WORKER CO~OPS
volume 3 / number 3
NEWSLETTER

Newfoundland co-ops formed to maintain community economies

Richard Hayes

In the past two years, there has been a tremendous surge of interest in the co-operative option throughout Newfoundland and Labrador. Most of the requests for information and organizational assistance have involved groups anxious to establish co-operatives in the traditional producer and consumer co-operative sectors. Others have been more adventurous.

Two of these new co-ops have been formed with economic development in the member's home community as a primary goal. The Avondale Development Co-operative, incorporated in 1982, and the Whitbourne Health Care Co-operative, incorporated in 1983, have both grown from the pressing need of residents of both communities for stable employment. In Avondale's case, the co-op is taking a broad approach to generating new employment opportunities, while the Whitbourne group has a much more narrow focus.

Avondale suffered economic decline

Avondale, a community of about 1000, lies near the head of Conception Bay on the Island's Northeast coast. Once a prosperous and bustling community in the days when the annual migration of Conception Bay Fishermen to the Labrador summer fishery made it a key supply point, the town now finds that it is a dormitory community for the capital city of St. John's, some 40 miles away. Community leaders were becoming concerned with the constant erosion of the natural resource base which the community has traditionally exploited and were looking for a vehicle through which the residents themselves could exercise more control over development and maximize economic and social returns to the community. Matters came to a head when government called for proposals for the leasing of some 300 acres of crown held blueberry ground to a private operator.

At the request of community representatives, the Newfoundland Labrador Federation of Co-operatives (NLFC) and the Registrar of Co-operatives participated in a series of public meetings, through the fall of 1982, aimed at informing the people of Avondale about the co-operative option and how they might use it to

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Big carrots and small potatoes: A gourmet's guide to health, happiness and prosperity

Jack J. Quarter

Toronto's newest worker co-op is an eight-member natural food store with the catchy name, 'The Big Carrot'. Located at 355 Danforth Avenue (just east of Broadview) in the city's east end, The Big Carrot specializes in high quality bulk foods, organic produce and a good selection of macrobiotic products. Also, it has the unique features of a natural foods deli, take-home meals and cooking lessons for natural foodniks.

The core group of The Big Carrot was introduced to co-operative work organization through its previous employment at Baldwin Natural Food Store, one of the more successful stores in the city. The store owner encouraged the employees to invest in the business and manage it on the understanding that he would eventually sell it to them. Later, when it appeared this opportunity was unlikely to materialize, the employees quit *en masse*, determined to establish their own business.

On the surface it should have been simple: they had the personnel and the experience of managing a successful business. Yet in the words of Mary Lou Morgan, The Big Carrot's manager, "it has been a long uphill struggle".

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secure the land in question as a community resource.

ADC Paints With Broad Strokes

After several months, an organizational meeting was held and the co-op was formed with close to 100 members contributing almost $2,000 in share capital. The co-operative has now applied for a lease to the 300 acres, is seeking another several hundred acres of crown blueberry land and has rapidly expanded its areas of interest. Its constitution enables it to do anything which would "promote the economic and/or social interests of the citizens of Avondale", and the co-op's board has taken a broad approach to its task.

Besides obtaining some $90,000 in funding for the reconstruction of an historic sawmill, which will serve as an anchor facility in tourism development, the group continues to work toward projects related to blueberry farming and secondary processing of the berries, tourism development, an Atlantic salmon enhancement project and several other more recent ideas.

Given the number of approaches it is trying, the ADC board feels sure that several will prove viable in the long term and provide the base for a revitalized community economy.

Health Care Cut-backs Give Rise to Co-op

The Whitbourne Health Care Co-op offers a sharp contrast in both initial impetus and developmental procedure to the comparatively free-wheeling Avondale Co-op. Many of the forty members of the Whitbourne Health Care Co-op had been employed with the Markland Cottage Hospital, which ceased operating as a hospital as the result of a goverment austerity and consolidation program in 1982. Realizing that there were few, if any, employment opportunities for health care professionals in the area, the group members started looking for ways to put their professional skills to work while remaining in their home community. Eventually, they defined a need for a chronic care facility for the aged in the central Avalon Peninsula area and determined that they would try to meet that need as a worker co-op.

