Ontario Co-operative Association

Worker Co-operatives

FACT SHEET

Introduction

A worker co-op exists primarily to create employment for its members. The members of a worker co-operative are both employees and owners of the company. They operate their business together and make decisions about important issues including wages, production methods and finances. Generally, members must be individuals and employees of the co-operative; however, some co-ops allow the employment of non-members on a limited scale.

Historically, worker co-operatives first formed in response to the industrial revolution. At their root, the first worker co-ops believed that workers have the right to self-determination and the fruits of their labour. The co-operative model presented an opportunity to collectively execute these rights through co-ownership, equitable profit sharing and democratic governance. As a result of this unique structure, worker co-operatives are often more successful than conventionally structured businesses because the worker-owners have a greater stake and a greater say in the success of the enterprise.

Worker co-operatives are adaptable. They are not limited to any particular location, size or sector. Some are small (as few as three people) while others are multi-million dollar companies with hundreds or thousands of members. They operate across the globe in a variety of fields, from graphic design and green energy to manufacturing and retail. Some worker co-operatives are over one hundred years old while others are newly incorporated.

All worker co-operatives share an inherent, structural commitment to the interests of their members. As a result, when compared to similar, conventionally structured businesses, worker co-operatives often have:

- higher wages and pensions;
- more accessible benefit packages;
- improved workplace conditions (health and safety particularly);
- more opportunities for education and training;
- stronger job security; and
- higher levels of job satisfaction.

Membership

All members of a worker co-operative must be employees, but not all employees must be members. A possible pitfall of worker co-ops may occur when there is no clear or accessible path from employment to membership. In such a case, the co-op does not enable all employees to share fully in the benefits and responsibilities of membership. To live up to its full potential and to meet the requirements of the Act, the co-op must make sure there is sufficient motivation to join the membership.

All members have the same rights and responsibilities. They have the right to:

- one democratic vote in decision-making;
- an equitable share of net income;
- access to financial records; and
- a fair share of available work.

Their responsibilities include:

- completion of a probationary or trial period;
- making an equity contribution;
- being an active working member; and

QUESTIONS NEW OR DEVELOPING WORKER CO-OPS SHOULD CONSIDER

- Should our co-op start a new business or buy out an existing small to medium business enterprise?
- How much capital do we need? Do we need additional capital from outside the co-op? Where will we get it?
- How much should the member share cost? What is accessible to new workers?
- What decisions should be made by all members? What decisions are better delegated?
- If delegation to some authority is not working, how will we change it?
- How much of the surplus will go to retained earnings vs. patronage?
- How much of the patronage should be cash vs. issued shares?
- What should the policy for returning retained patronage be? And many more!

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- receiving an equitable share of (negative) net income.

If a new member cannot afford to buy shares outright in the co-op, an arrangement can be made through payroll deductions. The resignation of a member-owner (due to new employment, etc.) is usually a straightforward process where the exiting member is paid the equity and dividends the co-operative owes them. The termination of a member-owner is regulated by under the Co-operative Corporations Act, the bylaws and policies of the co-op, and the labour standards in the applicable jurisdiction.

Governance

Different worker co-operatives have different governance structures. Decision-making can take place through direct democracy, can be delegated to an individual or committee, can be placed in the hands of an elected board of directors (representational democracy) or can be any combination of the above. Governance structures can also be changed if the membership feels they are ineffective. The only constant in co-operative governance is a democratic structure.

The only quasi- exception to this rule are worker-shareholder co-operatives, which are most common in Quebec. These co-operatives have been created to hold shares in the business that employs their members and are democratically governed within themselves. However, the co-op does not necessarily have majority control of the business which continues to run under a corporate structure. The worker co-op participates in governance through at least one seat on the board of directors along with other shareholder representatives.

Finance: Starting Up

Most businesses emerge from a combination of an economic or social need, labour with the ability to meet that need, raw materials and capital to finance the operation. Traditionally, capital has hired labour and retained ownership and control of the business, in addition to its profits. Worker co-operatives are different.

In worker co-operatives, labour pools their capital through member equity shares until it is sufficient to launch and maintain a business enterprise. The resulting co-operative distributes profit equitably on the basis of labour patronage (either hours worked or salary earned) in addition to being co-owned and democratically controlled. Some members may choose to put in more equity than others, but the “one member, one vote” rule will always apply, regardless of additional monetary contributions.

If the co-op needs more money than members can invest it is possible to seek non-member investments. Debt may be available from credit unions, banks and individuals.

Profit

The net income generated by the co-op is called profit or surplus. A portion of the profit (after tax is paid) can be retained by the co-operative for business development costs (retained earnings) and a portion can be paid in patronage to members, either in cash or into internal capital accounts (ex. pension fund). Any patronage returned to the members is in addition to their salary or wages.

Resources

Canadian Worker Co-op Federation
canadianworker.coop

Co-operatives and Mutuals Canada
canada.coop

FOR MORE INFORMATION, CONTACT

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More resources are available at:
CoopZone Network
coopzone.coop

This is one of a series of FACTSheets created by OCA providing general knowledge, best practices, and sector-specific information.

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