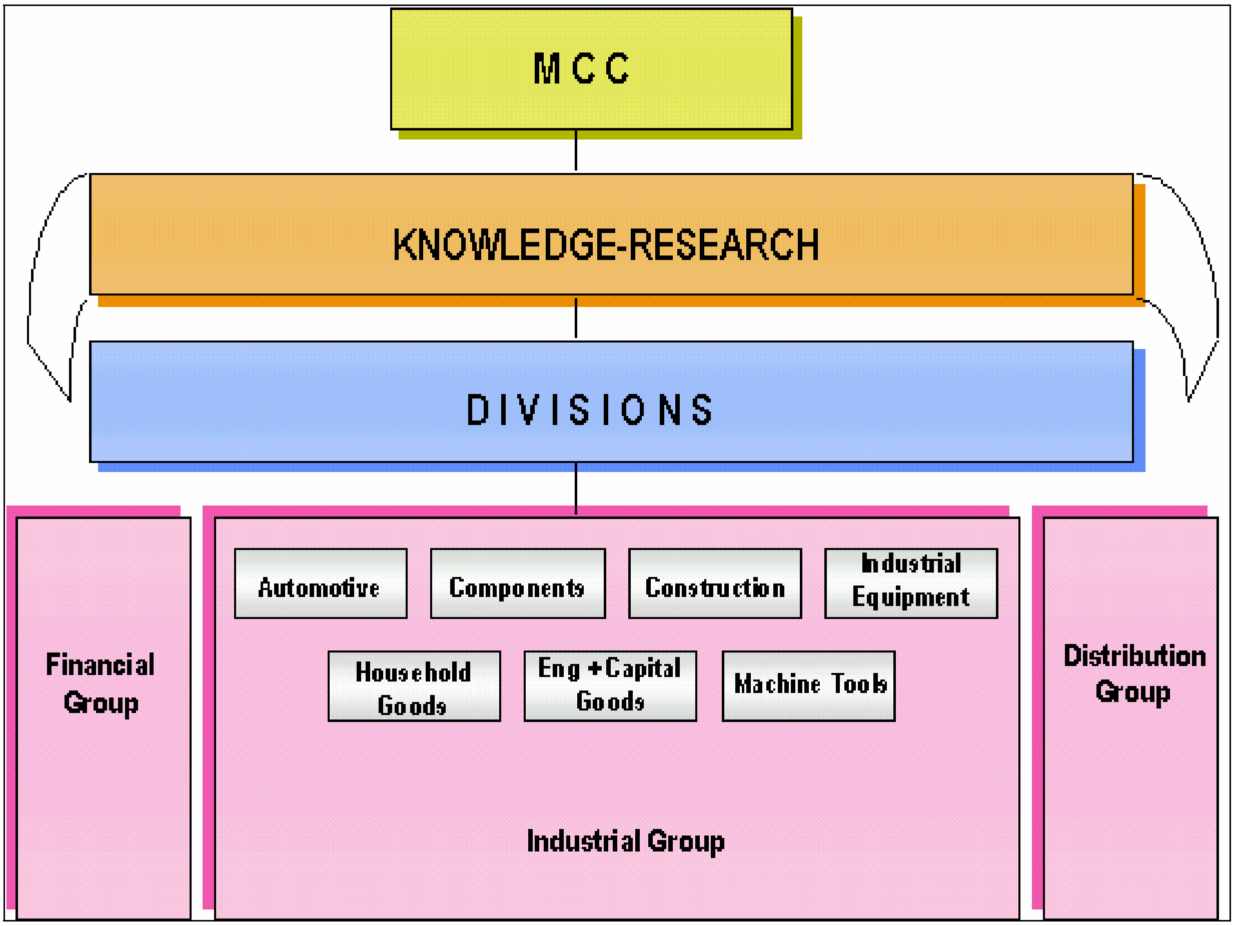
The third and current stage in the development of MCC is strongly influenced, and perhaps even characterised by, the organisational process that turned the Group into a Corporation, structuring its business areas according to sectorial criteria as opposed to geographical location.

The regional concept had resulted in a wide-spread dispersion of the various business groups, one extreme case being that of Intermediate Goods, which was composed of 29 co-operatives spread throughout 14 different regional areas.

The concept of sectorial organisation met with substantial resistance, since its implementation involved the restructuring of personal and business relationships that had been firmly rooted for many years. The most unfortunate result of the implementation of the sectorial organisation principle was the separation of a number of co-operatives that refused to accept this new structure.

Nevertheless, experience has since demonstrated the clear advantages of this organisational model, which has enabled the development of synergies that have strengthened and reinforced the companies involved.

Sectorial Organisation



The organisational structure, approved during the Co-operative Congress held in December 1991, comprises three Groups:

- *Industrial*
- *Financial*
- *Distribution*

The Financial and Distribution Groups each consist of a single Division, while the Industrial Group contains seven different Divisions. Each Division is in turn divided into a certain number of Sectorial Subgroups, made up of companies operating within the same market sector.

The Subgroups constitute one of the basic management elements, being responsible for strategic planning within their particular area, although it is the General Council's task to ensure that these Plans coincide with current corporate policies.

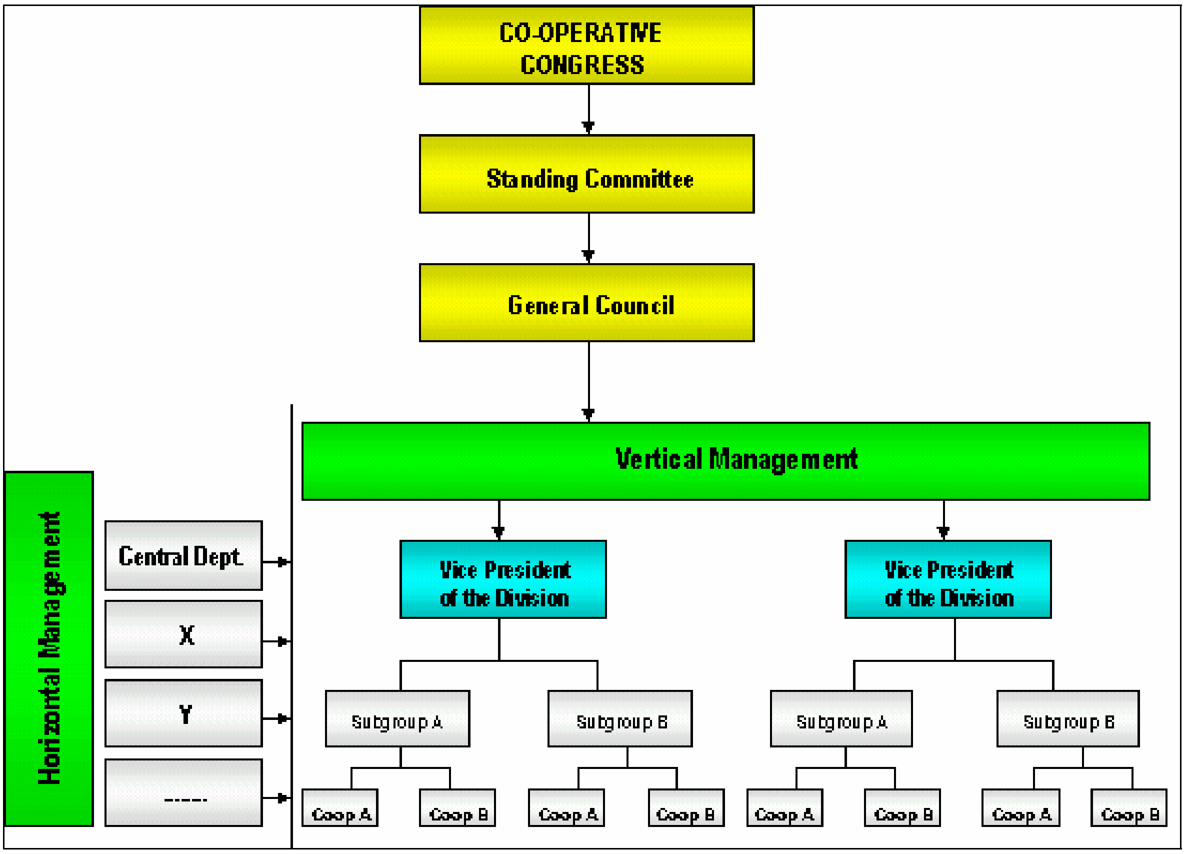
Training and research activities are grouped together under the concept of Corporate Activities, although the Corporation is currently attempting to find them a new position more in keeping with the importance of their present and future role.

Unlike most company models in the modern business world, our Corporation is not based on equity holding, but rather on an agreement between all parties to join forces with regard to certain management areas that either go beyond the limits of individual capacity or provide more efficient results when dealt with as a team.

The Corporate Centre, the most visible element of MCC as a whole, is fundamentally, although not exclusively, a service centre which supports the development of co-operative businesses within the Subgroups and Divisions.

In other words, the Corporation does not own the co-operatives. Rather, it is the co-operatives themselves, along with the various complementary structures, that make up the Mondragón Corporación Cooperativa.

The MCC management model combines vertical and horizontal administration, overseen by the Division and Subgroup management teams and the Central Departments and Corporate Centre, respectively. These latter organisations promote the implementation of corporate policies and attempt to make the most of existing synergies.



The Co-operative Congresses held between 1984 and 1995 served to establish MCC's legal regulations and the Principles governing its functioning. The list of current Regulations given below offers a global vision of the corporate configuration.

1. ***Basic Principles of the Mondragón Co-operative Experience.***

2. ***MCC Company Configuration Regulations.***

   Basic Articles of the MCC Congress.
   Principles governing the Election of the Standing Committee.
   Principles governing Infractions and Disciplinary Measures within MCC.
   Basic Articles of the MCC General Council.

3. ***Institutional Configuration Regulations for Key Co-operatives and Subgroups.***

   Basic Principles governing the Organisation of Sectorial Subgroups.
   Basic Principles governing the Organisation of Regional Groups.
   Basic Principles governing the Company Structure of Key MCC Co-operatives.
   Basic Principles governing Remuneration Policy.
   Basic Principles governing the Treatment of Share Capital and Profit Pooling.

4. ***Interco-operative Regulations.***

   Basic Principles governing Profit Pooling in MCC.
   Basic Principles for the Constitution of the Interco-operative Solidarity Fund (FISO).
   Basic Principles governing the Creation of an Education and Interco-operative Promotion Fund (FEPI).
   Holding Company.

5. ***Business Policy Regulations.***

   MCC Business Policy for 2001-2004.
   Principles and criteria governing MCC employment management.

6. ***General Regulations for defining the Organisational Project.***

   Basic Criteria, Strategic Measures and their Application during the First Stage.
   Reference model.

In addition to the regulations approved during Congress meetings, another set of rules were established by the Standing Committee and the General Council within their relative areas of authority.

With the aim of outlining the role played by the corporate bodies within the organisational structure, a description of their main objectives and a summary of their principal responsibilities are given below:

- **The MCC Co-operative Congress:** Its aim is to maintain, perfect and promote the Corporation's harmonic development through the planning and co-ordination of the various activities carried out under the principle of gradual and effective business consolidation and a common management strategy.

  In the process of complying with its duties, the Congress determines the general guidelines and criteria governing MCC, in keeping with both current requirements and the basic principles that underpin the Co-operative Experience.

  Decisions adopted by the Congress in a plenary session are mandatory and cover, among others, the following areas:

  - Definition of the general framework for dealing with basic productive factors (Work and Capital) in the MCC Co-operatives.

- Approving basic policies on fundamental areas of common interest, such as:

  - *Promotion of new Co-operatives*
  - *Scientific and technological research*
  - *Basic financial and labour policies*
  - *Business and co-operative training*
  - *Social Security for co-operative members*
  - *Organisational structure of MCC as a whole*

- Analysis and definition of the role of MCC in the resolution of problems affecting the society in which it is based, establishing collaborative relations with other social movements.

- Analysis and up-dating of the co-operative principles which underpin the Experience, with the aim of maintaining their current role as a dynamic source of community development.

➢ **The Standing Committee:** a body which operates between Congress sessions and is made up of representatives from the different Divisions elected by their respective Group Councils. The Committee's responsibilities include:

- Promoting and controlling the carrying out of the policies and agreements adopted by the Congress, monitoring MCC's business development and overseeing the activities of the President of the General Council.

- Presenting projects and proposals to the Congress for approval.

- Monitoring and controlling the work carried out by the General Council, and presenting the corresponding report to the Congress.

- At the instigation of the President of the General Council, approving the definition of corporate strategies and objectives.

- Designation, suspension and establishment of the salary corresponding to the President of the General Council and, at his/her instigation, that corresponding to the Vice Presidents, Department Directors and Secretary General also.

- At the instigation of the President of the General Council, approving financing rates and proposals presented by the Central Departments and submitting them to the Congress for ratification.

- **The General Council** of the MCC Corporation is a management and co-ordination body which operates within its specific area of authority in relation to the co-operatives represented by the Congress.

  It is made up of:

  - President
  - Vice Presidents, responsible for the Divisions
  - Directors of the Central Departments
  - Secretary General of MCC

  Its basic functions can be divided into the following six areas:

Policy

This area includes the compilation, presentation before the Standing Committee and application of the corporate strategies and objectives that form the strategic global policy framework in the following areas:

- Industry
- Innovation
- Investment
- Socio-labour
- Financial
- Promotion
- Social Security

Control

To compile, prior to approval, the strategic plans of the subgroups and co-operatives, monitoring and supporting the fulfilment of the objectives established for each Sectorial Subgroup.

Co-ordination

The Council's responsibilities in this area include the co-ordination of Division, Subgroup and Co-operative policies, harmonising individual interests with the general objective of common development.

Promotion

Promoting the Corporation's business evolution and ensuring compliance with established development objectives.

Establishing social, human, physical, technological and financial infrastructure elements that contribute to the Corporation's harmonious development.

Intervention

Presenting intervention proposals to the Standing Committee regarding co-operatives in critical situations, determining the extent of intervention required and taking the necessary measures.

Functional

Compilation of internal General Council operating principles within the general precepts established. Presenting proposals to the Standing Committee regarding the up-dating of the Statutes and Regulations governing the Sectorial Subgroups.

Another milestone reached during this period was the approval of the MCC Business Policy in 1993, thereby introducing for the first time in the history of our co-operative experience one of the basic functions of common management: the definition of General Policies as a global framework on which to base the activities of each Subgroup.

Within this framework MCC compiled the first Corporate Strategic Plan for the 1994-1996 period, outlining the strategies and objectives established to ensure the fulfilment of the Basic Objectives:

- Customer satisfaction
- Profitability
- Internationalisation
- Development
- Social Involvement

In this first Strategic Plan, the Subgroups laid the groundwork for a management approach more geared towards business units, an approach which, over the years, has resulted in substantial organisational restructuring in response to the individual characteristics of each different market.

The development of the new organisation required that the Corporation as whole begin to deal with areas that had, until now, been the exclusive responsibility of each individual co-operative. One such area was the development of a Management Model designed to help improve management performance and establish common references which would give coherence to general analyses.

The Management Model was, of course, based on the principles and values that have shaped our development right from the start. However, it also made use of modern management concepts, as well as cutting edge techniques employed by state-of-the-art organisations.

All these considerations contributed to the emergence of the definitive Management Model, whose most important characteristic is probably the fact that its Results section includes not only economic profits, but Customer Satisfaction, Social Commitment and Staff Satisfaction also, a clear indication that economic results alone are not considered sufficient to constitute positive management.

In 1996, the second Strategic Plan was compiled for the 1997-2000 period, reinforcing the tendencies of the previous plan and establishing ambitious training, communications, development, internationalisation, investment and employment objectives, among others. Although at the time some doubts were expressed as to the possibility of achieving some of these objectives, as we approach the end of the period we are in a position to affirm that, in the majority of cases, the results have exceeded all expectations.

Once again we are reminded of the deep commitment and profound sense of responsibility shown by so many of our members with regard to the fulfilment of established objectives.