They also held a series of public and private meetings, with staff of the NLFC and the registrar's office attending to explain the co-operative concept and its possible application to their idea. The group has started what promises to be a long process aimed at establishing a new and modern chronic care facility. The architects plans are now completed and the board hopes that several smaller projects they are now engaged in, will permit them to raise seed capital over the next couple of years. Ongoing negotiations with government are taking place to ensure that financial support and licensing requirements will be in order by the projected start of construction, some three years down the road.

Richard F. Hayes is Managing Director of the Newfoundland-Labrador Federation of Co-operatives.

Big carrots and small potatoes:

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Getting It Together

Three major issues consumed the better part of a year for The Big Carrot. These were: organizing the store; choosing a location; and raising the start-up capital. Interestingly, developing a co-operative structure and incorporating its features into the shareholders' agreement was less problematic, perhaps because of the group's previous history of working together. Thus, even though The Big Carrot functions as a worker co-op, the issues that it had to struggle with to get off the ground were similar to any other small business.

Organizing the store was the easiest of the three problem areas, since the group had extensive experience in the natural food business. With extra money, this might have proceeded more quickly, as it would have been possible to purchase the services of an architect and other consultants. Similarly, choosing a site could have been expedited if the group had been able to purchase professional assistance. In the end, they hired a realtor to assist in closing a deal, but could have used assistance at an earlier point.

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Complex Financial Package Took Six Months to Arrange

If it need be said, money — or the lack of it — was the major obstacle. The Big Carrot's start-up budget was a relatively modest $123,000 (small potatoes). Of this start-up capital, $40,000 came from the members through the purchase of $50-100 class B shares. Bread and Roses Credit Union assisted four of the group members with personal loans; others made their own arrangements. However, this indebtedness was burdensome because the group members had been unemployed for about nine months before The Big Carrot opened.

Having this personal stake in the business was necessary to secure the remaining capital — a $50,000 Business Development Loan from the bank (at prime rate plus one percent) and $33,000 from members and four private investors (Class A, preferred shares) at ten per cent cumulative interest, plus food purchases at reduced rates. The bank would not close the deal until this other financing could be arranged, and approaches to private investors took time. In approaching private investors, The Big Carrot was restricted to personal acquaintances, unless a *prospectus* was issued, something that they were advised against by their lawyer because it was costly and time-consuming. It took six nerve racking months until the financial package could be put together, and the apprehension remains that the bank could "pull the plug" if it does not like features of the operation.

To raise the necessary start-up capital, The Big Carrot took on more members than were needed to provide services to customers and more than was justified by its cashflow. To make use of the surplus manpower, the store is open 10 hours a day, 7 days a week, and several of the members have taken part-time jobs elsewhere. The Big Carrot had decided, as a matter of policy, to restrict wages and benefits to twelve per cent of the total sales, and to keep wages low until revenue increases.

Shareholders' Agreement

Like many other businesses functioning as a worker co-op, The Big Carrot incorporated as a share capital corporation. The primary reasons for doing this was to make the best possible impression on the bank manager who wanted to know "who was in charge", and to offer more favourable interest rates to outside investors than are permitted by co-op law (10 per cent simple interest).

In addition to their Class B shares, all working members (minimun workload of 16 hours per week) hold one common or voting share with a par value of one dollar. If a member leaves, either temporarily or permanently, or is fired, his or her common share is sold back to the collective. In this way, The Big Carrot has assured the primary feature of co-operative ownership — that control of the company is vested in the work force on a one person, one vote basis.

Class B shares are held in an Employees' Association and each member's account accumulates dividends (assuming one is declared), or absorbs losses. If a departing member wants to withdraw his or her investment in total, this is done at the leave of the collective so as to protect the company against a major withdrawal of capital.

Assuming that The Big Carrot prospers or other Big Carrots emerge as the current owners foresee and new members are needed, each new member will be required to purchase fifty Class B shares as evaluated at that time and one common share.

With its current structure all members of The Big Carrot also serve on the Board of Directors. If the size of the group grows, there will be a more formal separation between directors, management and members.

