



## Starting a Worker Co-op: A Canadian Handbook

produced by the

Canadian Worker Co-op Federation /  
*Fédération Canadienne des Coopératives de Travail*

So you want to start a worker co-op? This handbook outlines the basic information and the processes required to start.

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*For more information* on starting a worker co-op, we suggest you consult the CWCF's web site ([www.canadianworker.coop](http://www.canadianworker.coop)) or the site of CoopZone ([www.coopzone.coop](http://www.coopzone.coop)). CoopZone has information on starting co-ops of all types.

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## I. What is a Worker Co-operative?

Worker co-operatives are businesses that are owned and democratically controlled by the members. The main purpose of a worker co-operative is to provide employment for its members through operating an enterprise that follows the Co-operative Values and Principles (<http://ica.coop/en/whats-co-op/co-operative-identity-values-principles> ). When new employees join the business, after a successful probationary period they are encouraged to apply for membership. The worker co-op is, in principle, designed to provide benefits not just to the founding members but also to all future employee-members.

To create their worker co-op, members combine their skills, interests and experiences to achieve mutual goals such as creating jobs for themselves, providing a community service and increasing democracy in the workplace. The variety of enterprises operating as worker co-ops is very broad. Virtually any enterprise can be organized as a worker co-operative. The worker co-op idea *can* work for you if you have a marketable product or service, start-up capital and a plan for organization and growth.

Each member pays a membership fee, or purchases a membership share, and has one vote no matter how many shares they own. Through the democratic governance of the co-op, all members have equal opportunity to affect the way the business is run and to offer input on the decisions affecting their everyday work lives. Because they develop the policies that determine the co-operative's daily and long term operation, trust, communication and co-operation are vital to the co-op's success. The co-op's assets are collectively owned and surplus earnings are allocated to the workers according to the bylaws and policies established by the co-op, often in proportion to hours worked by members and with limited return on shares and member loans.

Worker co-ops differ substantially from conventional businesses. Conventional business' primary aim is to make profit for the owners who may be - but in many cases are not - employed by the business. Such an owner's voting control and share of profit is based on the amount of money invested, not for any services that they provide the business. This is a fundamental difference, as in conventional businesses the ultimate authority rests with a single individual, or with a small group, and the business decisions are based upon maximizing their benefit as owners. Any profit sharing with the workers or with the broader community is at the owner's sole discretion.

In summary, worker co-operatives are a radical break from conventional businesses. The worker co-op's primary goal in operating an enterprise is for service to its employees and its community rather than in service to the owners of capital. The goal is to provide the best possible employment conditions for the members and to provide the customers and community with a service or product at a fair price that meets their needs and leads to a sustainable community.

## II. What are the Co-op Principles and Values and where do they come from?

In the previous section, we noted that worker co-ops are enterprises that operate by following the Co-operative Principles and Values. Without providing a long history of co-operatives, this section will provide an answer to the question in the above heading, as well as providing some brief comments on the practical issues of applying the co-op principles and values to a worker co-op.

The most recent version of the Co-operative Principles and Values were developed by the International Co-operative Alliance (ICA) in 1995. The ICA is an umbrella organization that brings together co-operatives from all over the world to collaborate with one another and to support the development of the co-operative form of enterprise. Although co-ops have evolved independently in many different countries with differing historical, social, cultural and economic conditions the co-operatives - through an extended consultation carried out by the ICA - came to a mutual understanding of what constitutes the key aspects of a co-operative.

### International Co-operative Alliance Statement on the Co-operative Identity

#### Definition

A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.

*Comment: The definition makes it clear that it is people voluntary coming together to meet their needs that forms the basis for a co-op. For a worker co-op the key need is viable and fulfilling employment for the members.*

#### Values

Co-operatives are based on the values of self-help, democracy, equality, equity, and solidarity. Co-operative members believe in the ethical values of honesty, openness, social responsibility, and caring for others.

*Comment: The values clearly indicate the ethics and solidarity that members of a worker co-op must follow and that should guide the co-op's actions both with its members and customers, and with the broader community. Following these common values provides the foundation for building the commitment from, and relationship between, the members that is required for the co-op's long-term success.*

# Co-operative Principles

*Comment: The co-operative principles are guidelines by which co-operatives put their values into practice. Members of worker co-operatives should be aware of the ideals that set them apart from conventional capitalist businesses.*

## 1st Principle: Voluntary and Open Membership

Co-operatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political, or religious discrimination.