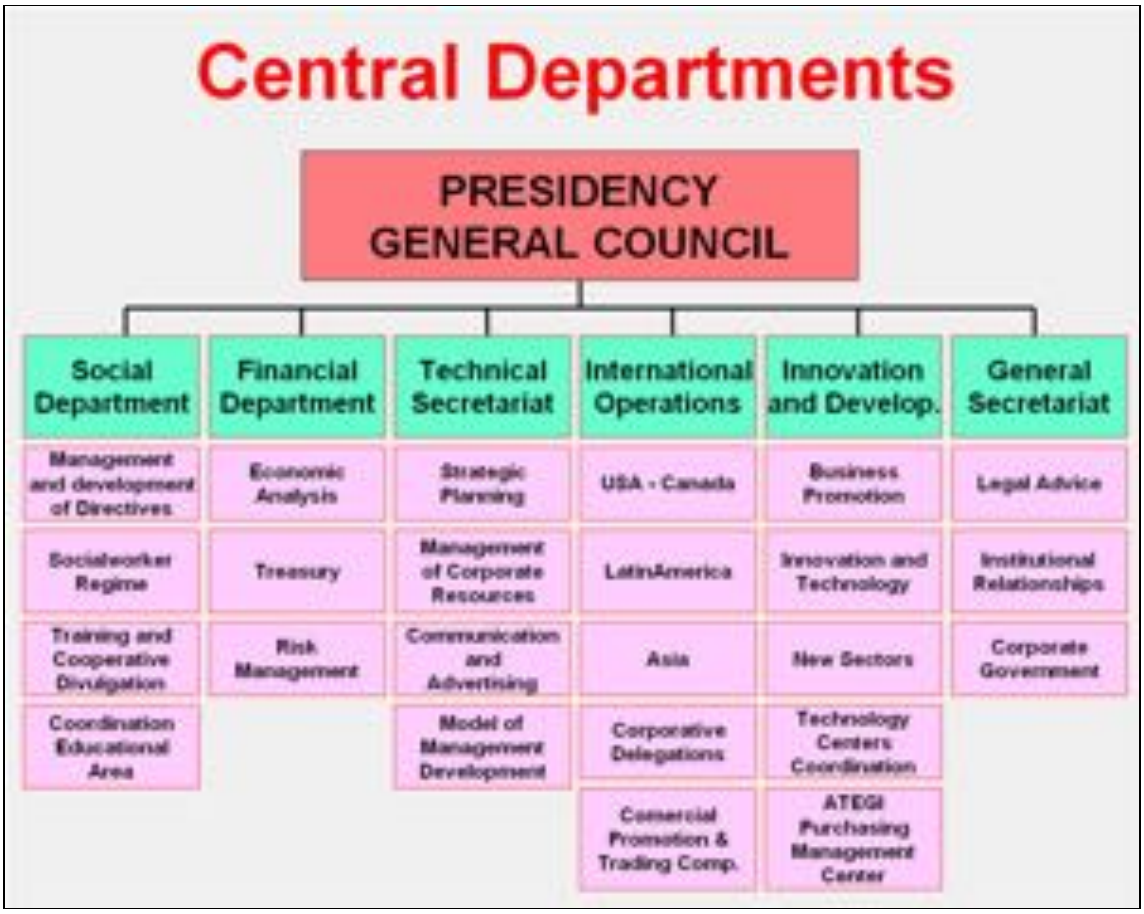
Another hugely significant event that occurred during the nineties was the founding of Mondragon Unibertsitatea / the University of Mondragón in 1997. The project, instigated by the Mondragón Polytechnic School, Irakasle Eskola and Eteo, marked the pinnacle of a long development process and cleared the way for a bright future in a whole new area.

Given that training has played a vital role in our experience right from the beginning, the creation of a University seems a fitting development, which in addition to other advantages, enables the Corporation to work towards achieving its own training objectives within the general educational framework.

The nineties also saw the growth of the financial entities previously described in this document as well as the creation of new ones such as MCC Investments and MCC Development. This growth considerably enhanced the co-operatives' development capacity, since it meant that they were backed by an investment policy that became increasingly ambitious in response to the country's various economic changes.

These events serve to highlight once again the many advantages of interco-operation as an expression of the founding concept of solidarity that enables companies to develop beyond their own individual limits.

The Corporate Centre continued to carry out its established functions during this period, engaging in supporting activities which enabled it to optimise Subgroup and Co-operative performance within each different area.



The latest modification of the general structure was the creation of the Promotion Department after a lengthy debate in the General Council and Standing Committee. The new Department aims to boost the promotion of new activities, a task which affects all levels of the Corporation.

- **Significant variables**

With the exception of 1992 and 1993, the rest of the nineties was a period of positive economic growth, enabling the development of activities which, within the Industrial Group at least, were accompanied by increased activity in foreign markets in accordance with established objectives.

In addition to enjoying a period of growth and development, the Financial Group also expanded into bordering Autonomous Communities, meeting with a favourable response from savers in those regions.

The Distribution Group underwent a significant period of growth, expanding throughout Spain and the south of France – a project which required a huge creative effort in response to the different demands made by this accelerated development.

THE CURRENT SITUATION

Thanks to its accumulated growth over the years, MCC is now the seventh largest business group in Spain with regard to sales volumes. However, on the basis of employment, the Corporation occupies third place in the national ranking, a difference that serves to highlight the characteristics of its various activities and the vocation behind the experience as a whole.

(millions of Euros)

CONCEPT	2004	2005	ANNUAL VARIATION
BUSINESS DEVELOPMENT			
MCC Total Assets	18,593	22,977	23.6
MCC Equito	3,757	4,226	12.5
MCC Consolidated Results	502	545	8.6
Caja Laboral Assets under Administration	10,042	11,036	9.9
Lagun-Aro Funds	2,995	3,303	10.3
Total Sales (Industrial and Distribution)	10,459	11,859	13.4
MCC Total Investment	730	866	18.6
EMPLOYMENT			
MCC workforce at end of year	70,884	78,455	10.7
% members over co-operative workforce	81.1	81	-0.1
% women over co-operative workforce members	44.3	41.9	-5.4
Industrial Group accident or incident rate	62.3	58.3	6.4
PARTICIPATION			
Worker-member Share Capital	1,500	2,010	34
No. of worker-members in Governing Bodies	826	835	1.1
SOLIDARITY			
Resources earmarked for activ. of social content	25	33	32
No. students in MCC Education Centres	8,154	7,642	-6.3
RESPONSIBLE ENVIRONMENTAL MANAGEMENT			
No. of ISO 14000 certifications in force	38	42	10.5
No. of EMAS certifications in force	4	4	
FUTURE COMMITMENT			
% Resources earmarked for R&D&i / I.G. Value added.	5.1	5.5	7.8
No. of Technology Centres in the MCC	10	11	10

Having strong roots in our native territory, MCC has become a significant factor of the Basque economy, accounting for 3.7% of the GDP and employing 3.8% of the working population. These percentages are considerably higher with regard to the industrial sector.

MCC in the Basque Country 2004

In millions of euros

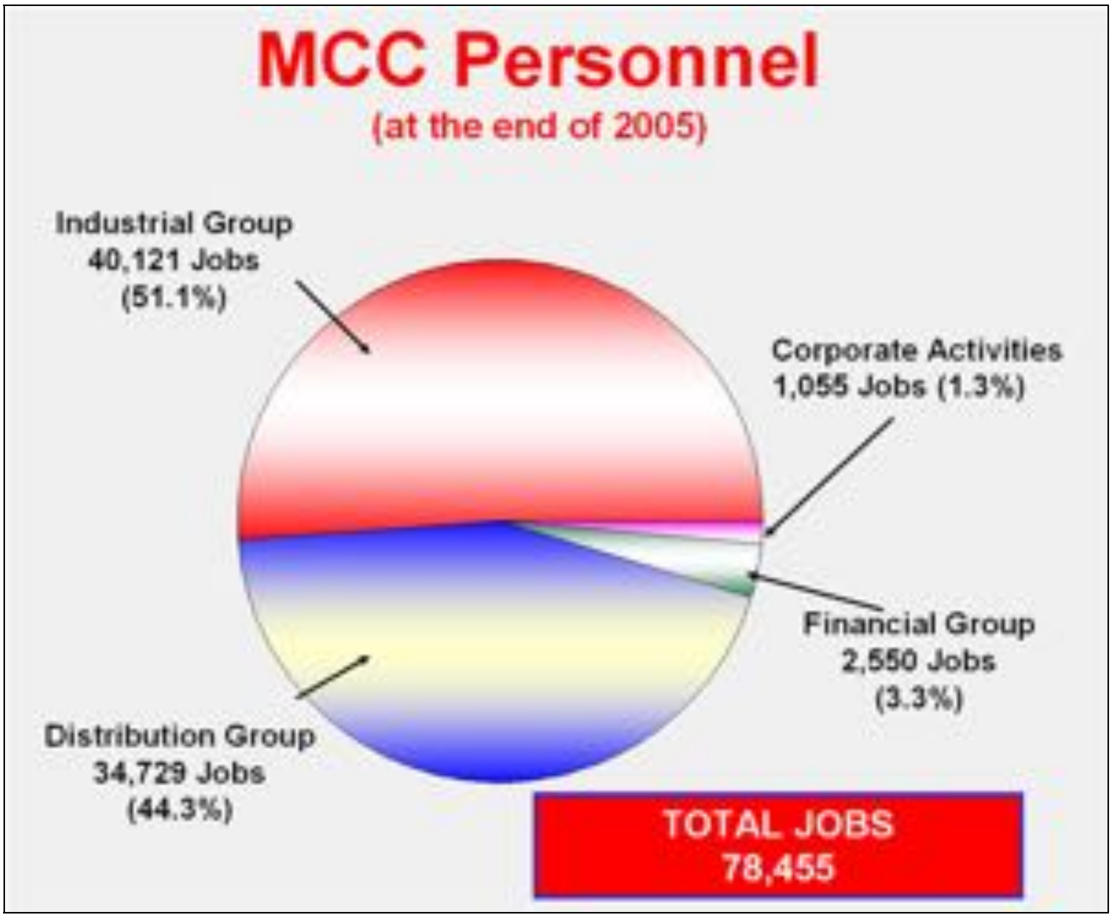
Heading	Basque Country Total		MCC Total		%/total	
	Total	Industrial	Total	Industrial	Total	Industrial
G.D.P.	47,940	**13,692	1,807	1,130	3.8	8.3
Employment *	938,600	252,300	34,768	20,867	3.7	8.3
Exports	13,521	***12,257	–	1,747	12.9	14.3

* Number of people
** Of which 1,193 million euros are not purely industrial as they correspond to the Energy and Water sector
*** Without exports of energy products.

The relevance of history should not be underestimated and MCC's Gipuzkoa origins are the main reason behind the Corporation's above-average presence in that province. MCC accounts for 7.6% of Gipuzkoa's GDP, employs 6.8% of its working population and is responsible for 32% of its industrial exports.

The internal distribution of activities is illustrated in the diagrams below:

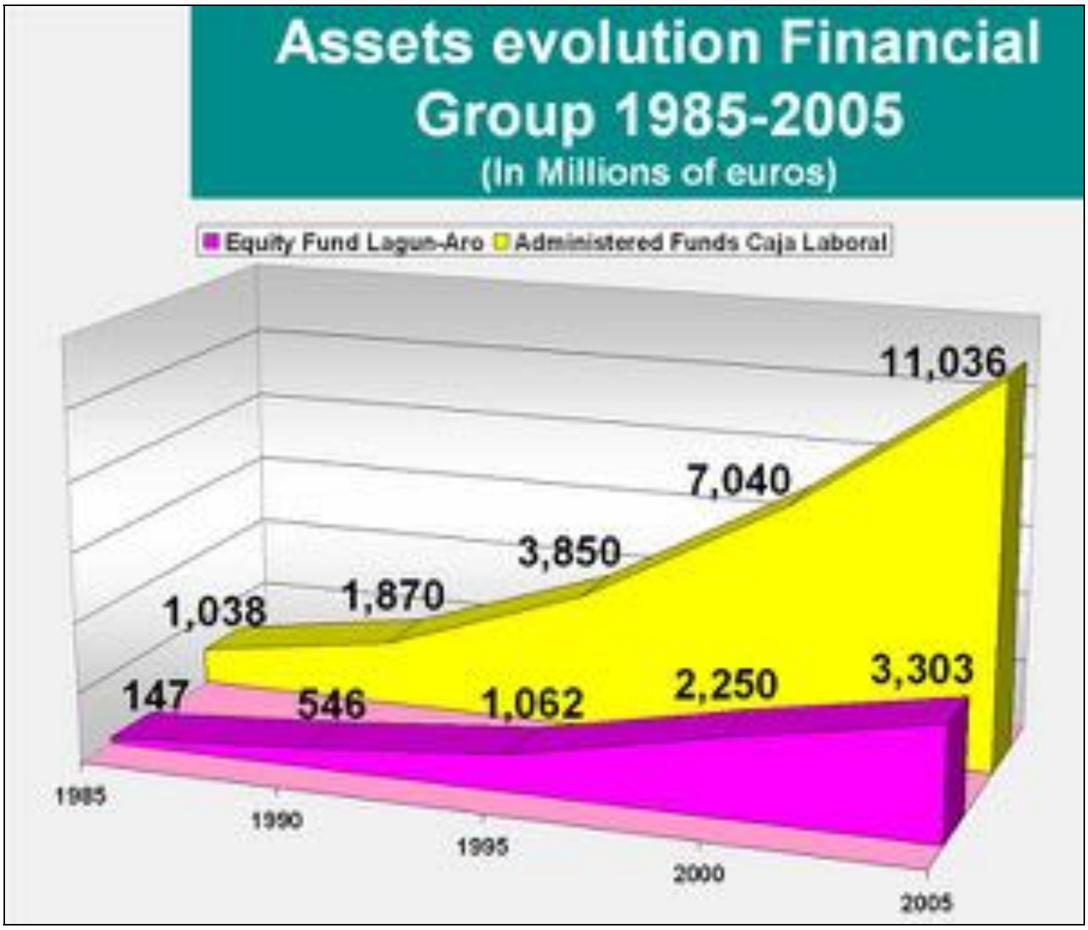

Operations 2005
(In millions of €)
Net Bank Investment
10,534
Industrial Group turnover
5,760
Distribution Group turnover
6,099


MCC Personnel
(at the end of 2005)
Industrial Group
40,121 Jobs
(51.1%)
Corporate Activities
1,055 Jobs (1.3%)
Financial Group
2,550 Jobs
(3.3%)
Distribution Group
34,729 Jobs
(44.3%)
TOTAL JOBS
78,455

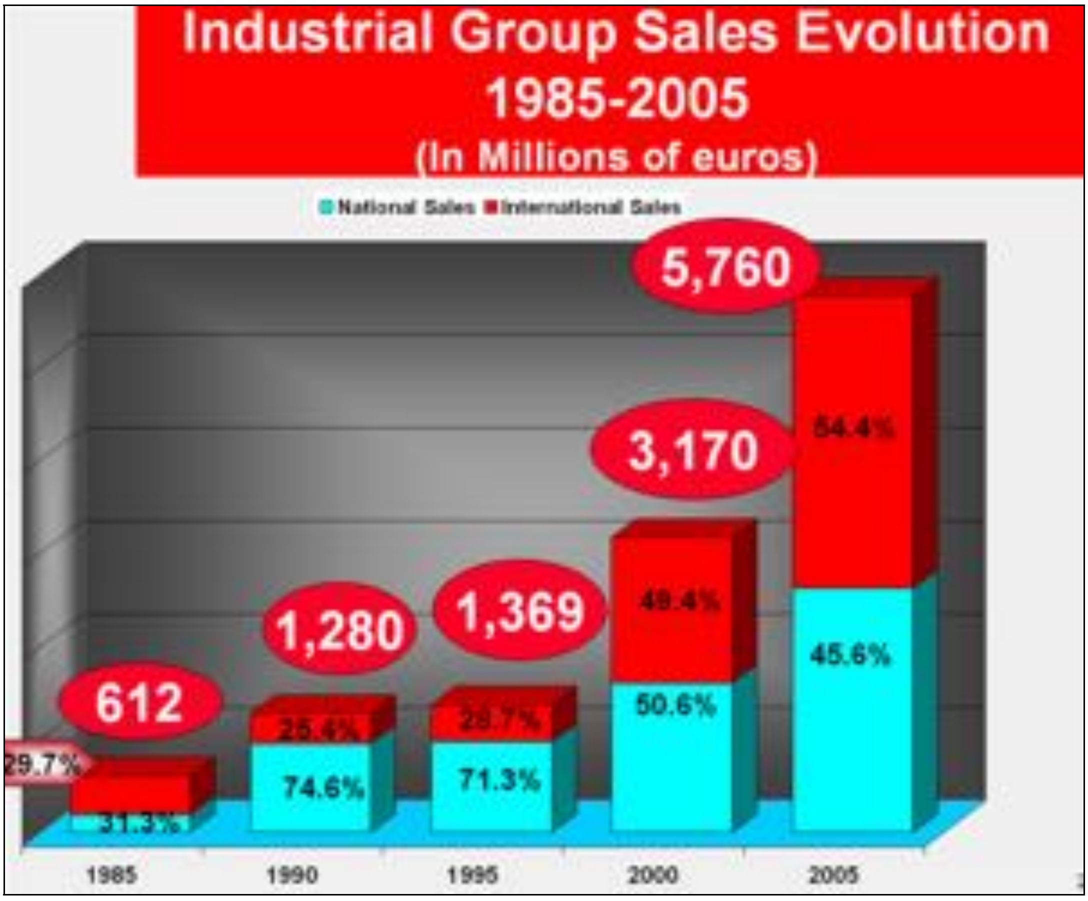
Participation percentages

The period of growth and development which, despite a number of economic, social, political and technological difficulties, MCC has enjoyed over the last years, serves to underline the truth of the affirmation made at the beginning of this document regarding the Corporation's capacity for constant change and adaptation and the advantage of learning from experience.

In general terms, we can confirm that the last five years have been characterised by the outstanding growth of all areas of the Corporation.