Worker co-ops and Ontario Employment Law

Murray Klippenstein

In most jurisdictions, the laws regulating the areas of employment and labour relations were put in place without much thought for workers' co-ops. This means existing or developing co-ops should be aware of possible pitfalls in these laws. This article takes a quick look at Ontario's Employment Standards Act *and* Labour Relations Act *to demonstrate some possible problems, and suggest possible solutions.*

The *Employment Standards Act* is the law which sets standards for the number of hours in a work week, minimum wages, overtime, vacations and terminations.

However, these standards can restrict a co-op's flexibility. For example, many small business partners, or self-employed individuals, will testify to the fact that 48 hours of work per week, the maximum permitted by the Act, may be insufficient to start an operation successfully or to carry it through periodic difficult times. The self-employed are excluded from these standards presumably because they have a real say in the management of their operation and a long term personal interest in the enterprise. If these are enjoyed by workers in a co-op, the limit might appear unnecessarily restrictive in their case, too.

There are also more specific problems. The Act stipulates that "an employer shall pay an employee all wages to which an employee is entitled...in cash or by cheque" and that "no employer shall claim a set-off against wages...or retain...any wages payable to an employee." These requirements might conflict with the payroll deductions that some co-ops make as capital loans, or with a system of "patronage dividends" in which part of a co-op's "profits" are retained and then periodically distributed in addition to the regular payment of "wages".

Are Workers in a Co-op Considered Employees?

One possible approach to these problems is for a co-op to argue that its workers are not employees, in which case the Act would not apply. There have been several cases deciding this question, and they indicate some of the important factors. In the principle cases (*Re Telegram Publishing* and *Re Becker Milk*) the adjudicator used an old legal test for an employee relationship involving the factors of: 1) control; 2) ownership of tools; 3) chance of profit; 4) risk of loss.

"Control" in this context refers to control of the method of doing the work and the times at which it is done. It may be difficult, even in the case of a co-op, to convince an adjudicator that these factors are not substantially controlled from above. Some sort of structure for worker's review of managerial supervision would probably be necessary. An example of such a structure might be: a worker's appeal committee to review disciplinary actions by managers, with an appeal to the board of directors or the general meeting for major violations, requiring a general meeting vote on any management suggestions which would exceed

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the limits in the Act. Or in a more positive vein, a procedure could be established for effective consideration of workers' suggestions on day-to-day matters.

The ownership of the business by the workers in a workers' co-op would seem to clearly fit the second criterion. However, the cases state that "ownership of tools" is less significant if the worker is "organizationally dependent". On the other hand, it might be persuasive if the co-op could point to returns to workers in excess of comparable market wage rates as representing return on workers' capital.

Real Decision-making Power Is a Key Factor

The cases indicate that in applying the tests of "chance of profit" and "risk of loss", the adjudicator was looking for more than the existence of work incentives linked to productivity. He was interested in instances of "real entrepreneurial exercise". This is a difficult issue for co-ops, and in fact experience has often shown a tendency toward greater delegation to the "managers".

Nevertheless, it is exactly features like the putting of questions of major capital projects, or of "wage" rates, before stockholder committees or even the general meeting that would be important for this test. A practice such as providing basic business courses for workers might also be an indicator.

Aside from the application of the above tests, there seems to be an additional problem for a co-op arguing that its workers are not employees. The cases display an assumption that work is performed either as an "employee" or as an "independent contractor"— hence if workers are not the latter then they must be employees (the problem of "organizational dependency").

Union Provisions Can Affect Worker Co-ops

The Ontario *Labour Relations Act* is the law which establishes the collective bargaining framework and sets out the rights of unions and employers. Like the *Employment Standards Act*, it can cause problems for worker co-ops. The relationship between unions and co-ops is too large a topic to be dealt with here. It is not suggested that the two should not be, or are not, often close. The *Labour Relations Act* sets up an adversary system, however, a division which might lead to polarization in a co-op.

And the provision in the Act that the buyer of a business assumes any existing collective agreement might leave a worker buy-out shouldering a collective agreement whose terms regarding the number of employees, rates of pay, etc. are unrealistic and which would prevent the major reorientation necessary.

The definition of "employee" in the Act is extremely broad. A co-op could argue that all the workers exercise a managerial function, and are therefore excluded, if some of the "entrepreneurial decision-making" mentioned above exists. Or the co-op could simply argue that its workers are not in the definition.