*Comment: It is important to note here that the key service used in the worker co-op is employment and therefore the membership, while open and non-discriminatory, is usually limited to the people that work for the worker co-op.*

## 2nd Principle: Democratic Member Control

Co-operatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote), and co-operatives at other levels are also organized in a democratic manner.

*Comment: In a worker co-op (a primary co-op), each member has one vote. The members elect a board of directors that has the authority and the responsibility for the management and supervision of the co-op. The directors are accountable to the members. For this democracy to be effective in the worker co-op, following the Co-operative Values is essential. It is also essential that the members take their responsibility to participate seriously.*

## 3rd Principle: Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their co-operative. They usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

*Comment: This principle expresses the fundamental economic difference between a worker co-op and a traditional business. In a worker co-op, capital is the servant of the co-operative. Returns on capital are always subordinate to the primary way of sharing the surplus (profits) among the members, which is based upon the amount of work they have contributed to the co-operative.*

## 4th Principle: Autonomy and Independence

Co-operatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

*Comment: This principle emphasizes that as an independent enterprise a worker co-op depends upon its members' commitment and hard work for its success. It is no one else's job. It also indicates how important it is that any agreement made to secure capital for the co-op's operations should be on terms which ensure the members remain in control of the co-op.*

#### 5th Principle: Education, Training and Information

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.

*Comment: To run a worker co-op successfully, the members must have many skills. Few members come to a worker co-op with all these skills, so to succeed the co-op must ensure that the members, directors and managers get the training they need to fully contribute to the success of the co-op.*

#### 6th Principle: Co-operation Among Co-operatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional, and international structures.

*Comment: In the same way the members of a worker co-op benefit from their mutual efforts, their co-op (and thus themselves) can benefit from co-operating with other co-operatives often by forming service federations with similar co-ops. For worker co-ops, the CWCF is such a federation and provides benefits to its members in the areas of training, financing and information sharing while also securing grants that are accessible for member projects.*

#### 7th Principle: Concern for Community

While focusing on member needs and wishes, co-operatives work for the sustainable development of their communities

*Comment: Worker co-ops must always remember that they are ultimately dependent upon their larger community and the natural environment. In all activities designed to meet their own needs they should consider how to carry them out in a sustainable fashion that strengthens their communities.*

### III. To Start Or Not To Start?

*So you've got a business idea and a group of interested people. Contrary to what you may think, what you don't know can hurt you. Before you start your worker co-op, you should make sure the people in your group are compatible and your idea is feasible. These two factors can mean the difference between success and failure.*

#### **The People**

The foundation of any worker coop is the solidarity of the members to one another and their commitment to the enterprise. Thus the first step in building your co-op is to develop and clarify the vision for the co-op's future and how it relates to the needs and goals of the members.

The solidarity among the members must be reinforced by the organization and operations of the enterprise. This must be achieved by first recognizing the members' common interests and then by addressing the special interest of any particular member in a way the still supports those common interests. For example, some members may need flexible work hours to meet schooling or family obligations. While providing this to the member, the co-op must still ensure that the staffing requirements needed to succeed and provide excellent service to its customers are met.

A key element in ensuring members' long-term commitment is to ensure their personal goals and the goals of the co-op are compatible. For example, members may have substantially different long-term goals for the level of income they require. Because all worker co-ops must survive in the marketplace within the financial norms of the industry in which they operate, the co-op will have some built-in limitations as to the level of incomes that it can generate for its members. If the members cannot accept this level of income, their commitment to the co-op will deteriorate and they will quit. Another area of differing goals that may undercut member solidarity and commitment is the future scope of the enterprise (how large it should grow) and the level of financial risk with which the different members are comfortable.

Although the examples above are far from comprehensive, they indicate that conflict can easily arise without everyone's understanding and commitment to the co-op's short and long term goals, as well as to the hard work and co-operation required to achieve them.

