

A Technology Freelancer's Guide To Starting a Worker Cooperative

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Credits

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Why create a worker co-op from a group of freelancers?

At first glance, forming a co-op of freelancers might seem like a contradiction in terms. After all, isn't the whole idea of being a freelancer to be independent, your own boss, a lone wolf wandering the range?

Many of us who have been employees, then freelancers, then worker-owners of a co-op have found the worker co-op model to offer the best of both worlds. You still get much of the self-determination of being your own boss—but you don't have to do it all alone. Here are some of the advantages that a freelancer may find in being a worker-owner of a co-op:

Someone to back you up

So much of the time, freelancing is feast-or-famine. During the crunch times, or just vacation time, you have teammates that also know the client and can step in for you—as a fellow worker-owner, they can garner the same authority and respect that you do.

Provide 24/7 coverage without taking years off of your life

Those of us in high-availability work that can have a call coming in any time of the day or night can share this burden. For those of us looking to start a family or go back to school, this can make a critical lifestyle difference. And since a co-op is democratic, everyone can be doing their fair share of the late-night duty, instead of just one or two lower-rung people getting stuck with it all of the time.

Leverage complementary skills

Over time, we all tend to become specialists—perhaps too much so. A shift in technology or industry can wipe out a niche carefully cultivated over many years. By being part of a team, we are engaged with co-workers with distinct but related strengths, and the natural cross-pollination of knowledge and ability enriches everyone. Unlike traditional companies, the shared-fate structure of a worker co-op incentivizes the sharing of skills between professionals who might otherwise see each other as competitors.

Economy of scale in overhead and administration, more options in facilities and support systems

Combining forces can lower overhead by aggregating buying power in office space, information systems,

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bookkeepers, accountants, attorneys, and other business necessities. Whatever else your co-op may become, it also represents a natural buying club. (Or a natural not-paying-for-things-after-all club—you may discover existing facilities or systems that can be shared, and your new co-workers may have skills in areas where you've been outsourcing.)

The ability to take on clients with greater needs

Have you ever had to pass up a job because they needed more than you could give? Or regretted taking on a big job because it turned out to be just a little beyond your abilities? As a member of a cooperative, you can consider a much wider range of opportunities, knowing that you're not facing it all on your own. At the same time, your work relationship with the co-op can be much more flexible and less all-or-nothing than a typical employment relationship; co-op agreements can vary widely to meet the needs of their members. For instance, a co-op could allow its members to keep doing their own solo gigs with their past clients (or maybe even new clients), while agreeing to look for larger gigs to share, and commit to sharing those.

A greater volume and diversity of work from which to choose, including more niches

A co-op of five people may do five times as much work, but the increased volume brings increased perspectives on the market and the clients. Simply gaining more exposure to more action will present higher-quality opportunities, with more brains to analyze and brainstorm about how to take advantage of them.

Professional camaraderie

Even the toughest situations become much easier to resolve when several brains, eyes, and perspectives are applied to them. Ongoing give-and-take and a sense of solidarity make tedious work less taxing and rewarding work more enjoyable.

More than the sum of its parts

The members of a team may increase arithmetically, but teamwork increases geometrically. With each new person comes more than one new interpersonal dynamic, more than one new opportunity for fresh ideas and new angles. And groups usually make better, more careful decisions than their members would have individually.

What exactly is a worker cooperative?

Before we launch into the nitty-gritty of starting a co-op, it's important to get some basic terms straight. In a business world where cooperative structures are still relatively rare, some of the concepts and structures can be unfamiliar and confusing. Let's clear that up!

A **cooperative** is a business owned and controlled by the people who use its services. Unlike a typical business, which returns profits to the owners based on how much the owners have invested in the business, a cooperative rewards its owners based on how much they use the cooperative. And unlike a business where owners have different amounts of power based on how much money they have invested, a cooperative is governed on a democratic basis, with one vote per person regardless of investment. (See the Seven Cooperative Principles at <http://www.ica.coop/coop/principles.html> for a detailed, more formal definition.)

There are three main kinds of cooperatives. You may be familiar with **producer cooperatives**—most are big rural agricultural co-ops like Organic Valley, Sunkist and Ocean Spray—in which independent producers join together to process or market or distribute their products collectively. The job of the co-op is to process or market or distribute its members' products, and any profit it makes in doing so is returned (as patronage refunds) to the producer members, in proportion to how much they used (“patronized”) the co-op. The producer members usually elect a Board of Directors which governs the co-op and hires the workers who operate it.

Or you may be thinking of **consumer cooperatives**—retailers like food co-ops or REI, or credit unions, or housing co-ops—where the members are the consumers of the goods or services provided by the co-op. The job of the co-op is to procure high-quality goods or services and sell them to the consumers at a low price. Profits are returned to the consumer members as patronage refunds (in proportion to how much they bought), and the consumer members elect a Board of Directors which governs the co-op for them.