In two cases where this latter argument was raised, the Labour Relations Board or court again did not accept the argument that co-op workers were not employees, that the workers were in fact "self-governed". It is difficult to predict what would happen in a case where workers had more day-today input or a significant voice in business decisions.

Murray Klippenstein is a third year student in the Faculty of Law, University of Toronto.

LETTERS

I want to take exception to your misleading article in Volume 3, Number 2 of the **Worker Co-ops Newsletter**. This article was titled: "Employees Purchase Eastern Division of Pocklington's Meat Processing Company". It begins by describing how a group of management employees has formed a numbered corporation for the purpose. It describes how all 496 employees will be offered shares in the company and it ends by saying that it will become the largest worker-owned and operated company in Canada.

This latter statement is the one which especially infuriates me. There is no indication whatever from reading the article that it is a worker-owned co-op at all. Rather, there is every indication that it is a management-owned corporation. The fact that 496 employees will be offered shares in the company means nothing. Those same employees could probably have bought shares in the company when Pocklington was its owner. Employees of Imperial Oil can buy shares in that company too. Employee share purchases without employee control only provide the company with more share capital in its treasury and reduce the necessity for it to borrow money. Any benefit to the worker who has so invested is either remote or non-existant.

If we are to have a newsletter on worker co-ops, then perhaps we should define what a worker co-op is, or at least what it is not. You should not allow articles which are misleading to the readers. This particular article apparently has not been researched well enough to report on exactly what is the status of the hourly-rated employees in relation to the management employees, but the article is misleading in its implication that this has become a worker co-operative. I suspect that is far from being the case. If I am wrong, please let me know.

I recently read an article in the **Financial Post**, telling about how the employees purchased a small manufacturing company from its American owner. The **Financial Post** article also implied that the enterprise was worker-controlled. The picture showed the President and a couple of his management staff standing beside a sign on the front lawn of the plant which said that this was an employee-owned enterprise. The article stated that the President was the former General Manager when it was a branch of the American corporation and that now, as President, he owns 51% of the shares. The article did not tell what percentage of the shares was owned by the rest of the management staff, but it did say that shares were being offered to all employees in the factory. What bloody good will that do them?

Our **Workers Co-ops Newsletter** should expose frauds of this kind, not publish articles which appear to condone, or even encourage them.

Sincerely,
Glenn Haddrell,
Executive Director
Co-operative Housing Foundation of Canada

Editors' Note:

Your letter expresses valid concerns for the defining attributes of a worker co-op and the relation of other forms of worker ownership to the important issue of control. In our view, a necessary attribute of the worker co-op is control based on industrial democracy —one worker, one vote; non-workers, no vote. Clearly, in the employee buy-out cases you refer to, voting rights are related only to share capital ownership.

We believe, however, our phrase worker owned and operated is not "misleading", because it does not uniquely imply the democratic control structure of a worker co-op. We would distinguish ownership, operational responsibility, and control in consumer co-ops also, since there are wholesale marketing co-ops owned and controlled by members, which are operated on a day-to-day basis entirely by non-member employees.

It is our policy to cover relevant news. It is news when several hundred workers may come wholly to own, as well as operate, an enterprise. This and other examples of worker capitalism have been reported because they suggest issues, problems, and strategies for the development of worker co-ops through employee buy-outs.

BOOKS & ARTICLES

ORGANIZING PRODUCTION CO-OPERATIVES

A Strategy For Community Economic Development

by W. Greenwood
S. Haberfield
L. Lee

Organizing Production Co-operatives: A Strategy for Community Economic Development, W. Greenwood, S. Haberfeld, L. Lee, The National Economic Development and Law Center, 1978.

The National Economic Development and Law Center in Berkeley is a non-profit organization estasblished in 1969. Its mandate is to help impoverished communities to vitalize their economies while retaining control of community resources.

One method of achieving these goals has been the development of the production (worker) co-operative with the initial strategy of creating a successful business.

This book is essentially a "how to" manual concentrating on the functional problems that must be resolved during the development phases of a co-operative.