Assets evolution Financial Group 1985-2005
(In Millions of euros)
Equity Fund Lagun-Aro
Administered Funds Caja Laboral
1,038
1,870
3,850
7,040
11,036
147
546
1,062
2,250
3,303
1985
1990
1995
2000
2005



Industrial Group Sales Evolution 1985-2005
(In Millions of euros)
National Sales
International Sales
612
1,280
1,369
3,170
5,760
29.7%
31.3%
25.4%
74.6%
28.7%
71.3%
49.4%
50.6%
54.4%
45.6%
1985
1990
1995
2000
2005

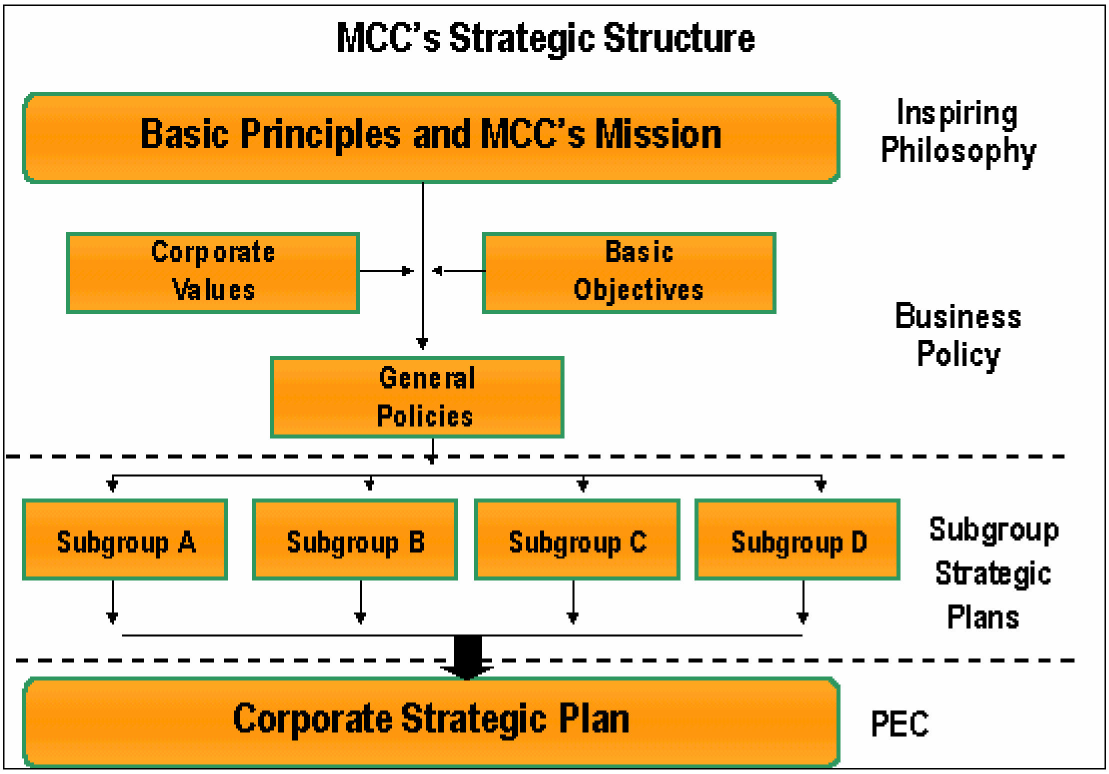

Distribution Group Sales evolution
1985-2005
(In Millions of euros)
177
459
1,843
3,895
6,099
1985
1990
1995
2000
2005


MCC Worldwide (2005)
Russia
Germany (3)
U.K.(6)
Poland (5)
Chec Rep. (5)
Eslovakie (2)
Rumany (2)
France (5)
U.S.A.
China (8)
China
Mexico (6)
Mexico
Marocco(2)
Italia (3)
Turkey (2)
India
India(2)
Thailand (1)
Brasil
Brasil (6)
South Africa (1)
Corporate Delegations (6)
Manufacturing Subsidiaries (57)

IDEOLOGICAL BASE

The development charted over the preceding pages would not have been possible if not for MCC's unique outlook and way of doing things, in other words, its unique corporate culture.

Our individual culture and the way in which it coincides with the specific actions outlined in the Strategic Plans is illustrated in the diagram below:



➢ **Basic Principles**

These principles are the cornerstone of the Corporation's guiding ideology, and have been developed over the years on the basis of both personal experience and the experience of others in similar situations within the universal co-operative movement. They therefore incorporate a number of elements common to the majority of co-operative organisations, although others are specific to MCC.

There are ten basic principles:

1. *Open membership*
2. *Democratic organisation*
3. *Worker sovereignty*
4. *Instrumental or subordinate nature of capital*
5. *Participation in management*
6. *Wage solidarity*
7. *Co-operation between co-operatives*
8. *Social transformation*
9. *Universal nature*
10. *Education*

Open membership

This principle declares that we are open to all men and women, regardless of religion, race, gender, political convictions or origin. The only criteria for acceptance are professional capability and a willingness to accept existing regulations.

Democratic Organisation

All members are equal and have equal rights within a democratic organisation governed by the concept of *"one person one vote".*

Each person's vote carries the same weight, regardless of seniority, position within the company, professional category or accumulated capital, etc.

Worker sovereignty

At MCC, work is placed top of our scale of priorities, since we believe that it is the key to transforming nature, society and even people themselves.

As work is held to be the principle generator of wealth within the co-operative company structure, the corresponding distribution model should coincide with the degree of labour provided.

Given the importance attached to the concept of work, the co-operatives are committed to widening the scope of job opportunities for all members.

Instrumental and subordinate nature of capital

While its value is acknowledged and its presence considered necessary for business development, capital is always considered subordinate to labour.

It is considered worthy of just remuneration that, although limited and not directly linked to the results obtained by the co-operative, is nevertheless sufficient to ensure the accumulation of the necessary resources.

Contribution by any means to the share capital does not give members the right to participate in the management of the co-operative.

Participation in management

The democratic nature of the co-operative organisation extends to all members, and implies their active participation in the management of the company.

The development of appropriate channels for participation requires a departure from traditional organisational structures, professional and social training for members, transparent information policies and internal promotion.

Wage solidarity

Wages should be sufficient, comparable with those of other salaried workers in the region and in keeping with the means of the co-operative.

Payment should correspond to an internal framework based on solidarity, reflected in a smaller difference between the top and bottom of the pay scale than is commonly seen in the business market.

Wages and work hours should also be comparable throughout the Corporation as a whole.

Co-operation between co-operatives

Another specific expression of solidarity that also constitutes a basic requirement for efficient business practice.

One aspect of this principle is direct co-operation between co-operatives through the creation of profit-pooling subgroups with homogenous socio-labour systems, the transfer of worker-members and the development of potential synergies derived from overall size.

Other aspects include the creation of mutually beneficial inter-subgroup superstructural entities and bodies, as well as the collaboration of MCC with other co-operative organisations from the Basque Country, Spain, Europe and the rest of the world through agreements aimed to promote joint development.

Social transformation

In solidarity with movements in other countries, the MCC Co-operative Experience aims to contribute to the social transformation of the region in which it operates in the hope of building a freer and more just society.

Reinvesting the majority of its profits, supporting community development initiatives, co-operating with other Basque social and economic institutions and promoting local culture and a social security policy based on solidarity and responsibility, are just some of the ways in which MCC contributes to social development.

Universal nature

MCC's strong local roots are compatible with its universal vocation, which proclaims its solidarity with all those who work towards economic democracy in the field of "Social Economy" and share the common objectives of the international co-operative movement: Peace, Justice and Development.

Education

The development of the above principles is only possible if sufficient attention is paid to education and the necessary human and economic resources are provided for both co-operative and professional training.

Special attention should also be paid to young people, on whose shoulders the future development and consolidation of the MCC Co-operative Experience rests.

- **Mission**

A second element in the Strategic Structure of MCC is its Mission, a combination of primary objectives that turn the abstract ideas of the Principles into a tangible project that serves to focus efforts and contribute to the overall progress of the organisation.

> The Mondragón Corporación Cooperativa is a socio-economic business organisation with deep cultural roots in the Basque Country. It was created by and for people and is based on the Basic Principles of our Co-operative Experience. It is fully committed to the environment, competitive improvement and customer satisfaction, as well as to the generation of wealth in society through business development and the creation of jobs. Furthermore, it:
>
> - is based on a firm commitment to solidarity, and uses democratic organisational and management methods.
>
> - promotes the participation and involvement of its worker-members in the management, profits and ownership of its companies, which strive together for harmonious social, business and personal development.

- fosters training and innovation through the development of human and technological capacity.

- applies its own Management Model, aimed at improving the market position and general development of each Co-operative.

Corporate Values

The Corporate Values are the heart of MCC's business culture, providing a common sense of direction for all worker-members and a set of general guidelines for the everyday working of each company. They represent the fundament nature of the organisation and create a specific sense of identity.

The last Congress meeting, held in May 1999, reduced the list of Corporate Values to just four in an effort to facilitate their communication, absorption and application.

CO-OPERATION	PARTICIPATION	SOCIAL COMMITMENT	INNOVATION
"Owners and protagonists"	***"Commitment to management"***	***"Distribution of wealth based on solidarity"***	***"Constant renewal"***

<u>Co-operation</u>

As owners and protagonists we work for a company which we consider to be our own. We treat its ups and downs, problems and triumphs as things that depend on us and that affect us both directly and personally.

Our organisations are designed to accommodate our co-operative ideals and are based on our common Management Model, which enables corporate cohesion and promotes efficiency and dynamism, while at the same time ensuring that the concept of a shared set of ideas, objectives, means and interests, in other words our "Common Project", remains the backbone of the whole experience.

Development needs and the desire for improvement have forced us to re-evaluate independent initiative, channelling this valuable resource towards co-operation in management in accordance with our conviction that the good of the group as a whole should outweigh individual concerns.

Worker-member training is also a key element of our philosophy, both as regards professional knowledge and courses focusing on the Experience's Basic Principles and Corporate Values.

Worker-members are given the opportunity to develop their potential as expert professionals, combining experience, prudence, seriousness and dedication in the assumption of the responsibilities inherent to their position.

A meticulously programmed and monitored integration process is initiated every time a new worker enters one of our co-operatives. Individual goals are the best means of fostering personal development and evaluating professional capacity, which should always be combined with the internal transfer of knowledge and active participation in problem solving activities.

The Corporation should be considered as a single unit, and the development of any of its autonomous elements should result in the global development of MCC as a whole, since this general progress in turn generates value for its member co-operatives.

In order to improve the performance of each individual co-operative, it is necessary to foster co-operation, searching for synergetic constants both within the heart of the Corporation and through collaboration with customers, suppliers, competitors and social institutions.

Participation

At MCC we believe that people are the only guarantee of the success of our co-operative project. This is why we base our philosophy on a firm commitment to participation and integration, since the essential element of the socio-business model employed by our co-operatives, and at the same time, the element that sets us apart from other models, is the participation of members in the company capital, profits and management.

Participation in the building of the company is not just a right, but an obligation and demand for mutual commitment also. It enables us to channel personal potential and place it at the service of the common interest, thereby increasing staff satisfaction and fostering a sense of belonging.

The concept of workers as participating members of the company with corresponding rights and obligations is not, however, confined to this area alone, but rather permeates throughout all areas of the company, influencing labour organisation and operating processes in order to ensure that everyone is given the opportunity to contribute their knowledge and ideas for improvement.

Participation based on the concept of the worker as a responsible person actively involved in the establishment and fulfilment of company objectives requires that all members be both properly informed and attentively listened to.

Our worker-members are characterised by their potential for development and creativity, their ability to assume responsibilities and their willingness to commit themselves to resolving the problems experienced by their company.

The democratic-institutional processes which result from the legal status of the co-operative and our individual business culture should be kept alive, since they serve as effective instruments for personal, social and business participation.

Thanks to the convergence of the basic objectives and the participation of worker-members and other employees, specific business initiatives permeate through all levels of the company, constituting a distinct and permanent competitive advantage.

The development of participation requires flexible organisational structures that foster a good working atmosphere, efficient inter-functional process management, team work and continuous training.

Social Commitment

Work is not only a means of obtaining income. It also constitutes a source of satisfaction that fulfils a personal and collective need for development. For this reason, we try to ensure that personal aims are compatible with those of the company, and that company objectives coincide with its social commitment.

The internal distribution of generated wealth should prioritise common interests as a way of guaranteeing the survival of the company and as an expression of solidarity, since this approach excludes the possibility of improving individual economic assets.

The effects of our activities go beyond the personal limits of those involved to have a notable impact on our immediate surroundings. We are therefore committed to the improvement of the area in which we operate and to the development of our country as a whole.

Another aspect of our social commitment is respect for the environment, evident in our efforts to render business development compatible with the protection of our natural heritage.

Activities designed to promote and disseminate our Co-operative Experience also constitute an ideal basis for business and social development. The sharing of know-how and accumulated experience, both within and outside the Corporation, is another example of distribution of wealth based on solidarity.

Innovation

Commitment to an ongoing search for new opportunities in all areas is vital to business development, as well as being the key to ensuring an efficient response to the expectations generated in society.

Our customers, and society in general, perceive and evaluate our companies according to the quality of our products and services, the end result of the efforts and expertise of our staff, one hundred percent committed to innovation and continuous training.

We should accept change as a necessary and essential part of our business lives, and therefore foster the search for and experimentation with new developments and solutions within our company.

Innovation is a fundamental element of our business structure and the creation of an environment that encourages and stimulates it is one of our priority objectives, never forgetting, of course, that customers themselves are a vital source of ideas providing we learn how to listen to them.

Our universities and educational centres reflect our commitment to investing in human capital and utilising intelligence to generate teams capable of integrating innovation into the management of our companies.

Our training activities will focus on the acquisition of assimilation techniques and on encouraging learning habits, on the basis that “learning how to learn” is a vital element in fostering adaptation and constant renewal.

- **Basic Objectives**

Being more closely connected to everyday company activity, the Basic Objectives outline the key areas in which the MCC Corporation, both as a whole and through its individual co-operatives, aims to carry out significant improvements during the stipulated period.

They are deeply rooted in, and indeed form the basis of, both the strategic and operational plans.

Customer satisfaction

Based on the following guidelines:

- Maximum customer awareness: striving to provide an efficient service to both external and internal customers, as well as to MCC personnel themselves. Customer relations should be characterised by transparency and honesty and based on trust and ethical behaviour.

- Management Model: MCC’s unique method of managing its staff and companies identifies customer satisfaction as one of its key objectives.

- Customer loyalty: as a permanent objective and key indication of maximum business efficiency.

- Continuous improvement: commitment to innovation, efficiency and constant change.

- Products and services: our companies are perceived and evaluated according to the quality of our products and services.

- External and Internal Communications: projection of an image that highlights corporate potential, and development of instruments designed to involve staff and adapt our organisation to specific customer needs.

Profitability

The Corporation aims to increase profitability by following the general guidelines listed below:

- People: committed to meeting the business objectives of their company.
- Quality: in the widest sense of the word, affecting all company areas and staff.
- Organisation: aimed at ensuring the effective management of the different business units, simplifying structures, implementing process-based management and striving for general efficiency and productivity.
- Supplies: a key area in the company's cost structure, with interesting new opportunities provided by the opening up of foreign markets and internationalisation.
- Optimisation of resources: accurate gauging of assets, making more of less and in general, increasing turnover.
- Selecting investments: prioritising management improvements and always selecting the best alternatives in terms of performance and balance of resources.
- Rethinking of non-profitable activities: either through restructuring, re-launching or closure.
- Wage systems: in accordance with the corresponding sector and the internal situation of each company.
- Social Welfare: the efficiency of our Welfare system as a source of competitive advantage.

Internationalisation

This Objective is based on the following guidelines:

- Foreign expansion: improving our competitive position by increasing commercial, operative, production and supply activities on international markets.
- Winning target customer loyalty: as a way of meeting their requirements and gaining a larger market share in globalised sectors.
- Shared development: joint exploitation of competitive advantages based on collaboration agreements, joint-ventures, alliances and purchase groups, etc.

- Share purchases: acquisitions for strategic reasons or as a way of expanding into new areas or reinforcing existing activities.

- Staff recruitment and training: greater involvement of people and organisations in the internationalisation process, with the corresponding adaptations.

- Corporate backing: to support the entrance into new markets or to increase activities in current areas by fostering commerce and joint projects.

- Outward focus of knowledge-related activities: using our accumulated experience in the field of knowledge (co-operation, management, education, teaching, engineering, advice, etc.) as a springboard for international activities.

- Corporate Image: strengthening MCC's international image and its relations with Governments and Institutions as a way of attracting opportunities.

Development

Progression, growth and expansion will be based on the following guidelines:

- Competitive positioning: attaining the required size, depending on the nature of each individual company.

- Generating employment: in accordance with MCC's Basic Principles and Mission.

- Convergent autonomy: combining autonomous management with co-ordinated strategic activity within each Subgroup and throughout the Corporation as a whole.

- Local development and foreign expansion: by combining individual and joint local and foreign business projects.

- Globalised sectors: achieving status as providers of development.

- Financial platforms: through new instruments and figures aimed at financing development.

- Mondragon Unibertsitatea / University of Mondragón: generating an area of economic development and influence based on the innovative application of knowledge.

- Commitment to the environment: in business facilities, working methods and end products.

- Business co-operation: adapting the corporate structure to the strategy of collaboration with other companies and groups in joint development projects.

- New products and services: integrating innovation and development into our products and services in order to respond to the current needs of our customers-markets and to contribute to the growth of existing co-operatives.

- Incorporation of technological developments: paying special attention to emerging technologies.

- Assumption of promotional risk: as an integral part of our individual and collective commitment to development and the promotion of new projects and activities.

Innovation

- Innovation Culture: promoting organisational changes and activities designed to foster creativity, intuition, the generation of ideas and the exploration of new fields.

- New products and services: development and innovation of our offer in order to respond to customers-markets and promote growth.

- Strategic alignment: reinforcing innovation in strategic approaches in order to develop new business models and theories and to manage innovation in a strategic manner.

- Innovation spaces: intensification of activities designed to create environments conducive to developing new outlooks and original visions in organisations.

- People and Teams: setting up of Human Teams specialising in different areas, with a strong inclination for creation and discovery.

- Corporate Inter-cooperation: ensuring the co-ordinated use of knowledge and innovative initiatives between companies, universities, research centres, engineering and consultancy firms and corporate platforms.

- Training: alignment of the teaching contents of our educational and training programmes with current needs in the area of innovation development.

- Technological challenges: constant technological monitoring of trends and changes in the environment and the impact of new information and communications technologies.

- Innovation Management: structuring and systemisation of innovation management as a key process in business management.