Since a worker co-op is run by its members, they must all be familiar with many aspects of the business in order to make informed decisions for the co-op to succeed. This means that the members must understand what the key success factors are for making the co-op's democracy work (decision making) and for making the enterprise prosper financially. This requires an ongoing process of education and training in many areas, such as running effective meetings, making effective decisions, understanding the financial information of the business, etc. This type of training should not be seen as a discretionary expense but rather as a key investment in the most important factor in the co-op's success, its members.

## The Idea

Although people are the foundation of the co-op's success, you want to try to make sure that their efforts will be in service of a viable enterprise. Developing your co-op will require a huge level of commitment and resources from the members, you must make sure it will be worth the effort. This requires completing a feasibility study to determine whether you should proceed with your business in the first place. Completing the feasibility study is the best way for the members to learn about all aspects of the business and industry in which they are going to operate. This process will enhance their commitment to the business or make them realize that it will not meet their needs and expectations and that they need to either modify the business idea or develop a new one altogether.

The following questions cover the most important elements of a feasibility study. Think about them carefully.

- **Co-op/business concept:** What product or service do you want to market?
- **Market:** Who, why, where and how many people are going to buy your product or service? How will you promote it? How will products be delivered to market? Who is your competition?
- **Price:** What does it cost you to provide your service or product? What is the market willing to pay?
- **Production strategy:** How are you going to produce your product? How long will it take? What equipment or facilities are needed? How will work be organized?
- **Financing:** How much will it cost to get into business? How much money will be required to keep the business running? Where will the money come from - banks, credit unions, members, government assistance? How much will the co-op earn and how soon?
- **Abilities and experience:** Assess the combined business and technical skills, knowledge, training and experience of your members? Do they need to be developed further?

**To start or not to start ...?** Now look at the whole picture - risks, benefits, strengths and weaknesses. Are you excited? If you are, you're ready to develop your business plan.



## **IV. Some Key Concepts for Completing the Feasibility Study**

The goal of the feasibility study is to determine whether or not there is a reasonable expectation that the co-op's business can be financially viable. By financially viable we mean that all the co-ops expenses can be paid including the members' required wages and still have enough money left over to pay any loans or make new investments for the development of the co-op. The following outlines some key concepts you need to do this assessment. They will help you develop a basic financial model of the business.

### **Pricing**

There are a number of reasons to start your analysis with pricing. The revenue potential of your co-op is dependent upon the price and number of products/services you sell. Unless you are starting with a completely new product or service in the market place, there will already be an accepted range of prices for the product or service you are going to provide. The price you charge will therefore be a key determinant of market acceptance of your product or service.

One of the key steps in determining what may be a reasonable price for your product/service is to compare it with those who will be your competitors. You need to look at similar products or alternative products to determine who are your competitors and what prices they are charging. In setting the price for your product relative to the competing products you must determine whether or not yours has any unique features, its quality relative to the competitors, etc. It is also important to determine how big the market is for your product and is it a discretionary purchase or something the customer still needs when times are financially tight. Once you have a sense of what price you can charge and an estimate of how many products you can sell, you can go on to the next question - at this particular price will enough customers purchase this particular good or service to pay the wages, expenses and surpluses (profits) which the co-op requires to be viable and meet the members' needs.

To take this next step you will need to understand some basic financial concepts.

### **Revenue**

Revenue is the money generated by the co-op through sales of goods and/or services. The total revenue is a function of the number of items sold times their price.

### **Cost of Goods Sold (COGS)**

COGS is the amount the co-op must spend to purchase and or produce the products or services so that they are ready to sell. If the co-op is a retailer, COGS includes the cost of the products and the cost of freight to have the goods delivered to the store. For the manufacturer it would include the cost of raw materials with freight and all production inputs such as labour that are required to produce the item ready for sale.

## Gross Margin

The gross margin is the difference between the revenue generated from the sales of goods and services and the COGS. It can be expressed in dollars or as a percentage of revenue.

Revenue	\$200,000
COGS	<u>\$ 90,000</u>
\$ Gross Margin	\$110,000

$$\% \text{ Gross Margin} = \$110,000 / 200,000 \times 100 = 55\%$$

The gross margin is the amount of money resulting from sales that the co-op can use to pay their other expenses (see below) with hopefully some left over for a surplus (profit).