The authors present the professional organizer with myriad scenarios and questions. Everything from planting the co-op seed and organizing a feasible business to forming the legal entity and creating a management system is touched upon.

There are no answers, only trends. After dealing with this initial frustration the reader can use the book as a thoughtful jumping off point for the creation of a unique business structure reflecting and involving a particular membership.

Mary Lou Morgan is manager of The Big Carrot worker co-op store in Toronto, Ontario.

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La coopérative ouvrière de production et la participation des travailleurs au Québec, by Benoît Tremblay *et al., Revue du C.I.R.I.E.C.*, vol. 12, no. 2 (1979-80, reprinted 1980)

Quebec has, in co-operative terms, something no other province in Canada can claim: a sufficiently large number of worker-owned firms to draw valid generalizations from. In 1979 Benoît Tremblay and his colleagues conducted a C.I.R.I.E.C.-sponsored survey among over two hundred worker-owned and/or -controlled businesses in Quebec. The resulting sample of 94 worker co-ops and collectives which returned usable data provides a fascinating insight into the major strengths and weaknesses of Quebec's worker co-operative movement.

The findings are divided into four sections: (a) structural characteristics of worker co-ops; (b) member involvement in financing and management; (c) financial profile of worker co-ops as a sector, and (d) the socio-economic context within which co-op starts occur. The major findings speak for themselves:

- about half of the sampled co-ops and collectives had over 25 employees;
- over two-thirds of the firms were created in 1970 or more recently;
- forestry co-ops constituted the single largest group (25.5 per cent) among the different types of worker co-ops;
- most sample co-ops were located in rural areas outside the Montreal-Quebec City corridor;
- over 75 per cent of the co-ops were incorporated as co-operative societies;
- all sample firms incorporated as non-profit organizations or joint-stock companies were established in 1970 or later;
- over 80 per cent of all worker-owned businesses were new, start-up companies;
- in over 80 per cent of all sample firms a majority of employees were also members of their co-op;
- in two thirds of the co-ops, workers, rather than management staff, constituted the majority of board members;
- over half of the sample firms had assets of less than $100,000;
- two-thirds of all co-ops had annual sales of less than $200,000 in 1977-78;
- half of the worker-owned firms had no long-term debt;
- virtually all co-ops received some form of government assistance during their start-up period;
- over two-thirds of the new (post-1969) co-ops relied on federal and especially provincial grants as their major source of equity capital.

This profile adds up to a worker co-opertive movement which expanded rapidly from a few isolated firms to a large network in the 1970's thanks to massive provincial government aid, mostly with the advent of the P.Q. as the government party. The role of labour unions has been particularly strong in large worker co-ops which were the result of conversions from private to co-operative ownership.

Like any statistical profile based on the analysis of descriptive statistics, *La cooperative ...* presents a static view of Quebec's worker co-ops which consist of a wide variety of different types. As individual case histories of co-ops become available (such as André Boucher's *Tricofil ...*), Quebec's exciting experiments in workplace democracy and employee ownership will become more real.

Walther Schenkel is a co-op developer and consultant in Surrey, B.C.

He can be contacted at #202-2548 154th St., Surrey, B.C. V4A 7B6, (604) 531-5997.

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Recent Publications

Interested in reviewing a book for *Worker Co-ops*? Listed below are a variety of publications that might be of interest to our readers. If you are interested in reviewing any of them, please contact me at the address listed below. Wherever possible, we provide reviewers with complimentary copies from the publishers, but sometimes we have to loan out personal copies. If you have any items you think we should mention, please send me a description of the publication:

Paul Jones
167 Carlton St.
Toronto, Ontario
M5A 2K3
Telephone (416) 961-0114

Workers' Co-operatives: Potential and Problems, edited by Mary Linehan and Vincent Tucker, Bank of Ireland Centre for Co-operative Studies, University College, Cork, Ireland, 1983, 256 pp., IR £3.50, plus 50p for shipping.

This is a collection of nineteen short papers, some of which originated from a two-day national seminar in 1982 to promote the idea of worker co-operatives. The papers are divided into four parts: an overview of the role and development of worker co-operatives in Ireland and the U.K.; how to establish and support worker co-ops; resource materials for worker co-op groups; and seven case studies of Irish worker co-ops. Its an interesting guide to starting a national movement.