Social Involvement

The guidelines underpinning this Basic Objective are:

- A joint project: the challenge accepted by MCC can only be met through the equal and sustained participation of capable and enthusiastic people.
- Communication: as a means of identifying the prospects of both individuals and the business project. Relationship with society based on honesty and an open channel of communication with other groups and institutions.
- Ethical behaviour: underpinning all areas of corporate relations.
- Responsible people: willing to honour their commitment to the business and corporate project.
- Satisfied people: happy with their level of involvement and the training and promotion opportunities available.
- Pride in belonging: willing participants in the Corporation's Mission.
- Wage coherence: in accordance with each person's individual contribution, based on equality, internal solidarity and external competitiveness.
- Acknowledgement: of effort expended and a job well done.
- Training: source of constant renewal and the joint responsibility of the company and workers.
- Membership and job stability: promotes better results and improved performance of individual tasks.
- Health in the workplace: safe and healthy working conditions.
- Social Welfare: our welfare system as a source of satisfaction thanks to the quality of its cover and social benefits.
- Responsibility: fulfilling our social obligations as a company and supporting community initiatives aimed at developing the local area.
- Environment: ensuring environmentally-friendly business activities and collaborating in the development of protection initiatives within a framework of sustained quality.
- External communications: outlining our commitments and key achievements.

➢ General Policies

The General Policies govern the Corporation's activities in certain areas of particular importance and serve as a basis for the compilation of the Strategic Plans.

Their aim is the achievement of the Basic Objectives through the application of specific guidelines designed to lay the foundations for facing the competitive challenges of the future. Given that the areas involved are similar to those covered by the Basic Objectives, a simple list should suffice to give a general picture:

- *Competitiveness*
- *Internationalisation*
- *Communication*
- *Innovation*
- *Business Promotion*
- *Employment*
- *People*
- *Financing*

LOOKING TO THE FUTURE

The new model of participatory and humanitarian company that emerged 50 years ago as the brainchild of Arizmendiarrieta, being nurtured by the selflessness of the first members and the efforts of thousands of cooperative workers, has now, half a century on, become the foremost experience worldwide in the development of cooperation, standing at the head of the business ranking in the Basque Country and seventh in Spain overall.

The humble training college in Mondragón, the Escuela Profesional, and Ulgor, the tiny workshop producing domestic appliances, were the seed for a socio-business reality that now extends throughout the five continents and provides work for over 80,000 people in 264 firms and businesses involved in finance, industry and distribution, as well as in research and teaching centres of both an occupational and general nature, including a Cooperative University.

Over the course of these years and in “a dynamic progression of experiences”, in the words of Arizmendiarrieta, Mondragón Cooperativism has led to the creation of efficient, humanitarian companies, focusing on the Individual and the Sovereignty of Labour, with the main aim being the creation of jobs and equitable wealth for the surrounding area.

These are cooperative firms that have furthered equal opportunities in the workplace and in education, reinvested the profits forthcoming and learnt how to forge close ties of inter-cooperation within the financial, educational, technological and organisational spheres, thereby strengthening both the individual Cooperative and the Corporation as a whole.

The changes have been huge over this half century, but we are in no doubt whatsoever that now, as in the past, the success of the Mondragón model requires reconciling the founding spirit – based on the Society of People, participation and solidarity – with the demands of an increasingly competitive and globalised market.

We believe, and shall continue to believe, in the individual as the driver of all progress although, logically, the knowledge and skills required for the task ahead may well change. Yet we shall continue to uphold our faith in cooperative values, generosity, commitment, hope and decency, etc.

Looking to the future, the creation of jobs will continue to be one of the Corporation’s primary objectives. This will involve fortifying business development at all levels within the organisation and focusing on innovation as a vital tool for developing products of greater value added and more highly-skilled jobs, preferably of a cooperative nature. This was the view taken by the 9th Cooperative Congress held in October 2005, which revealed a clear commitment to innovation and business development as the best way of assuring the future.

It is founded on a twin strategy: reinforcing the pooling of efforts to attain leadership in those business areas in which the Cooperatives and Divisions are currently immersed, and responding to the opportunities arising in other sectors, especially those MCC has tagged as priorities: Aeronautics, Energy, Health and ICTs.

A key role in this process will correspond to the Development Centre, approved also at the 9th Congress, which has its own legal status and a major budgetary allocation. Its activity takes place within the sphere of the new Industrial Council, a body that coordinates cooperative industrial policy, seeking to identify interdivisional synergies and, especially, to boost and monitor innovation and development.

A decision was also taken at the Congress to update the industrial organisation prevailing since 1991: eliminating the intermediate Group level, imbuing the performance of the Divisions with greater flexibility, empowering Mutual Interest Groups for channelling synergies between Cooperatives through specific or permanent agreements and setting up the Industrial Council.

In terms of innovation in knowledge and products, MCC has other extremely important platforms: a Cooperative University focusing on studies in engineering, business administration and education sciences; Executive Training Centres; a corporate Science and Technology Plan, whose aim is to incorporate high impact technological know-how into the Cooperatives' companies and businesses, and a network of sectorial Technology Centres closely linked to our companies' business areas.

A significant role is also to be played in this entire process by the Garaia Innovation Park in Mondragón, which seeks to develop innovation and technology, using a single site of excellence to interweave technology centres, companies and higher education, thereby bolstering the adoption of new technologies in companies and helping to create highly-skilled employment.
Another key area for the future of the MCC Cooperatives involves their international deployment, which has undergone major development in recent years and requires further expansion. This trend is giving rise to a new Corporation, in which the foundational core of the Cooperatives coexists alongside a growing number of subsidiaries in the form of stock companies.

This circumstance requires serious thought, focusing on the development of new ways of sharing property, management and profits, which may be applicable to our stock companies and suitably reflect our defining traits and cooperative values. Regarding the gradual application of this model of "participatory company" to our subsidiaries, we already have the successful experience undertaken a few years back by the Eroski distribution group, through the firm Gespa.

Throughout their first 50 years of existence, the MCC Cooperatives have been characterised by their consummate skill in adapting to their changing environment, creating the right organisational and management tools to address each situation. Today, just as before, the building blocks of the future are in place, with the assurance that there will be no shortage of expertise available to cement them sturdily and accurately onto their corporate values.

Corporate Management Model

Corporate Management
Model

MONDRAGON

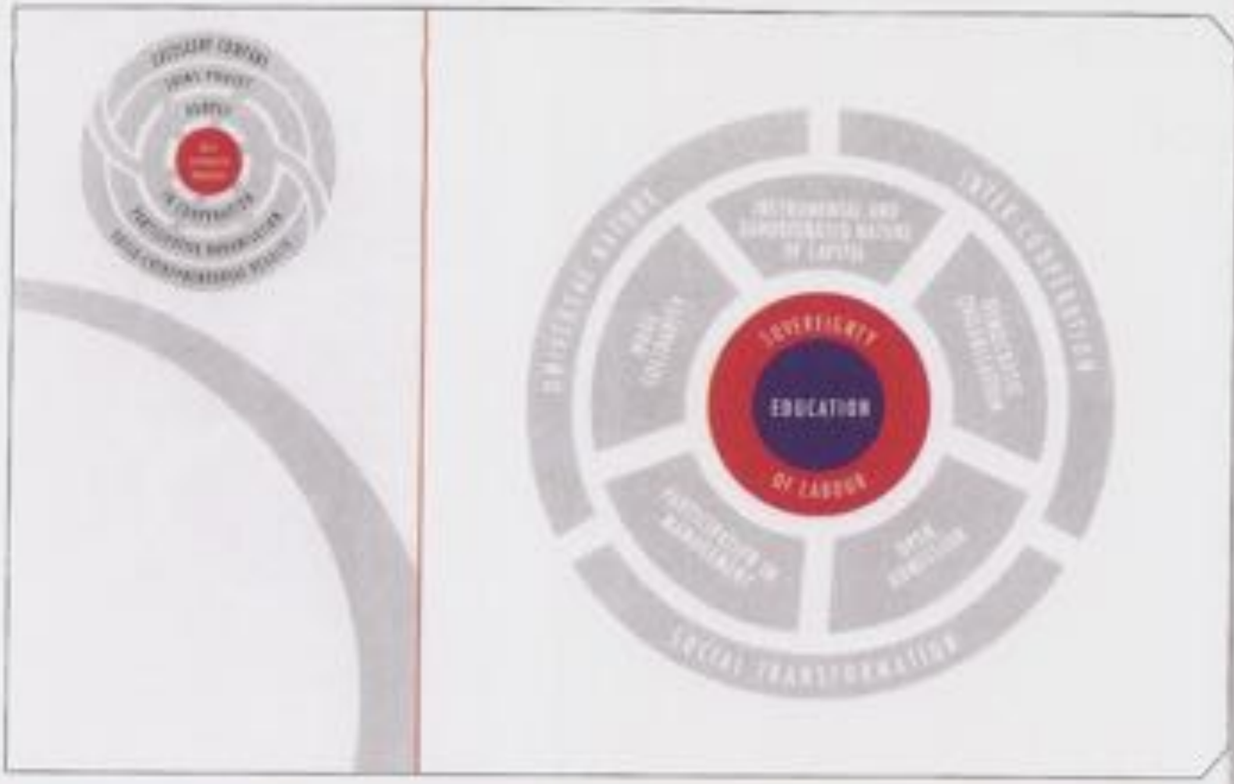
Basic Cooperative Principles

The illustration features the 10 Basic Cooperative Principles currently in force. The depiction makes no attempt to apply a criterion of priority, but rather sets out to establish some form of interrelation between them.

The core is occupied by **EDUCATION** as the basic mainstream principle that feeds and feeds off all the others, and the **SOVEREIGNTY OF LABOUR**, which is shielded by the other five principles of an internal nature in each individual Cooperative: **INSTRUMENTAL AND SUBORDINATED NATURE OF CAPITAL, DEMOCRATIC ORGANISATION, OPEN ADMISSION, PARTICIPATION IN MANAGEMENT AND WAGE SOLIDARITY.**

The outer ring features the three principles that are related to the Cooperatives external projection: **INTER-COOPERATION, SOCIAL TRANSFORMATION AND UNIVERSAL NATURE.**

The following three pages present the full texts explaining these principles that were approved at the 1st Cooperative Congress on 2 and 3 October 1987.



EDUCATION:
The Mondragón Co-operative Experience declares that in order to implement yhe aforementioned principles it is essential to dedicate sufficient human and economic resources to different aspects of Education:

a) Co-operative, for all members appointed to management bodies.
b) Professional, especially for members appointed to management bodies.
c) Young people, in general, to promote the emergence of men and women co-operators, capable of consolidating and developing the Experience.

SOVEREIGNTY OF LABOUR:
The Mondragón Co-operative Experience considers Labour to be the principal force in the transformation of nature, of society and of human beings themselves; and therefore:

a) Renounces the systematic contracting of salaried employee salaried employees.
b) Grants Labour full sovereignty in the organisation of the co-operative enterprise.
c) Considers that Labour deserves to be the first and for most recipient of the wealth produced by the enterprise.
d) Manifests its willingness to extend job opportunities to all members of society.

INSTRUMENTAL AND SUBORDINATED NATURE OF CAPITAL
The *Mondragón* Co-operative Experience considers capital to be an instrument, subordinate to labour, but which is necessary for business development and, therefore:

a) Merits remuneration that is :

- Just, in relation to the effort involved in it accumulation.
- Adequate enough to attract necessary resources.
- Limited in amount, through relevant regulations.
- Not directly related to profits, but....

b) Whose recovery is subordinate to the continuity and development of the co-operative and hence does not impede real application of the principle of open admission.

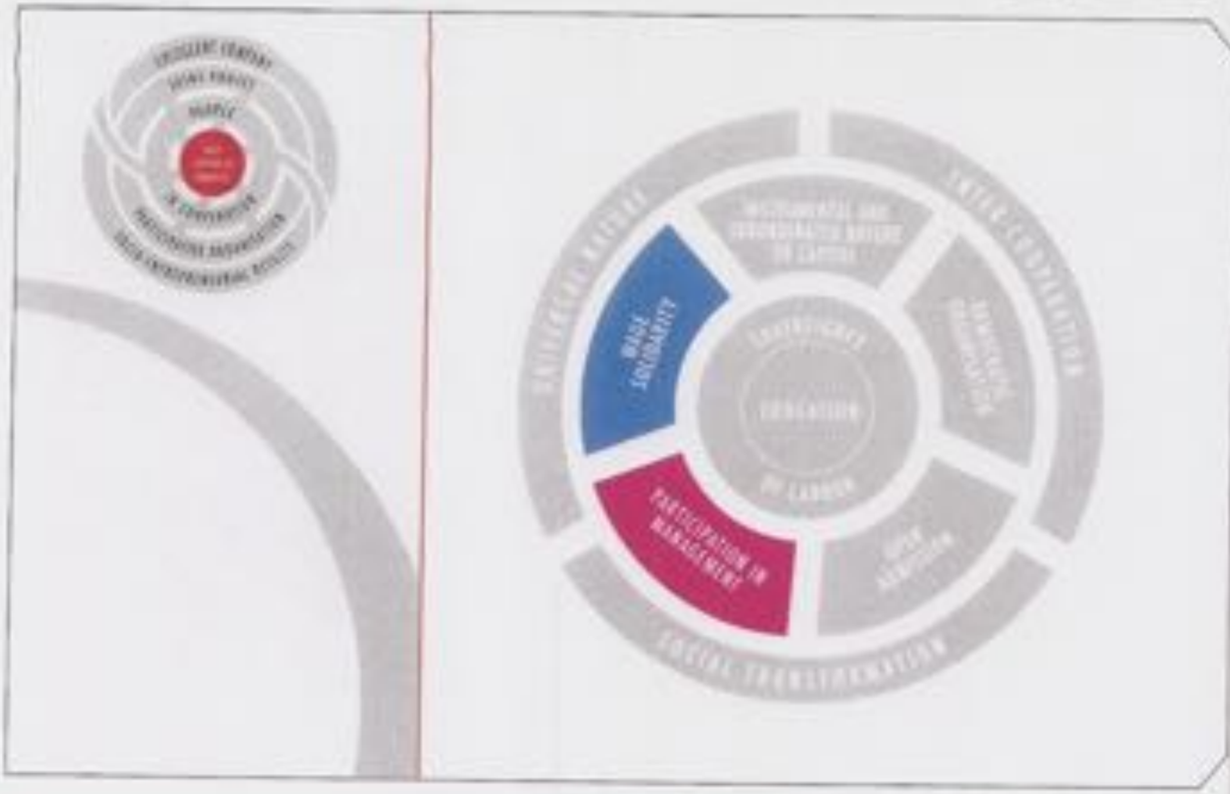
DEMOCRATIC ORGANISATION:
The *Mondragón* Co-operative Experience declares all its worker-members to be equal in their rights to knowledge, property and self-development, an equality that implies a democratic enterprise structure based on:

a) The sovereignty of the *General Meeting*, composed of all the members, in which this sovereignty is exercised on the basis of "one person, one vote".

b) The democratic election of governing bodies, and in particular, the Board of Directors, which is accountable for its actions to the General Meeting.

c) Collaboration with the management bodies designated to operate the company, by delegation of the membership as a

OPEN ADMISSIÓN:
The *Mondragón* Co-operative Experience is open to all men and women who accept these Basic Principles and prove themselves professionally suitable for the jobs that may be available. There shall, therefore, be no discrimination whatsoever on religious, political, racial or gender grounds in the attainment of membership status. The only requirement shall be respect for the postulates of the Cooperative Experience's internal constitution. Open admission shall be the principle governing all actions and interpersonal relations related to cooperative development.



PARTICIPATION IN MANAGEMENT:

The Mondragón Co-operative Experience believes that the democratic nature of a Co-operative is not limited to the membership side, but also involves the progressive development of self-management and therefore, the participation of members in business management, which, in turn, requires:

a) The development of suitable mechanisms and channels for participation.
b) Transparent information concerning the performance of the basic management variables of the Co-operative.
c) The use of methods of consultation and negotiation with worker-members and their social representatives in those economic, organisational.
d) The systematic application of social and professional training plans for members.
e) The establishment of internal promotion as the basic means for covering jobs involving greater professional resposibility.

WAGE SOLIDARITY:

The Mondragón Co-operative Experience declares sufficient payment based on solidarity to be a basic principle of its management, based on a permanent vocation for collective social promotion, expressed in the following terms:

a) Sufficient, in accordance with the real possibilities of the co-operative.
b) Solidarity, brought to fruition:
   - Internally, through the creation of a remuneration framework based on solidarity.
   - Externally, based on the criterion that internal remuneration should be in line with that of salaried employee salaried employees in the same sector and, where appropriate, in the same geographical area, that the co-operative operates in, unless it is manifestly insufficient.
   - At the MCC level, with the existence of a labour framework based on solidarity in terms of both payment and annual work hours for all the co-operatives in the corporation.

INTER-COOPERATION:

The Mondragón Co-operative Experience considers that, as a specific application of solidarity and a requirement for business efficiency, the principle of cooperation among co-operatives should be apparent:

a) Among co-operatives on an individual basis, through the setting up of Groupings aimed at creating an homogeneous system of work rules and regulations, including the pooling of profits, the regulation of transfers of worker-members and the search for potential synergies deriving from their combined size.
b) Among Groupings, by means of the setting up and democratic management, for the common good, of suprastructure entities and bodies.
c) The Mondragón Co-operative Experience and other Basque co-operative organisations, in order to promote the Basque Co-operative Movement.
d) With other co-operative movements in Spain, Europe and the rest of the world, by reaching agreements and establishing joint bodies aimed at promoting joint development.