## Expenses

Expenses are all the day-to-day costs of running the business. However it is important to understand there are different types of expenses and to learn to identify what type of expense a particular cost is. This is important for the later analysis of whether or not you can expect your business to be profitable.

## Fixed Expenses

These are expenses for a particular period (say 1 year) which are incurred no matter what the co-op's level of sales are. Examples include: rent, insurance, telephone, bookkeeping costs, advertising, heat and lights, interest payments on loans\*, etc. For the feasibility analysis it is important to include the minimum level of income required for each member so that they can work on the business. This is a simple calculation for a retail operation as all the wages can be included here. However for manufacturing operation this is more complicated, as some of the employee's necessary income will be included as labour expense in the COGS calculation. The balance of the members' wages needs to be included in the fixed expenses.

Another expense which requires special mention is depreciation expense. When the co-op buys assets such as equipment, or renovations to its store or offices (any item which has a useful life of many years and that will be used over and over again) the initial cost is not classed as an expense but is classed as an asset (something the co-op owns). However a portion of the cost is allowed to be allocated as an expense each year. This portion is the depreciation expense. The co-op usually follows the amounts set by the Canada Revenue Agency to determine the amounts allowed to be classed as an expense for taxation purposes.)

*\* Note that the principal payments on loans are not an expense, they must be paid from the surplus (profit) of the business or from additional investments (over time) by the members. This is very important because it means that a co-op with loans to repay, in order to be viable, must at least make enough profit to pay its loans.*

## Variable Expenses

These are expenses that are incurred as a function of the volume of sales generated. For example in a construction firm, the more different job sites going that need supervision, the higher the travel cost will be for the supervisor. In a wholesaler, the more sales made, the greater the number of shipping crates will be required. For a small co-op, variable expense can usually be ignored for purposes of the feasibility analysis. Just be sure to make a reasonable estimate of the annual expense for the item and include it in the fixed expense category.

## Surplus (Profit)

Profit is the difference between revenue generated less the COGS and the total expenses incurred for a particular period.

Revenue	\$200,000
COGS	<u>\$ 90,000</u>
Gross Margin	\$110,000
Fixed Expenses	<u>\$ 85,000</u>
Surplus (Profit)	\$ 25,000

At this stage, if you have been thinking about your co-op business idea you will have a pretty good idea of what is the price you can get for your product, what it will cost you to buy or manufacture them, and also what the other expenses are that you must pay in order for the business to operate. Now you must take the next step help to determine if the business can be viable. To do this we will start by doing a breakeven analysis.

This analysis can be done by determining the number of units (products) you need to sell, if you are manufacturing, or alternately the total value of the sales (numbers of units time the price) in dollars that are required.

As was noted above the gross margin is the money available to cover your other expenses, the breakeven calculation is based on this fact.

## Number of units sold required to break even

For this calculation you are first going to determine the gross margin per product, i.e. the price of the product less the COGS for the product. When you divide this amount into the fixed costs, you will find out how many units you need to sell to cover these costs. This is the breakeven number of units that will need to be sold.

$$\frac{\text{Fixed Costs}}{\text{Unit Price} - \text{COGS/Units}} = \text{Number of Units}$$

$$\frac{\$10,000}{\$75 - \$50} = \frac{10,000}{25} = 400 \text{ Units}$$

### Break-even in dollars of revenue

To determine the breakeven in dollars (\$) you take the price of a unit (or the average price of different units) and subtract the COGS and then divide it by the price of a unit. This shows how many cents you receive in gross margin for every one dollar of sales you receive. Since the gross margin pays for the other expenses, you then divide those expenses by the gross margin received.

$$\frac{\text{Fixed Cost}}{\text{Gross Margin}} = \text{Dollar Sales}$$

$$\frac{\$10,000}{(\$75 - \$50)} = \frac{\$10,000}{\$25} = \$40,000$$

### Required Profit

As noted above, to be viable a co-op is likely going to require a surplus (profit) to pay for its loans and to have money to further develop its business, buy new inventory or equipment, and purchase other assets needed to develop the business. The co-op must determine how much money this is likely to be and add this required profit to the breakeven calculations done above.