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In addition to the new publication listed above, readers of *Worker Co-ops* should also be interested in a new international academic journal, **Economic and Industrial Democracy,** edited in Sweden and published in English. The May, 1983, issue (Vol. 4, no. 2) was a special issue on "Theories and Practice of Producer Co-operatives", including articles by Eric Batstone on French co-operatives, Chris Cornforth on factors for success and failure, based on the U.K. experience and Cornell Fanning on the economic theory of the worker co-operative. The next issue will contain more articles on the same subject. But as well as the stories on worker co-ops, the journal provides the reader with an opportunity to keep up to date with alternative components of an economic democracy such as worker participation in management, workplace democracy, employee investment funds etc., in a wide variety of countries. Individual subscriptions for one year are $23.00 (U.S.), from:

Sage Publications Ltd.
28 Banner St.
London, EC1Y 8QE, U.K.
or
Sage Publications Ltd.
P.O. Box 11017
Beverly Hills CA 90213, U.S.A.

North Carolina hosts international worker co-op conference

Susanne Warren

About 100 people attended North Carolina's Third Worker Co-operative Conference organized by Twin Streams Education Center Inc. and the Center for Community Self-Help.

Participating were representatives of worker-owned businesses and support groups from North Carolina, New York, Washington, Virginia, Connecticut, Michigan, and Minnesota, as well as from Mondragon, Belize, Dominica, Britain and Canada.

Participants at the conference last August heard about Mondragon's successes and challenges from Maria Asun Conxalex, Director of Personnel at Auzo Lagun S. Coop (Mondragon's only enterprise owned and operated by women) and Alex Goiricelaya, Director of Education at Ularco Co-operative Group. Jemma Best from Job Ownership Ltd. (England) a Quaker-funded research and education body, spoke of the relationship between unions and worker co-ops.

Mark Chavarria of Help for Progress Ltd, a government development organization in Belize described their worker co-op job creation program and support work with refugees.

Workshops focused on education in a worker co-op, financing in worker-owned businesses, use of computers, management issues and concerns, organizing in the local community, how to respond to plant closings and layoffs and international sharing and work concerns.

Worker-owners conducted sessions on North Carolina worker co-ops including the Worker Owned Sewing Company (WOSCO), the East Flat Rock Knitting Company, Space Builders (architectural design and construction), New Bern Bakery, Tillery Caskets (coffin-makers), Stone Soup Restaurant, the Worker Co-op Knitting Project and the People's Voice newspaper.

The good news from WOSCO was that after building a worker-owned business (in response to a bankruptcy) over a two-year period, it is now ready to move from being a 40 worker garment sub-contractor for companies like Sears and K-Mart, to taking on 80 new workers and becoming a full contractor.

North Carolina has a strong network of consulting, educational and legal services for worker co-ops. These include Twin Streams, the Center for Community Self-Help, and North State Legal Services. The Industrial Co-operative Association based in Massachusetts also provides legal, tax, accounting and organizational assistance to worker-owned businesses in the state.

It was suggested that attention be given to developing a pro-active organizing strategy (moving beyond responding to closings and layoffs). Participants felt it was time for a task force on educating and evaluating lenders, and providing more information about lenders to potential borrowers. Finally it was agreed that more attention needs to be directed towards technical resources and development.

Contact addresses:

Twin Streams Educational Center Inc., 243 Flemington St., Chapel Hill, N.C. 27514

Centre for Community Self-Help, P.O. Box 3259, 413 East Chapel Hill St., Durham N.C. 27705

Industrial Co-operatives Assoc., 249 Elm St., Somerville, Mass. 02144

Bill Stevens, Dept. of Management (Democratic Management Curriculum), Guilford College, 5800 W. Friendly Ave., Greensboro, N.C. 27410

Corporation for Co-operative Business, 412 East Chapel Hill St., P.O. Box 3259, Durham, N.C. 27705

National Center for Employee Ownership, 1611 South Walter Reed Dr., #109, Arlington, Virginia 22204 (they have an excellent selection of mail order publications and operate a clipping service)

Susanne Warren is a staff member of the Grindstone Island Centre, an education co-op in Ontario.