SOCIAL TRANSFORMATION:

The Mondragón Co-operative Experience declares its commitment to social transformation in solidarity with that of other countries, through its activities in the Basque region in a process of expansion in order to collaborate in its economic and social reconstruction and the building of a freer, more just and supportive Basque society, by means of:

a) The reinvestment of the majority of the net surplus obtained, with a significant proportion earmarked for funds of a community nature, in order to create new co-operative jobs.
b) Support for community development initiatives, by means of the application of the Education and Co-operative Promotion Fund.
c) A social security policy in keeping with the co-operative system, based on solidarity and responsibility.
d) Co-operation with other Basque institutions of an economic and social nature, especially those promoted by the Basque working class.
e) Collaboration to revitalise Basque as the national language and, in general, the characteristic elements of Basque culture.

UNIVERSAL NATURE:

The Mondragón Co-operative Experience, as an expression of its universal vocation, declares its solidarity with all those who work for economic democracy in the sphere of the "Social Economy", echoing the objectives of Peace, Justice and Development of the International Co-operative Movement.

Economics, Cooperation, and Employee Ownership: The Emilia Romagna model – in more detail

John Logue

There are at least two European models for employee ownership that demand American attention. The one is the Mondragon cooperative group in the Basque region of Spain which has been frequently discussed in American employee ownership circles (see, for instance, "Lessons of Mondragon's Employee-Owned Network,"*Owners at Work* XII:1, 5-9 and "From Mondragon to Ohio," *Owners at Work* XIII:1, 16-17). The other is the much less well known complex of employee-owned companies in the Emilia Romagna region in Northern Italy around Bologna.

I had the good fortune to take a week's study trip to the employee-owned sector in Northern Italy this last summer with a delegation from the Boston-based Cooperative Charitable Trust to see the Emilian model first hand.

In some ways, Emilia Romagna and the Basque co-ops are very different. In the Basque region, the Mondragon employee cooperatives grew out of Catholic social teaching and Basque nationalism in the 1950s and 1960s. In Emilia Romagna, by contrast, the co-ops grew up with the 19th century labor movement but split into three different partisan political federations -- Catholic, Socialist/Communist, and Social Democratic/Republican -- in the 20th century. They have no link to ethnic or linguistic minorities.

In other ways, they are very similar. Both appear to owe their success today to a combination of small scale, flexible employee-owned firms which achieve economies of scale to compete globally through collaborative research and development strategies, cooperative export efforts, their own financial institutions, and other forms of collaboration and cooperation that are largely or completely missing in the employee-owned sector in the US.

There's a great deal we can learn in Ohio from what this one small region in Northern Italy has achieved over the last fifty years.

At the core of the Emilian Romagna success story is the regional government's focus on support small businesses – employee-owned and co-op owned alike.

Promotion of small business

Emilia Romagna with its seven provinces (of 103 in Italy) is roughly comparable to Northeast Ohio in population: 3.9 million vs. 3.8 million. Unlike Northeast Ohio, it has its own regional government (of 20 in Italy) with significant power.

By Ohio standards, firms are very small scale. Emilia Romagna has 420,000 firms – one for every 9 men, women and children -- vs. 110,000 in Northeastern Ohio. More than half the population are co-op members. Coops -- including employee-owned businesses -- employ 10% of the workforce and generate, according to University of Bologna economist Stefano Zamagni, about 30% of the GDP in the region and up to 60% of the GDP in some cities like Imola. In Bologna itself, 15 of the 50 largest businesses are coops, and coops employ 25,000, or 10% of the labor force. Housing co-ops and consumer co-ops are so numerous that they hold down prices, and most privatized social services are provided by employee co-ops (including 60% of home health care services). Flavio del Bono, the regional finance minister, tells foreign visitors point blank that "the massive presence of cooperative firms is a stabilizing factor in the regional economy."

Emilia Romagna and Northeastern Ohio

	Emilia Romagna	Northeast Ohio
Population	3.9 million	3.8 million
Number of firms	420,000	110,000
Agriculture as percent of GDP	5%	
Manufacturing and construction in GDP	30%	
Services as percent of GDP	65%	
Unemployment in region	3.1%	5.9%
Population of major city	380,000 (Bologna)	459,000 (Cleveland)
Unemployment in major city	2.7% (Bologna)	7.7% (Cleveland)
Percent of total population in co-ops	57%	Unavailable
Percent of GDP generated by co-ops and employee-owned firms	30%	Unavailable

"Emilia Romagna has 7% of the population of Italy," says del Bono. "But we account for 9% of the Italian GDP, 12% of Italy's exports, and 30% of Italy's patents." Unemployment is an enviable 3%.

It wasn't always this way. Emilia Romagna moved from among the poorest of Italy's industrial regions in 1950 to the richest in 2005. Today it's among the 10 richest of the European Union's 122 regions.

Emilia Romagna came out of World War II as perhaps the most devastated region in Italy. Its strong co-operative and labor movements had been decimated by 25 years of Mussolini's fascism that suppressed all independent organizations and jailed many co-op and labor leaders. After the Anglo-American landings in Southern Italy, Emilia Romagna ended up just behind the Nazis' "Gothic line" from 1943 to 1945. It became the focus for Allied bombing, guerrilla warfare by the Resistance, and Nazi reprisals against the civilian population. It emerged from the war impoverished with heavy unemployment.

After the war it became part of Italy's so-called "Red Belt," the part of Italy that was in the front line of the Cold War because the Communists and Socialists won the elections there. The CIA poured money into the region to split the labor and co-operative movements. But lacking the large-scale industrial base of a Milan or a Turin, a funny thing happened: The left-wing government in Emilia Romagna embarked on a strategy of promoting small business for economic development. It encouraged employee ownership, consumer cooperatives, and agricultural cooperatives, and it encouraged the development of cooperative institutions for all small businesses – co-ops and family-owned firms alike. It was, as Alberto Alberani of the left-wing Legacoop federation characterized it, a policy of "tortellini Communism."

It also paid off politically for the left. Ironically from an American perspective, the CNA, the umbrella interest organization for family businesses, is Communist led. While all its member businesses are privately owned, the CNA provides a range of joint services for them that parallels the services provided for the cooperatives by their central organizations.

The regional government's economic development agency ERVET.created publicly funded small business "industrial sector service centers" that have supported small business clustering in the region. They provide shared services in research and development, purchasing, education and training, workplace safety, technology transfer, marketing and distribution, exporting and more for scores or hundreds of small businesses in industrial sectors like ceramics, textiles, footwear, construction, and agricultural machinery.

These service centers combine the economies of scale with the advantages and flexibility of small business. They have supported the so-called "flexible manufacturing" of the region in which small businesses in the same industry collaborate in joint bids for major contracts. The region is home to some very high value-added producers, including companies widely known in the United States like Ferrari, Lamborghini, Maserati, and Ducati, which use networks of small businesses to supply their inputs.

The result is thousands of small and medium-sized enterprises, perhaps the densest concentrations of small businesses in the industrial world.

That support for local ownership forms the context for Emilia Romagna's cooperatives.

Employee ownership and the law

Employee-owned companies in Italy fall under the general cooperative law that covers agricultural cooperatives, fishing co-ops, housing co-ops, consumer co-ops, and credit unions as well as employee-owned businesses.

The Italian cooperative movement had its origin in 1850s and flourished in Northern Italy before Mussolini came to power. Unlike most of the rest of Europe where consumer co-ops predominated, in Italy employee-owned co-ops played a major role. In1921, there were 3600 consumer co-ops and 2700 production co-ops in Emilia Romagna. But the co-ops fell on hard times about Mussolini's fascists marched on Rome in 1922, and, beginning in 1926, Mussolini's government systematically crushed them as independent organizations .

With the restoration of democracy in Italy after World War II, parliament gave formal recognition to the role of cooperatives. Article 45 of the Italian Constitution (1947) states: "The Republic recognizes the social function of cooperation characterized by mutual aid and not private profit. The law promotes and favors the growth of these structures using the most appropriate means and guarantees that their character and purpose will be inspected accordingly."

The Basevi Law of 1947 -- Italy's basic co-op law -- fleshed out this constitutional recognition. It provided co-ops with special tax treatment to encourage their self-capitalization by creating the concept of "indivisible reserves" for the benefit of all (i.e., future generations of employees and the community). Earnings could be contributed to indivisible reserves tax free (saving 40% in taxes), but if the co-op dissolved or sold, its reserves by law went to another cooperative or to a cooperative federation, rather than being distributed among the members. Members received their returns in annual interest payments on their membership fees and in patronage dividends.

Curiously, the law extended the same advantages to co-ops in which all employees were members and those in which only a minority of employees were members provided members owned 100% of the business. As a consequence, some employee co-ops have a very low level of inclusion of employees as members

Cooperatives provided for members' control through an annual meeting that reviews financial results, approves the budget, and makes decisions on distributions; and through an election of the board every third year.

There have been three major changes in co-op laws since 1947.

In 1991, "social cooperatives" were formally recognized with special goals and special tax advantages. Those are discussed below.

In 1992, co-op law was changed to require all cooperatives to contribute 3% of their profits to co-op development funds run by the various federations of cooperatives.[1] These funds are earmarked for starting new cooperatives or growing existing cooperatives. The law generalized the previous practice of the largest co-op federation, the left-leaning Legacoop.

Contrast this to the status of Sub-S corporation ESOPs in the United States. They are tax free, but all the benefits go to the current generation of employees, rather than benefitting employees in the future. If the employees sell or dissolve the ESOP, they can take the profits and run. Often they do. There isn't even any contribution to helping to establish new employee-owned firms, like the 3% cooperative development fund fee in Italy.

In 2001, the right-wing Berlusconi government in Rome staged a frontal legislative assault on the co-ops which all the co-op federations fought. The result was a compromise: tax advantages for co-ops were reduced and scaled to the proportion of employees or consumers who belonged as members. Contributions to indivisible reserves are now 70% tax exempt for co-ops that do at least 50% of their business with members; those that do less are now only 30% tax exempt. Not surprisingly, this has encouraged employee co-ops to enroll at least 50% of their employees as members.

Recognizing the handwriting on the wall, the National Alliance party, which supported Berlusconi's attack on the co-ops, set up its own, right-wing cooperative federation.

In short, employee-owned firms are governed by the same law as consumer and agricultural co-ops. They are membership associations in which members own 100% of the business. But members do not necessarily all have to belong to the same category. Some co-ops in the service sector mix employee and consumer ownership. Further, there is some overlap, especially among social co-ops, with what would be non-profit organizations in the US, and these include supporting as well as employee members.

In the last fifteen years, co-ops of all sorts have doubled their importance in the Italian economy. Today 121 of the 1400 largest Italian firms are cooperatives or 9%, up from 4%, and employment have doubled from ½ million to 1 million. Employee-owned co-ops play a major role, especially in Emilia Romagna.

Because of the organization of the co-ops in three federations that combine all sorts of co-ops, it's a bit difficult to separate the employee-owned sector from the rest of the co-op sector. In the Catholic Confcooperativa federation in Emlia Romagna, 750 employee-owned firms account for 40% of the firms, just under 20% of membership, 60% of co-op employment and 12% of turnover.

There are two basic kinds of employee-owned cooperatives: the traditional employee co-ops in crafts, manufacturing, construction and services that operate much like American employee-owned firms, and the new social service co-ops. Between the two groups there are perhaps 2,700 employee-owned businesses in the region, employing about 6% of the labor force. Most of them are social co-ops, but most of the employment is in the more traditional sector.

Employee cooperatives

The traditional employee-owned cooperative in Emilia Romagna is the artisan-style production cooperative that has consolidated and grown. Some were established to deal with shutdowns; others, with lockouts; others, from artisans pooling their assets; and others, by benevolent management. The oldest we visited was set up in 1874; the newest was from the 1980s.

These employee co-ops have succeeded first in the local or regional market, then the national, and now the global market largely because of their focus on competitiveness and innovation. As in American employee-owned firms, competitiveness frequently stems from a niche – varying from short run, quick set up at ***Zappettificio Muzzi***, an agricultural implement part producer, to design and quality excellence at ***Cooperativa Ceramiche d'Imola***, Italy's 5th largest ceramics company, to technological leadership at ***Societa Cooperative Bilanciai***, one of Europe's leading scale producers which plows a remarkable 7% of revenues back into R& D in an otherwise mature industry. Occasionally, the competitive strategy is one of size and economies of scale, as it is for some of the Italian consumer co-ops like ***Coopitalia,*** Italy's largest retailer; this is the strategy of employee-owned ***CIR Foods,*** the country's third largest food service provider.

Employee ownership is itself seen as a competitive advantage. "The gift of the cooperative is to create a sense of collective entrepreneurship. Membership requires thinking about the business. Workers are more committed than in private firms," says Stefano Bolognesi, president of Cooperativa Ceramiche d'Imola,. "If that weren't true, I wouldn't have accepted the presidency."

The employee co-ops are 100% membership owned and operate with a membership-elected board that serves a three year term. The law requires a membership meeting reviews the annual financial report and next year's budget, but the co-ops we visited had quarterly or monthly membership meetings, and one provided small group meetings to review the financial report and budget before the membership meeting.

On the other hand, co-ops vary tremendously requirements for membership. The four we visited varied from six months' service and a $3000 membership fee paid over three years to a five year minimum service requirement and a $112,000 membership fee. Not surprisingly, the proportion of employees who are members varies as well – from 172 members of 1350 employees at Cooperativa Ceramiche d'Imola to 230 of 265 at Bilanciai.

While Italian co-op experts describe employee co-ops as being "by definition undercapitalized," in fact the legally required "indivisible reserves" build over time into substantial permanent equity that dwarfs membership fees. Bilanciai, which became a co-op in 1963, for instance, has membership fee accounts of $1 million and indivisible reserves of $12 million. The indivisible reserves were universally seen as an advantage, guaranteeing employment for multiple generations, rather than "collective property" to be "privatized" by the current group of members.

Here's how Bolognesi from Cooperativa Ceramiche d'Imola, and a third generation co-op member, summed it up: "Part of our mission is intergenerational mutuality. What we see here is the fruit of generations of work. We receive wealth from past generations, and we create it for future generations of members. Our objective isn't just to generate jobs for this generation but also for future generations."

Some of the older and better financially consolidated co-ops have expanded internationally through setting up holding companies in which the co-op owns a majority share with financial partners owning minority positions. The holding companies then owns the foreign subsidiaries and, sometimes, Italian non-cooperative subsidiaries as well. Bilanciai has become a major European player in this way, winning 34% of the European Union's truck scale market. Occasionally the employee co-op controls a public company; for example, the 8,000-employee ***Manutencoop,*** a facilities management and janitorial group, has spun off its three core areas of business into three companies, listed them on the stock exchange while retaining a controlling 70% stake in each, and used funds raised on the stock exchange to finance these businesses.

Curiously, there seems little pressure from the co-op membership to convert subsidiaries outside Italy into co-ops.

Employee co-op wages generally match the industry standard, because the co-ops are covered by the general industry-wide wage agreements that cover the private sector. Members receive both interest on their membership fee (typically about 9%) and "patronage dividends" annually. "Patronage dividends" are based on member labor input into the business, are frequently equal for all members, and varied from the equivalent of 1 to 4 months' salary in the co-ops we visited.

Managers, however, make less than the market - typically 75-80% of what they would make in comparable private sector jobs. There was a period in the 1980s when co-ops were modernizing that they turned generally to the market for management, but that led to major value conflicts between managers and members. Consequently today, 80-90% are said to be recruited from within. "You earn less money," says Bilanciai's elected president Luciano Diacci, who came from the company's engineering staff, "but have more satisfaction, more job security, and a real sense of belonging."

Here are thumbnail sketches of several of the Emilian co-ops we visited.

Cooperativa Ceramiche d'Imola was founded as an artisan potters' co-op in 1874 to produce tableware. Today it is the 5th largest ceramics company in Italy and one of the world's leading producers of ceramic tile -- 22 million square meters, or enough to tile 7,500 football fields annually – with sales of about $420 million (including 15% exported to the US). It also continues to produce tableware and, ironically for a Communist-affiliated co-op, makes church-quality Virgin and child plaques in the Della Robia tradition. The Madonnas are primarily for the Italian market.

Artist at work at Cooperativa Ceramiche, Imola

Most employees aren't co-op members in this firm. Of 1350 employees (40% women), only 172 are members of co-op -- mainly in the production departments -- and only 10% of these are women. To be eligible for membership requires a minimum of five years of employment, a positive job review, and values compatible with those of the co-op. It also requires a willingness to pay a high membership fee: $112,000, payable over time, and the membership fee is revalued annually to adjust for inflation. Interest on the membership fee is currently 9%, and patronage dividends for members run about 30% of annual salaries. The membership fee is returned at retirement.

Only four new members joined in 2004.

The small number of members doesn't seem to concern employees. Despite the barriers to membership, it is a long term goal for many. As one employee who had ten years service but wasn't yet a member put it, "membership is real recognition of skill and achievement." Members concur. As one member put it, "I have a greater sense of responsibility than if I invested only $2,500."

The company is governed by its members who elect the board of directors. There are monthly membership meetings.

For co-op president Stefano Bolognesi, a 3rd generation co-op member, being a co-op is its competitive advantage. "The gift of the cooperative is to create a sense of collective entrepreneurship. Membership requires thinking about the business. Workers are more committed than in private firms. If that weren't true, I wouldn't have accepted the presidency."

Societa Cooperative Bilanciai was set up in 1949 by about 40 artisan scale makers who had been locked out by a private company. It started by building scales to weigh pigs and Parmesan cheese. Initial wages were paid in part in cheese. Bilanciai formally became a co-op in 1963.

It has become a major innovator technologically, introducing the first electronic scales in Italy and the first European calibration lab. The plant is similarly modern with robots doing the welding for truck and platform scales. The company spends 7% of revenue on R&D, a remarkably high number in a mature industry.