### Number of units required

$$\frac{\text{Fixed Costs} + \text{Profit Target}}{\text{Unit Price} - \text{COGS/Units}} = \text{Number of Units}$$

$$\frac{\$10,000 + \$5,000}{\$100 - \$50} = \frac{15,000}{50} = 300 \text{ Units}$$

In dollars of revenue

$$\frac{\text{Fixed Cost} + \text{Profit Target}}{\text{Gross Margin}} = \text{Dollar Sales}$$

$$\frac{\$10,000 + \$5,000}{(\$100 - \$50)} = \frac{15,000}{0.50} = \$30,000$$

## **Viability Decision**

By now you will have a simple model of how your business works: what products or services it will provide, and at what price. You will know who your competitors are and will be getting the feel for whether or not your products have a good chance of being bought by customers. The breakeven analysis has shown how many units you need to sell or what are the total sales required. The key question now is - do think you can achieve those sales? This is the time to be very hard-headed and conservative in your estimates. It is also a time when you face one of the key experiences of business – having to make a decision and judgement about the future based upon your best guesses, with no certainty that you will be right. Ultimately, if you proceed, it will be based finally on the feasibility analysis, your gut reaction in assessing this analysis and your commitment to succeed.

## **V. Why You Need A Business Plan**

*As noted in the previous section the foundation required for the co-op is the members' common understanding and vision for the co-op, how it will meet their common and individual goals and the co-op's business viability. As with the feasibility study, the business plan is a great learning tool for the members to understand the key factors, on both the co-op and the business side, that will determine the co-op's long-term success.*

*The business plan is the articulation of the common understanding of the members. It gives a complete picture of the co-op, its goals and organizational structure. The business plan is used both for internal and external purposes as it guides members, directors and management decisions and also shows interested outsiders - bankers, credit unions, community groups, individuals, government and other development agencies - who you are, what you hope to accomplish, and how. Bankers and credit union managers particularly need to see the business plan to determine if they will provide financing to the co-op because it helps them to assess the co-op's ability to pay back its loans.*

*This handbook doesn't give you detailed instructions for developing your business plan. There are many books and software programs readily available that can be of assistance. The following outline does provide you with a brief description of the key elements of a plan. In addition, much of the research and analysis done during the feasibility analysis is used in writing the business plan.*

## **Putting together your plan.**

### **1. Title page**

Includes the date and your co-op's name and address.

### **2. Table of contents**

### **3. Co-op/Business concept**

A clear description of your business and the co-op's organization, its past history, the type of product or service it will market and where.

### **4. Market**

What, where and how big is your target market? Who is your competition? What share of the market do they have? How can you improve on their product or service? Why are people going to buy your product over the competition's?

### **5. Marketing Strategy**

What price will you charge? How will you advertise and promote your co-op (posters, a grand opening, the Internet, newspaper or radio ads)? What are your unique selling features (price, service, accessibility, etc.)? How will you get your product to market and ensure repeat customers?

### **6. Management and organization**

- Outline the co-op's structure (responsibilities of members, board of directors and management), including how management duties will be carried out (by an appointed manager or shared among the members).
- Detail qualifications and experience of individual members of the management team.

### **7. Operations**

- Describe how the co-op will provide its product or service.
- Identify equipment, facilities, how the work will be organized and how long each task will take.
- Identify raw materials and supplies required, and also secured suppliers.

### **8. Financial data**

- Project your start-up costs and breakeven analysis.
- Complete pro forma income statement and balance sheet for at least 3 years.
- Produce a monthly cashflow for the first year. If it will be several years before the business has a positive cash flow (more cash coming into the business than being spent) then additional years on a monthly or a quarterly basis will be required.
- Outline sources of financing and their uses.

### **9. Personal profile/résumé of individual members' skills, experience and background.**

## VI. Incorporating A Worker Co-operative

*Worker co-operatives are usually incorporated under the Co-operative Associations Act and Regulations. There is one federal act as well as different acts in each of the provinces and territories. Most worker co-ops are incorporated under provincial acts, although the federal act can be used if the co-operative is going to have a place of business in more than one province.*

*Each act has some provision for ensuring that the business is being carried out on a co-operative basis. These provisions include one member/one vote, limited return on capital, limited liability, patronage dividends, audit requirements, etc. Some acts have specific provisions which must be followed to incorporate as a worker co-operative. The acts also have specific requirements for incorporation with options and restriction on the co-op's capital structure. Because of the variability between different acts and their complexities, it is important to get advice from a knowledgeable person (an experienced co-op developer or lawyer) when drafting your incorporation documents. You want to ensure that the incorporation documents reflect your co-op's goals and that they will support the long-term development of your co-op.*

### **Legalities**

There are a number of advantages gained by incorporation. The first is that an independent legal entity (the co-op) is created that has its own existence separate from any individual or group of members. It is the co-op that carries on business, signs contracts, receives loans, employs the members, etc. This means the co-op carries on business continuously as it develops and as new members join and other members retire or leave for personal reasons.