OPINION

A business analyst looks at worker buyouts

The following is an interview with K.K.

who is a business analyst for a financial organization with branches across Canada. For business and professional reasons, he prefers that his name not appear. The opinions expressed are his own, and not necessarily those of his employer. He is interviewed by newsletter editor Bob Schutte.

R.S.—I understand you now work as a business analyst for a Canadian term-lender. Could you tell me something of your experience, as it relates to worker-owned enterprises.

K.K.—Several years before taking an M.B.A. degree, I lived for a time on an Israeli kibbutz. In addition to agriculture, this kibbutz also manufactured simple irrigation equipment. Most kibbutzim these days have an industrial component. The whole operation was basically run by committees, where people with expertise generally called the shots. However, there were also monthly meetings where issues could be voted on. There was no direct compensation for work, no wages or distribution of profits. Instead, each member got a monthly allowance. This is quite different from most North American forms of worker ownership, but it works for those who are properly motivated ideologically, who believe in collective ideals.

The company where I have worked for the last eight years lends primarily to small and medium-sized businesses, those having sales up to $30 or $40 million annually. Worker buyout proposals have come along about once or twice a year, and we have two deals on the books now.

In one case — an electronic equipment manufacturer — we financed an expansion, rather than the initial buy-out. Perhaps buy-out proposals are becoming more frequent however, because I have had three on my desk in the last four months alone. All involved a larger firm divesting itself of a division. I'm still investigating the most recent proposal. About four senior staff and fifteen workers want to buy-out a metal fabricating division of the parent firm. The other two have already been declined as too risky, from our point of view. This doesn't mean they would not get financing elsewhere, but my assessment was that the workers would likely suffer if they bought in.

R.S.—*What goes into your risk assessment? What are the most important questions to ask in approaching a worker buy-out proposal?*

K.K.—The questions are the same no matter who is buying. The basic question is "just why is the business being sold"? Are we looking at a viable enterprise? For example, has the production process, or the product, become obsolete? Does the business have adequate working capital, cash and a line of credit at the bank sufficient to operate and carry the proposed financing? This is a key question. Other questions relate to what will happen after purchase. Will experienced management depart? Will a sizeable marketing capability be lost? Will large customers of the former company likely switch to competitors?

An important part of having a viable business, if a lot of outside financing is required, is paying a fair purchase price. I often see purchase proposals which list buildings and equipment at current replacement cost. This 'insurance appraisal value' is not relevant. A realistic purchase price for such assets should fall between two lower appraisal values — the current market value, tops, and the forced sale value, on the auction block.

R.S.—*What financing routes are available in buy-out situations, where workers have only a small fraction of the purchase price of a business?*

K.K.—Well, there are a number of venture capital institutions that would take a minority equity position. Private venture capitalists however, generally go for voting control, and the psychology of worker buy-outs is such that the buyer prefers debt financing. Most such buy-outs in fact, are financed by term lenders.

A typical deal would involve a loan for a major share of the purchase price, secured by all the company's fixed assets, land, buildings and equipment, with possibly an additional component of totally unsecured loan. This would be a highly leveraged buy-out. We don't take inventory and receivables as security, because these are needed to secure a line of credit at the bank, which is necessary for working capital, as I mentioned before. Occassionally, the vendor will participate in financing a buy-out, by taking back a note secured by fixed assets.

R.S.—*Some observers of employee owned firms have suggested that worker ownership is more successful in labour intensive firms, where employee effort and motivation may be more crucial. What do you see as important to successful worker ownership?*

K.K.—You can't have successful worker ownership without a successful business. The most successful worker buy-out is firstly, one where a viable business is bought. In my experience, these are most often cases of retiring owners and long-time employees. Occassionally, a large firm, or a conglomerate, will sell a viable division, but in most cases capitalists do not sell to employees if they can get a better deal elsewhere. Secondly, the most crucial thing for success, in the business sense, is competent management, and good financial controls. Survival these days depends on rapid corrective action. You must have monthly, not annual, financial statements, and budget to actual tracking.