It is the leading Italian company in industrial scales with sales of $60 million for the co-op and $120 million for the Bilanciai group. The group, set up in 1999, is 60% owned by the co-op and 40% owned by 5 banks.

The Bilanciai group throughout Europe builds everything from truck scales (34% of the European market), crane scales, and platform scales for industrial uses to weighing and labeling lines to analytical balances for labs – and it produces special scale lines for Ferrari's formula 1 program. It includes a joint venture with Brechbuhler in Canton.

Co-op member's painting of Cooperativa Bilanciai summer employee party

The co-op itself has 265 employees in Modena of whom 230 are members. Additionally it has 131 other "supporting" shareholders including former employees, retirees, and the 5 banks that are its partners in the Bilanciai group.

Its governance structure reflects this mixed ownership. The thirteen directors include one elected by supporting members and twelve elected by working members on a departmental basis. Seats are contested with two or more candidates per seat, and the Lega provides courses for board members. One of its three auditors is elected by its bank partners, two, by the members. The board meets monthly generally for a full 1 day.

There are 4-6 membership meetings a year. The annual budget meeting is preceded with budget discussion in groups of 30-40 members before budget meeting.

Membership requires a 6 month probationary period and a membership fee of $3000 paid over three years. Membership fees provide $1.2 million of the company's $16 million in equity; the rest comes from partner bank investments of $3 million and indivisible reserves of $12 million.

Wages are said to be higher than market at bottom and lower at top, though in good years, the patronage bonus has been about the equivalent of one month's wages for the lowest paid. Managers – 80-90% are recruited from within – are paid 75-80% of what they would make in comparable private sector jobs. "You earn less money," says President Luciano Diacci, "but more satisfaction, more job security, and sense of belonging."

Despite its strong commitment to the employee co-op model in its home plant, Balanciai has not extended employee membership beyond Italy.

Zappettificio Muzzi is at the other end of the technological spectrum. This small forge shop in Imola, which produces parts for agricultural implement makers, remains almost as labor intensive as forges used to be, but it appears to be competitive on small runs with quick set ups. It does about $7.5 million in sales and exports about 55% - to the European Union as well as India and Africa.

Luciano Diacci, Managing Director, Cooperativa Bilanciai, Modena

It was shut by its conventional owner in 1981 but bought and reopened by 25 employees who used their severance – Italy, like most European countries, has a general system of severance pay – for the purchase.

Today its membership fee is about $17,000 with individual payment schedules. Of 42 employees, 16 are members. Thirty percent of employees are immigrants, but no immigrants are members, and there is a high turnover among immigrant employees.

Why be in the co-op? "It's important to be my own boss," replied one member. "It's in the Imolese DNA."

Running a forge press at Zappettificio Muzzi, the worker cooperative agricultural implement company

CIR Food is Italy's third largest food chain. It runs cafeterias for schools, companies, hospitals, and the army, and operates 230 restaurants.

It has a mixed cooperative ownership structure of 5000 member, including consumers, employees, and supporting members. Thanks to the 2001 law providing a sliding scale for tax benefits for indivisible reserves, CIR is in the process of converting to an employee cooperative to meet need for 50% inclusion of members; feeding tens of thousands daily, it could never meet the 50% requirement as a consumer cooperative. It's not far from qualifying as an employee co-op. Of 6000 employees, 2700 are worker members.

Social cooperatives

The rapid growth in employee ownership in Italy in the last twenty years has been in the social cooperative sector, which provide a variety of social services.

Like most of the rest of the West, Italy has undergone an extensive debate about the role of government in providing public services. While the rapid Italian recovery and economic growth after World War II was driven by a very large state sector, in recent years Italy has moved farther than most other Western countries in seeking to privatize public services.

Unlike most of the rest of the West, however, Italy has done it with cooperatives. In Bologna, depending on whom you talk to, 60 - 85% of privatized social services are provided by social co-ops. Throughout Italy social co-ops employ 60,000 and account for 13% of social service expenditures. Their goal: to promote the public interest outside state sector.

There are two basic types of social co-ops. Type A is owned by the employees and provides social services to the usual social clients. Type B is owned by the members and also provides gainful employment for the marginalized, who must comprise at least 30% of members. Type B co-ops are similar to American non-profits which provide sheltered employment for the hard-to-employ – handicapped, former substance abusers, etc. The difference is, in the Italian case, that the hard-to-employ have an ownership share in the business. They have additional tax advantages as well.

Social co-ops have low membership fees, typically $1000 or so, and short probationary periods. Wages meet private sector standards because of the industry-wide bargaining agreements, but are typically below wages paid previously to public sector employees to perform the same work – even after patronage dividends are added in.

They are often more political than the traditional employee co-ops. The strongest ideological motivation we heard was at ***CADIAI***, a Type A, 800 employee (including 420 members) diversified social care provider of home care, child care, residential care, and nursing home care services to 4,000. CADIAI's goals are to "improve and ensure the quality of personal care, and affirm the professional content and social value of care workers." Its founders specifically sought to legalize their grey-market jobs, supported women's rights including that to divorce (then contested in Italy), were strongly anti-clerical, and overtly "red" in their politics.

Similarly a Type A research cooperative, ***Centro di Ricerca sul Cancro*** (Center for Research on Cancer), which is incongruously located in a 16th century castle, did pathbreaking work on the industrial carcinogin benzine forty years ago. Now its researchers -- 35 employee members -- are analyzing the impact of electro magnetic fields and cell phones on health.

“You can wish to have a better world, but it’s hard to build one,” says CRC scientific director Dr. Morando Soffritti. “Our cooperative form gives us real freedom as a research institute: It allows us to be genuinely independent, to research freely and to speak freely.”

Assembly work at Cooperativa Giovani Rilegatori, social cooperative

The Type B co-op we visited was ***Giovani Rilegatori,*** a co-op print shop set up in the early 1980s to do printing for other co-ops, which transformed itself in the 1990s into a Type B social coop. In addition to its professional printing of co-op annual reports, it provides work for the handicapped by taking in low skill, labor-intensive print work and by adding light assembly work. While we visited, several severely handicapped workers were putting together seat adjustment levers for Alfa Romeo. This co-op has 17 working members, 45% in the disadvantaged category. It recently moved to a modern industrial park, its building purchased with a 50 year, 2% interest loan from the Imola’s local development fund. It’s hard to beat – if you believe in an ownership society for those who otherwise are left out of ownership like unskilled women in home health care and the disabled.

CADIAI (Cooperativa Assistenza Domiciliare Infermi Anziani Infanzia) is a social coop set up in 1974 by a handful of women who provided home care for the elderly and sick. Its goals: “improve and ensure the quality of personal care, affirm the professional content and social value of care workers.” Its founders specifically sought to legalize their grey-market jobs, supported women’s rights including that to divorce (then contested in Italy), and were strongly anti-clerical. The most overtly political of the co-ops we visited, CADIAI was supported by the Communist Party when it was founded as what we would now call a “high road employer.”

Incorporated as a Type A co-op, today it employs 800 (including 420 members), is a diversified social care provider of home care, child care, residential care, and nursing home care services to 4,000 (+ health safety and training services to another 19,000) and has revenues of about $25 million.

Membership requires a $1250 membership fee - $60 down and 3% of pay until it is paid in full. Thirty percent of profits are paid to members in patronage dividends; this averages about the equivalent of a month’s pay per member annually.

A third, and entirely different, social co-op is the ***Centro di Ricerca sul Cancro*** (Center for Research on Cancer), which is incongruously located in a 16th century castle which had been abandoned for decades before the researchers took it over in 1970. When you walk under the portcullis, through the thick brick walls and battlements, you expect to see armored knights and brown rats burrowing in the straw. Instead you see lab-coated technicians tending white rats and clean rooms with tissue samples. Forty years ago the CRC did pathbreaking work on the industrial carcinogin benzine. Now its researchers are analyzing the impact of electro magnetic fields and cell phones on health.

“You can **wish** to have a better world, but it’s hard to build one,” says scientific director Dr. Morando Soffritti. “Our cooperative form gives us real freedom as a research institute: It allows us to be **genuinely** independent, to research freely and to speak freely.”

Begun as an independent research institute, CRC converted to the social co-op structure in 1992, shortly after the social co-op legislation went into effect. “The co-op structure gives us some additional support, because it connects us with the community,” says Soffritti. That comes from the co-op’s 16,000 associate members who pay $35 in dues because they support the CRC’s research and its provision of free cancer screening exams to seniors.

The co-op, which has 35 employee members, focuses on environmental and occupational health and medicine. It has done research for a number of American funders including the National Institute of Health (NIH), OSHA. It currently has a contract with the US National Toxicology Project.

What does the social co-op form mean for the employee members? “My pay and benefits are lower than I used to get in the commercial sector,” says research technician Davide Esposti at CRC, “but working on improving health is a lot more satisfying than developing another shampoo.” Esposti found the democratic structure of the co-op particularly rewarding: “Here we all help to shape the research design together.”

Economies of scale

Unlike the United States where the traditional cooperatives – agricultural cooperatives like Land of Lakes, mutual insurance companies like Nationwide, rural electric cooperatives, and credit unions – are completely separate from the employee-owned sector, in Italy the agricultural, financial, and consumer co-ops and the employee-owned companies are organized in the same associations at the national, regional, and local levels. While co-op federations are separated by party politics, their unity across sectoral lines is immensely useful for strengthening second-tier cooperative structures and building the whole cooperative sector.

The strength of the Italian co-ops stems largely from their creation of secondary co-ops, or “cooperation among co-ops.” Like the Mondragon co-ops in Spain, they have set up financial institutions; insurance companies; and joint training, research, and development centers.

Co-op federation services. The three main cooperative federations provide many services to their members. The Legacoop, for example, provides tax preparation, accounting, payroll and legal services; training and development; occupational health and safety consulting; collective bargaining; waste disposal; and lending and equity investment from its development fund. It also charges a hefty 4/10 of 1% of sales for membership.

Because the Federations have regional and provincial associations, these services are provided locally but with real economies of scale.

Financial services. We visited Unipol, the insurance company, which was set it up in 1963 by a group of Bologna co-ops to insure their members. Today it is Italy’s 3rd largest insurance company and employs 5400. It had a growth crisis in the 1970s, but was rescued by the German Metalworkers’ insurance company injecting an equity stake. Today its ownership has broadened to include cooperatives, labor unions, and the left-leaning farmers and family business organizations. Together they own 51% while 49% is publicly traded. Of the 51% held by organizations, 30 Lega co-ops hold more than half.

Unipol was a pioneer of social accounting in Italy, which it has been doing for a decade. Its “social balance sheet” is as glossy as a Fortune 500 annual corporate report. But the content is very different. Still, “we are a business, not a charitable organization,” says Franco Malagrino, Unipol’s social accountability director. The company is more profitable than the average for private insurers in Italy.

As a consequence of its business success, Unipol has become a major source of investment in the cooperative sector through the placement of its reserves, which are largely placed in there. It has recently expanded its financial services: The Unipol bank grew from 9 branches in 1998 to 273 branches today, and Unipol set up a merchant bank in 2003.

Collaboration on specific projects. Employee cooperatives collaborate extensively on specific business projects. Thus, for example, CADIAI is partnering with CIR, the food service co-op, and several other co-ops to build day care centers – managed by CADIAI with food provided by CIR. And CIR is backing the opening of Colors, the co-op restaurant set up by the employee survivors of Windows on the World in the World Trade Center.

The co-ops even use the stock market -- generating a downright messy situation by purist standards. As mentioned above, the 8000-employee Manutencoop, a facilities management and janitorial cooperative, owns 70% of each of three public companies in its field. Similarly dairy co-ops own 65% of Granarolo, the 2nd largest dairy company in Italy.

Co-op development funds. Since 1992, 3% of profits of co-ops have been allocated to cooperative development fund to finance starting new cooperatives, conversion of existing businesses to co-ops, and the expansion of current cooperatives. Each of the three big co-op association has its own fund.

We visited with the management of Legacoop’s fund – Coopfond. As of 2004, it had raised about $290 million and had invested about $340 million. Additionally, Coopfond has 14 regional funds. The other two national cooperative associations have smaller funds. Unaffiliated coops’ contributions go into a government fund for the same purpose.

The Legacoop’s Coopfond can:

- place up to $1.5 million into either equity or debt with a 5-7 year term,
- take up to 50% equity in new co-ops,
- provide 30% equity in conversions of existing businesses to cooperatives, and
- lend 50% of the costs of expansion projects for existing coops.

Additionally, the Coopfond can create loan guarantee pools to support the sorts of projects listed above and can support education on co-ops and social economy.

Between 1994 and 2001, Coopfond supported 109 co-op start ups with $48 million in equity and $17 million in loans leveraging $288 million in investment and creating 4640 new jobs. It also supported 82 expansion projects with $53 million in loans, leveraging $370 million in co-op investments and creating 2690 new jobs. That's 7300 jobs for $101 million invested or about $14,000 per job. By comparison, $280 million in Ohio public sector investment preserved 3,800 jobs at the Toledo Jeep plant, or about $74,000 per job.

Furthermore, the Coopfond tries to strengthen Southern Italy which has the same relation economically to Northern Italy as Alabama has to Ohio. Of Coopfond's current revenue, 76% comes from Northern Italy, 21% from Central Italy, and 3% from South Italy. By contrast investments and lending are 52% in Northern Italy, 21% in Central and 27% Southern Italy.

Imagine, if you will, the implications in Ohio if each employee-owned firm paid 3% of its profits into a fund to encourage the development of additional employee-owned firms in the state.

Unions, collective bargaining, and employee co-ops

We met with representatives of the three labor federations – the communist/socialist CGIL, the Catholic CSIL, and the Republican/Social Democratic UIL – in Reggio Emilia where 150,000 of the province's 450,000 inhabitants (from elderly to babes in arms) are union members -- the highest union density in Italy – and with the dominant CGIL Bologna. Here are their views on the relations between the employee co-ops and the unions.

There isn't a special relationship today between the co-ops and the unions, despite the fact that they may share the same partisan political coloration and historically have been closely associated. Today the co-ops are simply slotted into the general structure of modern Italian collective bargaining. The three federations bargain in common nationally with the private sector, and the co-op sector mirrors the resulting national contracts. In the co-ops, unions represent co-op members as workers, not in their roles as co-op members, as well as representing employees who aren't co-op members.

Basic contracts are negotiated at the national level, covering entire labor market within that area nationally. (We were told that there are about 450 national agreements.) These national contracts set minimum standards. The national contracts are then fleshed out at the sectoral and – in larger enterprises – at the enterprise level. Thirty to thirty-five percent of firms have enterprise level agreements. Co-ops may have a slightly higher wage scale (apart from patronage dividends) in these larger firms. In the absence of enterprise level agreements, the sectoral or national agreements pertain.

In smaller firms without enterprise-level contracts, wages are higher and working conditions better in co-ops than private firms, according to the union spokesmen. Less positively, the social co-ops have lower wages and benefits than the public employees that they replaced, perhaps 20-30% lower. It was suggested that co-ops have tried to ignore national standards in favor of local standards, which represented a modest threat to the national standard-setting process.

The relations of unions with co-ops are weaker today than thirty years ago. In part, this is a consequence of the fact that many co-ops were historically set up to provide employment for blacklisted unionists – a practice that has come to an end with the end of blacklisting. Further, in the past, many co-ops were managed by former union officers; today, because of increased global competition, co-ops have by necessity turned to more professional management. The erosion in the relationship also stems, in part, from the fact that political ties are weaker today between party-political unions and party-political co-op federations: unions are more focused on representing members as employees and less on their party affiliation.

However, there are still numerous areas in which unions and co-ops can make common cause, according to the union officials we met. One is employment creation for marginalized young people. A second is challenging the shutdowns of viable firms. A third is to create labor-co-op-community coalitions to challenge finance capital.

Size and cooperatives

One of the most striking aspects of Italian cooperative movement is that it is structured to achieve economies of scale for very small producers at the same time as the Italian co-ops have become very big business indeed. The Italian retail coop, Coopitalia, for example, is the largest retailer in Italy and is the reason, according to Bologna University economist Stefano Zamagni, that Wal-Mart has steered clear of Italy.

But rather than being a gigantic national cooperative, it is, in fact, an alliance of 169 local retail cooperatives with 4 million consumer members with a highly decentralized, democratic structure. Each member retail co-op has its own structure. Bologna's Coop Adriatico, for example, has 300,000 members organized in local circles which elect their delegates to the central city retail co-op.

The agricultural processing co-ops we visited pooled the production of very small producers.

Forming parmagiano reggiano at Latteria Sociale

Latteria Sociale Bagnolo in Reggio Emilia, which we visited, is one of some 700 dairy coops in Emilia Romagna that produce Parmigiano-Reggiano Parmesan cheese (it also produces butter, whey, and ricotta cheese). A 103-year-old cooperative, its cheese production techniques would be recognizable by its original members: It's a labor-intensive, artisan-style process. Workers add enzymes, turn the cheese in the vats, split it, force it into forms for beginning the aging process, and place it in brine for three weeks, all under the direction of a master cheese maker who carries on a 9-century-old tradition. This co-op processes the milk daily from 19 independent members and a dairy coop of 60 farmers who together have 1300 cows – about 15 cows per farmer. It's hard to get much smaller scale than that.

On the other hand, when you go into the cheese aging facility – and Parmigiano-Reggiano has to be aged about 2 years – you see 19,000 thirty-eight kilo cheese wheels, worth about $12.5 million, being turned 24 hours a day by a robotic Parmesan cheese wheel flipper that moves up and down the aisles with no operator in sight.

It's a unique combination of very small family farming producing a very high value-added artisan product -- which sells for $18/pound in the export market -- with some hyper modern technology doing 95% of the heavy lifting.