Another advantage of incorporation is that it provides limited liability to the co-op's members - that is, members are not individually responsible for the co-op's debts beyond the amount of shares for which they subscribed. If the co-operative should fail and be forced to dissolve, individual members are not personally liable for its debts. The exception to this rule is if any of the members have signed personal guarantees for loans for the co-op, in which case they continue to be liable for those debts.

Another benefit is that the process of incorporation also forces the members of the co-op to agree to some key principles as to how the co-op will operate. This provides clarity to the relationships of the members to the co-op and their rights and responsibilities.

Lastly it is also quite simple to incorporate as a co-op. Usually two documents must be submitted to the Registry (which government department varies depending upon jurisdiction.) The first document is the Articles of Incorporation, which include the name and objectives of the co-op, the number and type of shares subscribed for by each member, and confirms the limited liability. The second document is the co-op's bylaws (sometimes call Rules). Though model bylaws are available and recommended, a new co-op can modify these bylaws to suit their own circumstances as long as they abide by the Act and Regulations.

You should also be aware of your legal obligation to provide information to the Registrar at your year-end. You must complete forms updating current officers, directors and business activities. You usually must file your year-end financial statements (balance sheet and income statement).

## **Bylaws**

Bylaws are the “constitution” of your co-op. They tell members exactly what their rights and responsibilities are so that there won’t be misunderstandings or conflict. Members’ participation in identifying common goals and in understanding the co-ops bylaws are vital first steps in your co-operative education. A good set of bylaws includes:

- the date the fiscal year ends
- membership rules, including duties, eligibility, financial contributions, and termination
- what each member can expect in return for contributions (how profits are to be shared, the interest to be paid on shares, what investment will be returned upon leaving the co-op)
- when meetings are held and how they will be conducted
- how many seats are on the board of directors, their duties and how they are elected
- how the bylaws may be amended
- dissolution procedures

Although worker co-op bylaws have the same sections as most other co-operatives there are certain key sections which are at the heart of the worker co-op.

These include the requirements for membership such as:

The probationary period to be complete before a new employee can apply for membership;

The amount of the initial investment a new member must make and over what time period;

The right to work (access for members to the available work);

The process for resigning from the co-op;

The process for having your membership terminated if you no longer meet the requirement of membership; and

The conditions for having your share capital returned to you on leaving.

Another key issue is the process for the dissolution of the co-op - who should benefit if the business is sold and the co-op wound down? Should a limited number of members, i.e. only those who are members when the co-op is discontinued, benefit from any surplus above their share capital or should former members or the community also benefit? If a limited number benefit they may have an incentive to wind up the co-op simply for their own financial benefit ignoring the contributions of past members and the future employment for the community.



## VII. Co-operative Decision Making

*Your co-op's future will be determined by the goals your members set and how effectively you make decisions and solve problems as a group. As noted above establishing common personal, business and social goals right from the start, and sticking to them, can help this process immensely. This not only keeps your decisions focused, but also helps to avoid misunderstandings that can lead to conflict. Then the decision making process is one of identifying the specific goal or problem to be addressed, gathering the best available information on the options and their outcomes and risks and making the choice with the best chance of providing an effective solution. Easily said, but challenging to do!*

*One of the benefits of working within a worker co-op is precisely this opportunity to participate in the key decisions that affect your workplace. A key challenge for a worker co-op is to determine how to create an effective process for this participation while ensuring timely and effective decisions are made that will lead to success in meeting the members' and the co-op's goals. Because members determine this process, each worker co-op is likely to have a different approach when deciding who has the responsibility and authority to make a specific type of decision and to whom they are accountable. Some co-ops work by consensus - at both the board and management levels - while others allocate specific responsibilities and authority to individuals or groups within the co-op. The key challenge is to ensure that the approach chosen is effective, as well as supported and understood by the members.*