Now, if we're talking manufacturing, rather than service business, 'labour intensive' is not a good bet for long term success. Technological and social change are now so rapid that, from the term lender's point of view, labour intensive manufacturing appears extremely risky. We are no longer lending to the garment and leather industries because of that. I can't think of any labour intensive manufacturing businesses that are going to be around too long, in a labour intensive form. Ten years down the line they are likely to be obsolete.

R.S.—*How would you assess the general disposition of Canadian workers to opt for buy-outs of the businesses they work for?*

K.K.—A minuscule proportion of these buy-out proposals is feasible. Most are motivated by an immediate threat to job security. Unfortunately, some proposals have been encouraged by superficial consulting reports and management initiatives which are really not in the best interests of the workers. In all instances where a busi-

CODSWALLOP

The robot cart will do half your work Smith, so you're promoted to filing specialist—half pay of course!

ness has been sold in the past, the number of employees opting for a buy-out appears to me to have been relatively small. However, recent experience suggests that attempts might become more frequent. Perhaps the depressed economy, the increased incidence of business failures, has convinced more workers they could hardly do worse than the owners who are selling out, that mismanagement is behind most sales. This is not necessarily so of course, but where it can be shown that the reason for a sale is largely unrelated to business viability, they may have a chance.

NEWS & NOTES

Newfoundland Conference Rescheduled

Officials of Newfoundland-Labrador Federation of Co-operatives (NLFC) and Newfoundland-Labrador Rural Development Council (NLRDC) will be meeting to set a date for the Worker-Producer Conference. The Conference, originally scheduled for Gander, November 11 to 13, 1983 was cancelled in light of the situation surrounding the Federal-Provincial Rural Development Agreement.

Tentative planning calls for the conference to be rescheduled for February or March 1984 and will most likely be held in Gander. A final date will be announced early in the new year. Anyone wishing further information or having information about Worker-Producer Co-ops that would be useful to the organizers, should contact the Newfoundland-Labrador Federation of Co-operatives, P.O. Box 13369, Stn. A, St. John's, Nfld. A1B 4B7; phone number: 709-726-9431.

New Co-op Act Recognizes Worker Co-ops

The Province of Saskatchewan has introduced a new Co-operative Act (Bill 49) that specifically recognizes "employment co-operatives". The act requires 75% of all employees to be members, and allows the patronage dividend to be distributed according to the labour contributed, but it does not permit worker co-operatives to operate stores, retail or wholesale.

Goodrich Sells to Employees

B.F. Goodrich Canada Inc. has agreed to sell its Engineered Products Group to a company of former management employees. The sale should prevent substantial layoffs, and it is for production employees. (*Toronto Star*, June 9/83, p.G6)

Union Workers Own The Store

Two "O&O" supermarket stores in Philadelphia are the first democratically structured, worker-owned, unionized food stores in the U.S.A. Closed last year by the A&P supermarket chain, the two stores were purchased and reopened by United Food and Commercial Workers (UFCW) locals #56 and #1357 as worker co-ops. Bargaining and development assistance was provided by the Philadelphia Association for Co-operative Enterprise (PACE), and the Industrial Co-operative Association (ICA) after 29 stores in the area were closed by A&P in March of 1982. The UFCW Credit Union also played a role in helping to finance the buy-out package. Importantly, part of the package included the reopening of over twenty other stores under a new A&P subsidiary called Superfresh. In these stores, UFCW has a special QWL program, an employee controlled profit-sharing and buy-out trust, and an exclusive 90-day option to purchase any store which may be slated to be closed in the future. (see The *ICA* January 1983 Report, Somerville, Mass., p.6 and "Workers Take Over the Store", *New York Times*, Sept. 11 1983)

Steelworkers Vote To Buy Mill

Steelworkers in Weirton, West Virginia, recently voted 89% in favour of buying their mill from National Steel, which would create the largest employee owned company in the U.S., with almost 7,000 employees. The actual closing awaits the outcome of suits charging violation of U.S. federal labour and pension laws.

Represented in negotiations by an independant, company union, workers will be taking a 20% pay cut, and agreeing not to strike or renegotiate compensation and stock distribution arrangements for six years. Three seats on the board of directors will be worker controlled, one will go to management, and six to investment banker appointees.

(*Globe and Mail*, Sept. 27/83, p.B24 and *In These Times*, Labour Round-up, Oct. 5-11/83, p.2)