Or consider Cantine Cooperative Riunite, the wine cooperative. It started in 1950 with 9 members and $4 in total share capital, and grew out of sharecropping in which farm workers got a part of the grape harvest in return for their labor. Today it has 1400 direct farmer-members who collectively own 4700 acres of Lambrusco grapes, and 30 member cooperatives which have an additional 3700 farmer-members who farm another 12,600 acres of grapes. It's an average of 3.4 acres per farmer -- hardly commercial production. But pooled in the Riunite co-op, its members own state of the art winemaking and bottling facilities and have sales of more than $75 million in 54 countries. More than half Riunite's production is exported.

Members get a premium price for their grapes and 5-10% patronage dividends annually.

What the efficiency of scale of the agricultural coops have done is to permit the continuation of small scale family farming in which you still have 10 or 20 cows, 30-40 pigs (prosciutto is another high value added co-op product), 2-3 acres of vineyards, etc. The average farm size in the region is said to be in the 25-40 acre range, far below what we would consider commercial scale.

Coops, social capital, and quality of life

Emilia Romagna frequently tops European measures of quality of life. Why?

The answer, we were told, lies in the fact that Emilia Romagna ranks high in Italy and Europe on measures of "social capital' or trust. "Social capital" is the set of attitudes around neighborliness -- around trust and collaboration -- which enable people to work together more easily.

There is no question that the region's system of "flexible manufacturing" in which small firms collaborate to win big contracts is related to the high level of social trust.

"Social capital is highly associated with quality of life everywhere," says University of Bologna economics professor Stefano Zamagni, who comes out of the Catholic social tradition, which stresses community. "It seems that the co-operatives' emphasis on fairness and respect contribute to the accumulation of social capital here."

Professor Stefano Zamangni, University of Bologna

The goal of "creating businesses that last across generations" and which provide employment for the next generation as well as the current one is clearly rooted in those attitudes.

"Co-ops also reduce inequality," Zamagni continues. "We know internationally that lower inequality is correlated with higher quality of life. The quality of our social services is higher here too – though Milan is richer than we are, our social services are better – and again that is because of social capital."

(In fact the whole American discussion of social capital, popularized by Harvard's Robert Putnam and his book ***Bowling Alone***, draws on Emilia Romagna. Putnam, who is an Italian politics expert, spent so much research time in the region that Bologna claims him as a native son.)

Some years ago, David Erdal analyzed various indicators of health status, crime, sense of personal security, participation in community life and the like in Emilia Romagna, comparing communities with high employee co-op employment, medium co-op employment, and low co-op employment. He found a strong correlation between the importance of employee cooperatives as employers and positive ranking on his indicators. (See "Is Employee Ownership Better for Your Health?" *Owners at Work,* 13:2, 1-3.)

Even co-op advertising seems to support the formation of social capital. In the words of Vera Zamagni, an economic historian at the University of Bologna, the co-ops have had "a civilizing role" as Italian society has become richer. Consumer co-ops, for example, have changed emphasis from low prices to high quality to environmental concerns and fair trade. Agricultural co-ops have slashed pesticide use for their current "produced with love" slogan.

Again the contrast with the Wal-Martization of America seems striking.

The co-ops grow out of the context of social trust and have nourished it on a daily basis.

Challenges

Unquestionably Emilia Romagna faces the same challenges of globalization that the rest of us do. It has to compete against low income producers in Asia. "We have to play the quality game, innovating in products and processes," says regional finance minister, Flavio del Bono, who was elected on the "Daisy slate," a center-left Christian Democratic group, which is part of the leftist coalition government of the region.

"We can't compete in every area, and we certainly can't compete on price with the Chinese. But we can sell to the top 3% of Chinese consumers who have an income at the Italian level," says del Bono. "That's 30-40 million people. We can compete in ceramics, for example, and that's why we've opened an office in China to help our firms export." Again it's an example of the way the regional government helps small firms achieve economies of scale.

While del Bono is reasonably sanguine about the ability of local firms to compete internationally, he is concerned that "foreign firms investing in Emilia Romagna have apparently reduced innovation." This is a major concern because the region's competitiveness in a global economy depends on continued innovation reflected in its extraordinary record in patents (30% of Italy's patents for 7% of its population). Employee cooperatives provide an edge: "Co-ops are tough for foreign firms to purchase," he says, since their "indivisible reverses" automatically revert to the various co-op development funds.

Partly to stay on the cutting edge of innovation, the regional government is providing the fiber-optic backbone for the entire region.

On the other hand, Italian employee cooperatives have internationalized their production through wholly owned subsidiaries which do little or nothing to spread employee ownership internationally. This is bound eventually to become an internal crisis of values, as it has in Mondragon.

An early evidence of change is CIR Foods backing the establishment of the employee-owned co-op restaurant Colors in New York (see sidebar).

To compete, Italian co-ops have opted for size, and the left-leaning Legacoop affiliates have been forced in that direction faster because they have been more exposed to international competition that the Catholic Confcooperativa affiliates. As a consequence, they found themselves hiring professional managers with the conflicts with co-op values that this entailed. In recent years, they have sought to deal with this by emphasizing training and promotion from within.

Internally, employee co-ops describe their challenges differently. A major one is inclusion of foreign workers. Italy is awash in foreign workers from Eastern Europe, the Balkans and North Africa. Some are legal, many are not. Particularly in construction and services, they are pressuring wages. They also make up an increasing portion of co-op employment: 10% at CADIAI, for example, up from none three years ago. But they lack the co-op tradition. Though immigrants make up 30% of workers at the agricultural implement parts co-op we visited, none are members.

A second is the challenge of making large size compatible with democratic structure. From an American perspective, the Italian co-ops have dealt well, but it remains an issue of concern, especially in the consumer co-ops which have had to federate to remain competitive.

A third, and perhaps most serious, has been a sea change in values. As Guiliano Poletti, the national president of Legacoop, put it, “We teach children in school about coops, but today’s “get rich quick” values conflict with those that made cooperatives strong.”

What can we learn?

There are a number of lessons for Ohio policy makers and the employee-ownership community in Emilia Romagna that we should take to heart.

Promotion of small business. The regional government’s focus on promoting small and medium-sized enterprises through creating economies of scale for them goes far beyond what we are used to in Ohio. The industrial sector service centers and other policies appear to have had a tremendous impact on clustering of businesses,[2] flexible manufacturing, innovation, and exports. Small business organizations, including the various cooperative associations, provide additional services -- especially inexpensive professional services -- to their members. The consequence: higher wages in the small business sector, more patents and innovation, more employment growth, and more exports.

Access to capital. Much of the strength of the Emilia Romagna model stems from access to capital from large pools dedicated to cooperative development. Consider the insurance company Unipol. Established and controlled by other cooperatives, Unipol has strengthened the cooperative sector through its investment policies, and through its pioneering work in social accounting as well as through underwriting insurance for cooperatives and their members. Or consider the co-op development fund structure which “taxes” otherwise tax-advantaged co-ops to develop new co-ops seems to be an effective mechanism both to create new co-ops and new jobs.

Not least, the Italian co-operatives’ “indivisible reserves” – which revert to the co-operative development funds at the sale or liquidation of cooperatives -- give them a staying power that American cooperatives and employee-owned businesses lack. They pay out part of the profits to members, but not their tax-advantaged retained earnings which guarantee that the capital created with tax advantages benefit future generations and the community. We basically turn those tax advantages into pensions for the current generation of employees.

Cross-sectoral collaboration between cooperatives – consumer-owned, agricultural producer-owned, and employee-owned firms – strengthens all three groups, especially through the provision of common services for their members. The cooperative councils at the regional, provincial and municipal levels give co-ops an independent voice in decision making, especially in the privatization of social services.

Imagine, for a moment, the extension of this model to Ohio. Imagine a state government with a proactive strategy of encouraging the development of small business and creating economies of scale in export, research and development, and provision of professional service through sectoral service centers and other policies. Imagine that capital was pooled for starting and expanding employee-owned companies and that mutual insurance companies put a substantial portion of their placements back into growing the employee-owned and cooperative sectors. Imagine that employee-owners’ investment of sweat and capital were anchored in the community for a longer term. And imagine cross-sectoral collaboration between farm co-ops, credit unions, mutual insurance companies like Nationwide, and employee-owned companies that strengthened them all.

Imagine, in short, that employee-owned companies in Ohio were not individually islands unto themselves but part of a larger whole.

John Logue is director of the Ohio Employee Ownership Center and professor of political science at Kent State University. *My thanks to Bob Giel and the Cooperative Charitable Trust for initiating and supporting the study tour; to Matt Hancock, an American graduate student in the cooperative program at the University of Bologna, and Bruce Herman of the National Employment Law Project for setting up the visits; to Hancock for his suggestions on improving this piece; and to our Italian hosts for their the openness in discussing their experience, including their successes, failures, and problems.* *The Euro conversion rate used throughout the article is 1 Euro = $1.20.*

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The CCT group at Legacoop

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[1] There are three main cooperative federations: Legacoop, the Communist/Socialist group; Confcooperative, the Catholic federation; and the Associazione Generale, the far smaller, Social Democratic group. All three organize co-ops in all sectors including employee-owned firms, consumer coops, credit unions, agricultural coops, housing co-ops, etc. While the political labels still have some residual meaning, they have lost their Cold War importance, and some of the co-ops belong to both the Communist and the Catholic federations.

[2] Consider the ceramics industry cluster with its accompanying cluster of ceramics machinery manufacturing firms. Emilia Romagna's 350 ceramics firms account for 85% of Italy's production of ceramic tile. Most of it is exported. Check your local tile store or home improvement chain store to see just how much of what you buy comes from Emilia Romagna!

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Appendix E: Employee Ownership and Corporate Performance

From the National Center for Employee Ownership Website as of 6/5/09 http://www.nceo.org/library/corpperf.html

Over the years, the NCEO has reported on new research on employee ownership and corporate performance. Now that a substantial body of work exists on the subject, we thought it would make sense to summarize it in one place. The research comes to a very definite conclusion: the combination of ownership and participative management is a powerful competitive tool. Neither ownership nor participation alone, however, accomplishes very much.

The findings apply mostly to ESOP companies. As of yet, little work has been done on the impact of broad-based stock option plans on corporate performance. The findings also seem to apply primarily to closely held companies. Research indicates that public companies generally do not view employee ownership as much more than another corporate benefit. For this and other reasons explored below, the relationship between employee ownership and corporate performance in public companies is ambiguous.

The 2000 Rutgers Study

In the largest and most significant study to date of the performance of ESOPs in closely held companies, in 2000 Douglas Kruse and Joseph Blasi of Rutgers University found that ESOPs increase sales, employment, and sales/employee by about 2.3% to 2.4% per year over what would have been expected absent an ESOP. ESOP companies are also somewhat more likely to still be in business several years later. This is despite (or perhaps because of) the fact that ESOP companies are substantially more likely than comparable companies to offer other retirement benefit plans along with their ESOP.

Kruse and Blasi obtained files from Dun and Bradstreet on ESOP companies that had adopted plans between 1988 and 1994. They then matched these companies to non-ESOP companies that were comparable in size, industry, and region. They then looked for which of these companies had sales and employment data available for a period three years before the plan's start and three years after. The sales and employment growth data were then compared for each year for each paired company. They also checked the companies' filings with the Department of Labor to determine which of the companies had other retirement-oriented benefit plans. Finally, they looked to see what percentage of the companies remained in business in the 1995 through 1997 period.

The process yielded 343 ESOP companies and 343 pairs for the overall sample. However, missing data meant that employment data were available only for 254 ESOP companies and 234 pairs, 138 ESOP companies and 77 pairs for sales, and 115 ESOP companies and 65 pairs for sales/employee (some pair companies could be used for more than one ESOP company).

The results showed that ESOP companies perform better in the post-ESOP period than their pre-ESOP performance would have predicted. The table below shows the difference in the pre-ESOP to post-ESOP period for ESOP companies on sales growth, employment growth, and growth in sales per employee:

Difference in Post-ESOP to Pre-ESOP Performance	
Annual sales growth	+2.4%
Annual employment growth	+2.3%
Annual growth in sales per employee	+2.3%

It might be assumed that sales per employee would not go up by 2.3% per year since sales and employment growth differences were about the same, but, the researchers explain, the differing compositions of the samples for the measures makes such a simple comparison misleading. The relative growth numbers might seem small at first glance, but projected out over 10 years, an ESOP company with these differentials would be a third larger than its paired non-ESOP match.

The 1986 NCEO Study

The first study to show a specific causal linkage between employee ownership and corporate performance was by Michael Quarrey and Corey Rosen of the NCEO. The study looked at the performance of employee ownership companies for five years before and after they set up their employee stock ownership plans (ESOPs). It indexed out market effects by looking at how well employee ownership companies did relative to competitors in the pre- and post-ESOP periods, then subtracted the difference. For example, if a company were growing 3% per year faster than its competitors in the pre-ESOP period, and 6% per year faster in the post-ESOP period, there would be a +3.0% difference attributable to the ESOP, other things being equal.

The study found that ESOP companies had sales growth rates 3.4% per year higher and employment growth rates 3.8% per year higher in the post-ESOP period than would have been expected based on pre-ESOP performance. When the companies were divided into three groups based on how participatively managed they were, however, only the most participative companies showed a gain. These companies grew 8% to 11% per year faster than they would have been expected to grow, while the middle group did about the same, and the bottom group showed a decline in performance.

Participation alone, however, is not enough to improve performance. A large number of studies show that the impact of participation absent ownership is short-lived or ambiguous. Ownership seems to provide the cultural glue to keep participation going.

The New York and Washington Studies

Economist Gorm Winther and colleagues in New York and Washington State followed up the NCEO study, using the same research design but different samples, one of 25 employee ownership firms in New York State and one of 28 employee ownership companies in Washington State. In both studies, employee ownership per se had little or no impact on corporate performance, but a substantial impact when combined with participative management. In Washington, companies that combined ownership and participation grew in employment 10.9% per year more than would have been expected. Sales grew 6% per year more. The New York results used correlations and cannot be compared directly, but the results were in the same direction. In Washington, majority employee-owned firms that were participatively managed did even better.

The Washington study also found that the synergistic effect of ownership and participation was not diminished even when the control group companies had no employee ownership, but had profit sharing and participation programs.

The Brent Kramer Study

A 2007 study of 328 majority ESOP-owned members of the ESOP Association by Brent Kramer found that these companies have sales per employee that are 8.8% greater than comparable non-ESOP companies. 100% ESOP owned companies did better than those that were over 50% but not 100%. Smaller companies and companies with greater ESOP account value per employee also did better. Employee influence on new products, work design, and marketing all were also strongly related to performance outcomes.

The study does not demonstrate that having an ESOP per se causes these performance benefits: its design cannot preclude the possibility that better performing companies are more likely to have ESOPs in the first place (although prior research using before-and-after data, indexed for competition, do indicate a casual effect). The correlates of performance, however, are less subject to this chicken-and-egg problem and provide useful insight into what makes an ESOP work.

Kramer's study, "Employee Ownership and Participation Effects on Firm Outcomes," was his doctoral thesis for the City University of New York.

The GAO Study

In 1987, the U.S. General Accounting Office (GAO) did a before and after study using a similar methodology, but covering 110 firms and focusing on productivity and profitability. The measures the GAO used were controversial because they assumed that employee ownership firms did not increase overall compensation when they set up an ESOP. In fact, it appears that about half of all ESOP companies do increase compensation, and few decrease it. The GAO results are probably too conservative because of this assumption.

The GAO study found that ESOPs had no impact on profits, but that participatively managed employee ownership firms increased their productivity growth rate by 52% per year. In other words, if a company's productivity growth rate were 3.0% per year, it would be 4.5% after an ESOP.

The Impact of ESOPs on Employee Compensation

One reaction to the above findings might be that employee ownership companies do better because they substitute stock for wages or benefits. A 1998 study by Peter Kardas and Jim Keogh of the Washington Department of Community, Trade, and Economic Development, and Adria Scharf of the University of Washington, Wealth and Income Consequences of Employee Ownership, shows that, in fact, employees are significantly better compensated in ESOP companies than are employees in comparable non-ESOP companies. Using 1995 employment and wage data from the Washington State Employment Security Department, and 1995 data on retirement benefits from a survey of companies and from federal income tax form 5500, the study matched up 102 ESOP companies with 499 comparison companies in terms of industrial classification and employment size. In terms of wages, the median hourly wage in the ESOP firms was 5% to 12% higher than the median hourly wage in the comparison companies, depending on the wage level of those being compared. The study found the average value of all retirement benefits in ESOP companies was equal to $32,213, with an average value in the comparison companies of about $12,735. Looking only at retirement plan assets other than ESOPs, the ESOP companies had an average value of $7,952, compared to $12,735 for non-ESOP companies. Given that the typical ESOP is actually about 20% invested in diversified assets other than company stock, employees in ESOP companies would have had about as much in diversified assets as employees would have in all assets in non-ESOP companies. In ESOP companies, the average corporate contribution per employee per year was between 9.6% and 10.8% of pay per year, depending on how it is measured. In non-ESOP companies, it was between 2.8% and 3.0%. ESOPs also have a positive impact on pay in public companies, as shown by the Page and Ouimet study below.

Public Companies and Employee Ownership

The data for public companies are much more ambiguous. In "Employee Capitalism or Corporate Socialism? Broad-Based Employee Stock Ownership" (October 28, 2008), E. Han Kim of the University of Michigan and Page Ouimet of the University of North Carolina, Chapel Hill, found that ESOPs owning less than 5% of company shares have a small but positive 0.8% effect on total compensation, while in companies in which the ESOP owns more than 5%, total compensation is 5.2% higher. The more leverage associated with the ESOP, the lower the increase in employee compensation, perhaps because companies exercise restraint on total compensation in the face of greater debt. By contrast, the subsample of companies in which the ESOP was established in conjunction with declining sales had lower total compensation (2.8% for small ESOPs and 6.3% for large ESOPs).