*The section below does not prescribe how the co-op should be organized, rather it outlines some inherent structures and processes within the worker co-op.*

### **The governance and operational process**

The co-operative principle of "one member/one vote" is one of the main reasons many groups form worker co-ops. However, making decisions democratically, holding productive meetings, and working as a group, are skills members must acquire. They must also be knowledgeable about all aspects of the co-op's operation in order to generate ideas and contribute effectively to the decision making process. There is a lot to learn. This is the key reason that successful worker co-ops provide opportunities for all of their members to receive the training they need to understand the co-op processes and the co-op's business.

The foundation of authority within the co-op rests with the general meeting of the members. This is the ultimate decision making forum and body within the co-op. Within the worker co-op, specific decisions are in the hands of the general assembly. The Co-op Acts provide the foundation for this authority by law, however the co-op's bylaws may also provide that specific policy decisions, such as wage rates, may require approval by the members' meeting. Importantly the bylaws of the co-op, which regulate the life of the co-op, must be approved by the members and can only be changed by a meeting of the members.

One of the key legal responsibilities of the members is to elect the board of directors of the co-op. The bylaws will specify the number of directors, their qualification and length of terms. Directors, by law, are responsible for the affairs of the co-operative. Their duty is always to make decisions in the best interests of the co-op as a whole. The directors, once elected, in turn elect officers (president, vice-president, secretary, treasurer). These officers of the co-op

will have specific duties outlined in the bylaws. In small co-ops, members often serve in more than one capacity and often all members are also directors.

Good collective decisions require well-researched information and good communications between the board of directors, manager and membership. Co-ops may operate democratically, but you can't stop in the middle of the workday to discuss every decision which must be made. The directors are responsible to ensure that an effective operational structure is in place that it is supported by the members. This may take many forms, depending upon the desires of the members and on the type of enterprise that the co-op operates.

Within most co-ops the following structures are usually in place and are the forum for the following types of decisions.

### **Annual General Meeting (AGM)**

- The board of directors reports to membership, reviewing the past business year and the year's financial statements.
- The board seeks approval of its recommendations for surplus allocation.
- The Business plan and budgets for the coming year are presented for discussion and approval.
- An auditor is appointed.
- Membership elects a new board.
- Other membership decisions specified in the bylaws are made.

### **Board of Directors meeting**

- The manager(s) reports to the board, which in turn provides direction to the manager(s). The key function here is for the board to hold those in charge of making decisions on behalf of the co-op accountable for the outcomes of those decisions. This would also include evaluating the organizational structure used to make these decisions.
- The board evaluates the co-op's financial position to determine whether or not the budgeted objectives are being met and what actions should be taken to improve the situation.
- The board makes or changes policies as required, or recommends a policy to the membership if only the membership has the authority in a particular area.
- Board members discuss long-term goals and strategy and ensure that a good planning process is in place to guide the co-op in the coming year(s).
- The board approves new members or terminates a person's membership.

### **Operational meetings**

- Consultation and decision-making about daily activities takes place between members and management. These meetings, and who participates, will vary from co-operative to co-operative depending upon the organizational structures that have been approved by the membership and/or the board of directors.

### **Committees**

Sometimes committees are appointed to research issues and make recommendations to help the board, membership or management make decisions. These committees may be standing committees such as a finance committee or may be ad hoc committees set up to simply address one specific issue.

## VIII. Keeping your Co-op On Track

*To govern and manage your co-op effectively, and to ensure that members remain committed to the co-operative, clear policies and good records are crucial. The policies provide the members with a shared understanding of the requirements and rules that the members have agreed upon. These rules should ensure that all members are treated fairly and equitably while at the same making sure that the operating requirements for the business are effectively met. The records – minutes of meeting, financial statements, bookkeeping etc. - are required to ensure the co-op meets its legal requirements and, more importantly, that the members have shared information in regard to the decisions they have made and the results that are being achieved.*

### **Policies**

Policies are the basic decisions by the membership about how the co-op should be organized and managed on a day-to-day basis. The size of your co-operative and the complexity of its business operations will strongly influence the types and number of policies the co-op is likely to have. Policies are developed and approved in a variety of ways; however, three broad categories can be identified. The first category are policies that must be approved by the membership at large. These are generally limited in number and relate to key working conditions within the co-op. The second, and usually the largest number of policies, are developed and approved by the board of directors. The third category are policies relating to the details of the operations and often it is the management of the co-op who have the authority approve these policies.