The effect on value (measured by Tobin's Q, a ratio of the company's stock value to its book equity value) followed a similar pattern. Overall, ESOPs led to an 8.12% increase in company valuation relative to the industry median. Companies with ESOPs with less than 5% ownership showed a valuation increase of 16% relative to the industry median; companies with larger ESOPs showed neither an increase nor a decrease. The impact of company value is positively correlated with greater leverage, perhaps because companies are keeping overall compensation costs more neutral.

To conduct their study, Kim and Oiumet studied public companies with ESOPs between 1980 and 2004 for which they could determine an adoption date and for which there were sufficient before-and-after data to conduct analysis over a significant time period. They found 756 public ESOPs during this time but had the needed data for only 418 of those. For the first time in ESOP studies, the researchers used the Standard Statistical Establishment List of the Bureau of the Census. The list provides detailed data on all forms of compensation, including ages, benefits, leave policy, severance pay, etc. From this, the researchers computed a measure of total compensation and benefits. These data were then paired with Compustat data on company performance. They analyzed performance for 5 years before and 10 years after the ESOP was set up, excluding the year of adoption, with a shorter time line for some of the sample companies for a minority of the companies.

A 2006 study by Robert Stretcher, Steve Henry, and Joseph Kavanaugh (the study was in submission as of this writing) looked at 196 publicly traded U.S. ESOP companies during the years 1998 through 2004. Each ESOP company was matched to a comparable non-ESOP company. The ESOP companies had returns on assets that were higher than the matched non-ESOP companies in all seven years, net profit margins that were higher in all of the five years where comparable data were available, and better operating cash flows in three of the five years where data were available. All of these findings were statistically significant (not likely to have occurred at random). ESOPs outperformed matched companies in all seven years on net cash flow to sales, in six of seven years for market to book ratio, and four of the seven for return on equity. They grew more slowly in sales and employment, but the results were only statistically significant in some years. The ESOP firms also generally did better on operating cash flow to sales and operating cash flow to employees ratios, but the results were not statistically significant.

The differences in the overall sample comparisons on key measures was substantial, with ESOP companies showing a 3.8% return on assets compared to a negative 2.72% for the matched companies. On return on equity, the ESOP companies averaged 14.3% per year, compared to 7.2%

per year for non-ESOP companies. Sales and employment growth rates present a more confusing pattern, with many years not statistically reliable or appearing to have outlier results that skewed the means. Generally, however, ESOP companies grew less than half as fast as matched non-ESOP companies.

The authors note that net income is better for ESOP companies as well, although they put less emphasis on this measure because net income is determined in part by accounting practices and tax effects. Operating cash flow, they argue, presents a better picture. When operating cash flow to sales ratios are computed, ESOP companies do about the same as non-ESOP companies, but when operating cash flows to assets ratios are examined, ESOP companies do better, suggesting strongly that ESOP companies get a better return on each dollar invested because employee behaviors change.

A 1999 study by Hamid Mehran of Northwestern University for Hewitt Associates found that ESOPs in 382 publicly-traded companies increased the return on assets (ROA) 2.7% over what would otherwise have been expected. The study looked at the companies' financial returns for two years prior to the plan's implementation and four years after. Each company was compared to industry norm ROA figures for both periods. Mehran also found that for the 303 ESOP companies surviving the entire four year post-ESOP study period, ROA was 14% higher than the comparison group scores, while for the 382 companies as a group, ROA was 6.9% higher for the four-year period. Over 60% of the companies experienced an increase in their stock price in the two-day period following public announcement of the ESOP, with the average increase for all companies at 1.6%. This suggests that the stock market now reacts positively to ESOPs, a change from the pattern in the 1980s when ESOP announcements were often seen as an indicator that a company was trying to prevent a hostile takeover.

A different result was found in a study by Olubunmi Faleye, Vikas Mehrotra, and Randall Morck of 225 public companies with broad-employee ownership of 5% or more of a company's stock (When Labor Has a Voice in Corporate Governance, National Bureau of Economic Research Working Paper (No. 11254). The authors concluded that productivity, Tobin's Q (a ratio of the market value of a firm's securities to the replacement costs of its tangible assets), long-term investment, operating risk, and growth were all worse in employee ownership companies than public companies in general. The study looked at 100 ESOPs and 115 companies with other plans; plans had to be in place for at least five years prior to 1995. Data were gathered for 1995 through 2001. The authors do not control for this variable, although we know that the airline, steel, and banking industries are heavily overrepresented among public company employee ownership plans during the study period.

In 1992, Douglas Kruse and Joseph Blasi of Rutgers University, and Michael Conte of the University of Baltimore, created an "Employee Ownership Index" (EOI). The EOI tracked the average percentage increase in stock price of all publicly traded companies with a public record of 10% or more employee ownership and more than $50 million in market value. The EOI was subsequently maintained for some time by American Capital Strategies, an investment bank based in Bethesda, MD, and was published quarterly in the NCEO's Journal of Employee Ownership Law and Finance. The EOI grew 193% from 1992 through 1997, while the Dow was up 145% and the S&P 500 140%. The authors did not attribute any causal relationship to these numbers, however.

Other studies look at before and after results, with mixed conclusions. Donald Collat, in a 1995 study, found that public companies that did not set up their ESOPs in response to a takeover threat saw their operating margins improve 2.1% per year compared to their pre-ESOP performance. The study looked at companies for three years before and after the ESOP, indexing for market effects. Takeover threat ESOPs, however, saw a decline of 3.3%. In a 1996 study, Mary Ducy, Zahid Igbal, and Aige Akhigbe found that ESOP companies show a decline in operating cash flow of .2% to 2.1% in post-ESOP performance, also using a three years before, three years after measure, and again indexing for market effects. While these are the most thorough of several studies on public company ESOPs, others come to a similarly mixed conclusion.

Finally, a 1998 study by Margaret Blair, Douglas Kruse, and Joseph Blasi found that companies that are publicly traded and at least 20% or more owned by an ESOP are more organizationally stable than comparable non-ESOP companies. Looking at companies between 1983 and 1996, the study found that 74.1% of the ESOP companies remained as independent operations while only 37.8% of the comparison companies did (these figures changed to 59.3% and 51.1% for the period 1983 through 1997, however). None of the ESOP companies went bankrupt, but 25% of the comparison companies did.

These mixed results are probably explained by three factors. First, a 1997 NCEO study found that public companies generally seem to view employee ownership solely as a benefit plan, not part of an explicit organizational culture, as many closely held companies do. Second, ESOPs in public companies tend to own a much smaller percentage of company stock than ESOPs in closely held companies. Some studies have indicated this is a factor in how effective ESOPs are. Finally, in many cases, public company ESOPs simply replaced existing plans where the company contributed company stock to a 401(k) plan. Now the company used an ESOP to make this contribution instead. Hence, the "before" was really not much different from the "after," so not much could be expected to change.

Several other studies are suggestive but not as able to show causal relationships as these four. A 1990 study by the Michigan Center for Employee Ownership and Gainsharing and Michigan State University asked executives to indicate if employee ownership had had an impact on sales, profits, productivity and other measures. The results were very positive. They were the most positive, however, in companies that scored high on participative management measures. Majority employee owned companies also did better. In addition, the study found that the incidence of employee participation programs, such as work teams and advisory councils, increased 50% to 100% after an employee ownership plan was set up.

Broadly Granted Stock Options and Corporate Performance

To date, there have been few assessments of the impact of broad-based stock option plans on corporate performance. The first thorough study was done in 2000 by Douglas Kruse, Joseph Blasi, and Jim Sesil of Rutgers University, and Maya Krumova of the New York Institute of Technology, using data provided by the NCEO. The study was published in our book Stock Options, Corporate Performance, and Organizational Change.

The study sample was drawn from the 1998 NCEO Current Practices in Stock Option Plan Design study. That study sent surveys to 1,360 companies that were identified as possibly having broad-based option plans, which we defined as plans in which more than 50% of full-time employees would actually receive options. We received 141 responses. For the Rutgers study's purposes, 105 companies provided usable data. The authors used a before and after approach to the data to reduce or eliminate sampling bias issues.

Results were based primarily on the 91% of the sample companies that were publicly traded. Data were gathered on productivity, return on assets, Tobins Q (a complex financial measure of return on assets that produced similar results to the return on assets measure and is not reported here), and total shareholder return. These were then compared to all non-broad based stock option companies in their industries of similar size (the full sample group) and to paired comparisons of matched non-broad based stock option companies (the paired sample).

Because few companies had discrete plan start dates early enough to perform a comprehensive before and after analysis, the researchers, as a substitute, analyzed companies in the period 1985-87 and 1995-97, reasoning that few, if any, of the companies had option plans in the earlier period and most had them in the later period. Comparisons were made with non-stock option companies for the two periods and the difference subtracted. In effect, the earlier period results provide a baseline to measure the performance in the later period. If a stock option companies had productivity 3% greater than its peers in the earlier period and 6% greater in the later period, than it could be argued that the plan improved relative performance on this measure by 3%.

The study found that productivity rates did improve with the institution of a plan. The difference between productivity scores from the for the overall sample from the pre-plan period (1985 to 1987) to the post-plan period (1995 to 1997) was 14.8% when the comparison group was all non-option companies and 16.8% when looking just at paired comparisons. Sampling error can be strongly rejected as an explanation for these results.

Return on assets showed a similar pattern. Here the stock option companies showed an improvement of 2.5% on ROA relative to the full sample in the post-plan period compared to the pre-plan period. When just paired comparisons are used, the improvement was 2.05%. Again, sampling error is very unlikely to have caused these results.

Total shareholder return, however, showed no statistically significant difference in the relative performance during the two periods, meaning any measured change could simply reflect random sampling error. The researchers thus believe that the any value consequences of dilution caused by broad-based options seems counterbalanced by increased productivity.

Looking simply at how the companies did in the period 1992 to 1997, without trying to adjust for market effects, a similar pattern emerged. Productivity growth was 1% per year greater and return on assets 5.8% greater, but shareholder return was not statistically distinguishable.

In another useful study, in 2001, Wharton professors David Larcker, Christopher Ittner, and Richard Lambert looked at options and corporate performance, using data from 159 "new economy" companies providing detailed responses on their stock plans for an iQuantic/Buck (now simply Buck) Consulting survey. They found that the performance effects of option programs depended on how the options were distributed. The study, "The Structure and Performance Consequences of Equity Grants to Employees of New Economy Firms," was published by iQuantic/Buck in 2001, and is available on line at knowledge.wharton.upenn.edu.

The researchers looked at whether stock returns subsequent to option grants improved or declined in these companies, employing a statistical model in which "return" equaled the "continuously compounded stock price return in the 12-month period following grant." The results showed that deviations from the norm for how much equity is granted do not affect abnormal stock price movements (movements away from what would otherwise have been expected). On the other hand, who gets equity does make a significant difference. Larger than usual grants to executives (CEOs, vice-presidents, and directors) did not significantly affect stock prices. Grants to managers, "individual contributors" (critical non-management employees), technical employees, and exempt non-technical employees, by contrast, resulted in significantly greater than expected stock price growth. The researchers explained that the model suggests that, for instance, "for a 20% increase in the ratio of equity to salary for similar new economy companies, there was a 5.1% increase in annual returns if the grant was to technical employees; for non-technical employees, the return was 2.7%."

Looking only at non-exempt employees (hourly employees not exempt from the Wages and Hours Act), the study found a small negative relationship between stock price and grants of more than the benchmark amounts to these lower-level employees. These results are somewhat suspect, however, in that this group of companies had very, very few such employees (the iQuantic/Buck Web site indicated that only about 2% of the work force fell into this category).

In 2005, James Sesil and Yu Peng Lin published a paper titled "Executive and Broad-Based Stock Options: Evidence From U.S. Panel Data" (Rutgers University Working Papers). They looked at 291 companies with broad-based option and executive option plans for which a start date could be identified for both plans (these dates could be different). They then looked at productivity, growth, and capital intensity changes for three years before and after the plans' start dates. To control for characteristics of the firms, the researchers use a fixed effects model, a statistical technique that holds constant heterogeneous factors of the company (things that do not change over time, such as industry). To measure productivity, an augmented Cobb-Douglas function was used. This is a model in which productivity is seen (in this augmented version) as a function of capital, labor, broad-based options, executive options, and a variable created to control for quality of management and human resources practices (it is not clear how this variable was constructed, however). The Cobb-Douglas function assumes that labor and capital returns vary proportionately to one another.

The table below provides the results for productivity, growth, and capital intensity in terms of the mean changes before and after the plans. Generally, the executive plans would have been established well before the broad-based plans.

Mean productivity, growth, and capital intensity changes in three years before and after plan introduction

Variable	Broad-based plan, before adoption	Broad-based plan, before adoption	Executive-only option plan, before adoption	Executive-only plan, after adoption
Output/employee in dollars	$265,575	$318,925	$231,188	$403,071
Employment	19,190	20,446	14,433	30,365
Capital; intensity (million $)	$1,497.0	$1,915.0	$1,428.4	$4,563.9

The table indicates that the impact of the two kinds of plans was positive in each case, with more of a productivity impact from executive plans. Looking at the Cobb-Douglas function to estimate how changes occur over time, the researchers found that the impact of broad-based plans occurs primarily immediately after the plan's introduction then levels off over five years. Executive plans, however, show continual improvement over the period. The researchers suggest, however, that this may be because executive plans tend to award grants annually or more often, while employee-only plans often make awards either only once or at periods less than annually. They did not assess how frequently this pattern occurs, but anecdotally, the NCEO would estimate that only about half the broad-based plans would provide annual and bi-annual grants during this time frame (they have become more common in recent years). Sesil and Li suggest that the continual reinforcement of regular grants may be critical to the incentive effect.

In "Give Everyone a Prize? Employee Stock Options in Private Venture-Backed Firms" (2005, unpublished), John R.M. Hand of the Kenan-Flagler Business School looked at data from 2004 and 2005 provided by VentureOne, a data provider on venture-backed firms. The study's conclusion about the effectiveness of broadly granted options is described below. The VentureOne survey reported on the depth of options in 1,032 venture-backed companies responding to the survey for which adequate data were available. The study found the mean percentage of employees getting options was 89%, and 74% of the companies granted options to everyone.

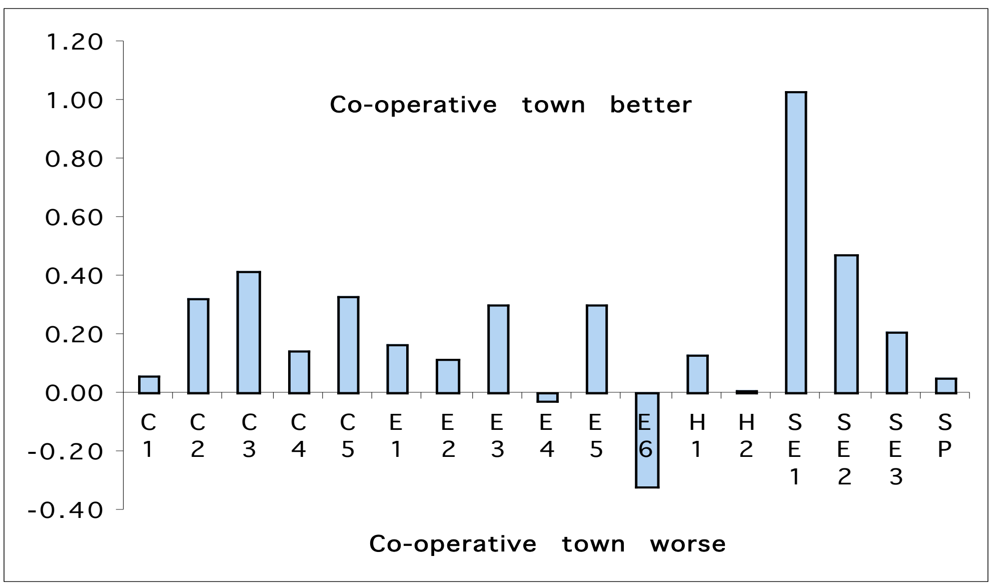
Hand's approach is methodologically complex and does not yield numbers that say companies that give out options broadly do this much better (or worse) than those that do not. Instead, he uses the performance data to set up a model that evaluates whether too many or too few people are getting options. He concludes that venture firms are better off erring on the side of giving out too many options than too few.

Conclusion

Researchers now agree that "the case is closed" on employee ownership and corporate performance. Findings this consistent are very unusual. We can say with certainty that when ownership and participative management are combined, substantial gains result. Ownership alone and participation alone, however, have, at best, spotty or short-lived results.

Worker ownership makes you healthier & happier, not just wealthier

David Erdal's 1999 PhD Thesis at St. Andrews "The Psychology of Sharing" provides preliminary evidence (not conclusive proof) that those living in a community with a large percentage of worker cooperatives are healthier, better educated, have less crime and more social participation than people in a comparable Italian town with fewer worker cooperatives.



Caption: the graph shows the differences on the following measures:

- Crime: victimisation (C1), policing (C2), confidence (C3), feeling of security (C4), domestic violence (C5)
- Education: level attained (E1), age leaving school (E2), truancy (E3), expected truancy (E4), post-school training (E5), perceived importance of education (E6)
- Health: physical health (H1), emotional health (H2) (also measured: mortality)
- Social Environment: perceived gap between rich and poor (SE1), helpfulness of authorities (SE2), supportiveness of social networks (SE3)
- Social Participation: membership of clubs (SP) (also measured: voting, blood donation)