Member education, remuneration, work organization, benefits, vacation and sick leave are some areas in which policies are useful. With established policies, your co-op will be ready to deal with most situations that arise and members will have clear expectations for themselves and their co-members. Policies can also provide guidelines as to how to deal with difficult situations, such as members who have not fulfilled their responsibilities.

It is important to note that the development of policies can take place in many ways. For example, the wage policy would likely be developed in conjunction with the budget and with input from the members, financial managers and some directors. The board may set up committees which include directors and members at large to examine an issue and make a policy recommendation. Management may ask the members working in specific areas of the business to develop operating policies for their specific area of responsibility or develop some policies themselves. Once a specific policy is developed, it is presented for approval to the body within the co-op that has the authority to approve the particular type of policy.

Lastly policies, like many other aspects of the co-op, develop over time as situations change and new issues arise. Sometimes policies which were effective when they were originally developed are no longer effective in a changed situation and need to be modified. At other times, an issue arises for the first time and it becomes apparent that it would be best to have a policy to ensure that any similar situation in the future will be treated in the same manner and without the need for long analysis or discussion.

## Record-keeping

It is essential for any business to establish a record-keeping system. Many of these records are required by law. They should be filed in a way that is organized and accessible to all members of the co-op. That way, information is readily available to help your co-operative's development. Here are some of the records you should keep.

### Co-op records

You should have a minute book to record all membership meetings and directors meetings. The policy manual should record all policies and changes to policies, including the dates on which they were approved. Each member should have a copy of the policy manual and of the co-op's Articles of Incorporation and bylaws.

### Financial records

Besides routine bookkeeping, you should have separate files for member share and loan accounts, customer accounts, payroll records, Revenue Canada (monthly CPP, UIC remittances), bank statements, budgets, financial statements and tax returns.

### Operational records

These files help keep track of things such as production data, work schedules and inventory.

### General records

These files consist of anything relevant to your co-op: correspondence, trade magazines, marketing information, contacts, government program information, news clippings, etc.

## IX. Financial Records

*There are two vital reasons for keeping financial records. The first is to provide the information required for your financial statements, which show whether or not you are making a profit and help you make management decisions. Secondly, records of your co-op's financial transactions serve as the basis for your co-op's income tax return, which is required by Canada Revenue Agency.*

*Remember, it's easier to start with a good set of books and to keep them updated than to try to reconstruct them at the end of the year.*

### Elements of a financial record keeping system

- A current account.: *All monetary exchanges should go through your bank or credit union account, so they are recorded on your monthly bank statements. Record all transactions in your cheque book and deposit book.*
- Invoices: *Keep invoices for all financial transactions, that is, all purchases and sales made by the co-op.*
- Payroll book.

- A Bookkeeping system.

*This provides you with the means of recording all your financial transactions. The complexity of the bookkeeping system will depend on the complexity of the business. For many small co-ops, a very simple set of accounts will be sufficient.*

## **How to organize your accounts**

Every financial transaction affects at least two or more accounts. For instance, payroll reduces cash and increases wage expenses, sales increase cash or receivables and reduce inventory. The five basic categories of accounts are:

### **1. Assets (what you own):**

- (a) current account
- (b) accounts receivable
- (c) inventory
- (d) prepaid insurance
- (e) equipment
- (f) buildings and land

### **2. Liabilities (what you owe others):**

- (a) accounts payable
- (b) line of credit
- (c) long-term loan

### **3. Member Entitlements and Retained Earnings (assets minus liabilities):**

- (a) members' share accounts
- (b) members' loan accounts
- (c) collective reserve (retained earnings)

### **4. Revenue ( money you receive):**

- (a) sales
- (b) other

### **5. Expenses (operating costs):**

- (a) wages
- (b) benefits
- (c) insurance
- (d) rent
- (e) utilities
- (f) office supplies
- (g) interest