But this guide is about **worker cooperatives**: businesses owned and controlled by the people who work in them. The worker-members own the business and return its profits to themselves based on how much they work for the co-op. They control the co-op, perhaps by electing a Board of Directors which makes policy and hires managers to organize their work. This hierarchical structure is common in medium and large worker co-ops, just like the other co-op sectors. But small worker co-ops are usually run collectively.

A **collective** is a group of people who make decisions by practicing direct democracy. Instead of using

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representative democracy in electing a Board of Directors to make decisions and policy for them, a collective simply meets and makes decisions directly. Collectives may make decisions by majority rule, or by consensus, or by some other method. They generally operate with very little hierarchy. While most collectives are not worker co-ops (because they do things other than operate a business, or they're not worker-owned), and many worker co-ops are not collectives (because they exercise their worker control through representatives and levels of hierarchy instead of directly), it is very common for small worker co-ops to also be collectives. **A cooperative is a form of ownership and governance. A collective is a form of management.**

Are worker cooperatives for-profit, nonprofit, or not-for-profit? These terms can have multiple meanings that cause great confusion, which is one reason we sometimes use the word “surplus” instead of “profit” in the worker co-op sector. It's certainly true that worker co-ops aim to operate healthy businesses, which means gaining revenue, paying all their expenses, and still having something left over (their surplus). But for-profit usually refers to an enterprise owned by one or more investors who employ other people to operate their business, the goal being to make a profit (for the owners) on their investment. If profit means this extra money a business is required to make to reward its investors (who don't work for the business), it's true that a co-op does not make profit, because it has no outside owners. On the other hand, nonprofit usually refers to an enterprise that aims to provide educational, charitable and other services and must reinvest any surplus in own operations to meet special state or federal requirements for tax-exemption and other benefits. It's rare for worker cooperatives to have completely charitable missions, and the requirement of worker ownership doesn't match up well against nonprofit organizations, which strictly speaking have no owners. Using these definitions, a worker cooperative is neither for-profit nor nonprofit. But it's easy to imagine a worker cooperative somewhere in the middle of these two categories: on one hand aiming to generate a surplus by operating a commercial enterprise; on the other hand returning that surplus to its worker-owners or re-investing it rather than delivering it to outside investor-owners. For this reason co-ops do sometimes describe themselves as not-for-profit.

Are worker cooperatives a special kind of legal entity? Again the terms have multiple meanings, which vary widely from state to state. The ingredients that you need to make a worker cooperative (worker ownership, democratic worker control, surplus distributed according to patronage, etc.) can be encoded into the governing documents of just about any traditional legal entity: a partnership, a Limited Liability Company (or Limited Liability Partnership), or a standard C corporation. You can even approximate (if not rigorously match) the requirements with a nonprofit organization or a sole proprietorship. However, some US states have statutes on the books—essentially a hybrid of partnership, for-profit corporation, and nonprofit corporation law—which describe a special kind of cooperative corporation specifically required to be structured according to some of these cooperative concepts, and which may get favorable tax treatment, the right to use the word “Cooperative” in their name, and other benefits as a result. Some worker co-ops choose to incorporate under these provisions

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of state law. Others don't.

So when someone asks “Are you a worker cooperative?”, they may mean “Is your business worker-owned and worker-controlled, following the cooperative principles?” or they may mean “Is your business incorporated under special state cooperative corporate law?”. Hey, they may even mean “Is your business a collective?”. Especially when you're starting a new business, it's important to make sure everyone at the table is talking about the same thing.

How do we create a tech worker cooperative?

First, some fantastic (and free) resources to help with your entire start-up process. We highly recommend you download them now:

In Good Company: A Guide to Cooperative Employee Ownership. Northcountry Cooperative Foundation, Minneapolis. 2006. <http://www.ncdf.coop/documents/worker_coop_toolbox.pdf>

Resources. United States Federation of Worker Cooperatives <<http://www.usworker.coop/resources>>

You may notice that the next several pages closely resemble an annotated bibliography. That's because we can't possibly cover the many important co-op start-up steps in this short guide; at least, not at the depth you need to make a strong and careful start with your business. Luckily, many other authors have done this work for us, so we'll outline the process and point you in their directions for many of the details.

1. Find cooperators

So you want to start a co-op. Great! Unfortunately, one person does not a co-op make. You're going to need to find partners—at least two, but preferably three to five or more to start. Maybe you have friends or peers (or competitors!) who you think you might want to work with. If not, it will have to be people you don't know yet: you might find them within the Freelancers Union, other local tech, freelance, or mission-driven social groups, or on email lists in your industry. Let people know you want to start a co-op, and see who appears!

2. Consolidate a clear vision

Get the group together, make your case about why you want to start a co-op, and then start listening—this is now a group project! Most likely, you'll all have different ideas about what the co-op should do, so what you create is likely to be somewhat different than your original vision. It will be important to stay flexible and open to new ideas. For example, reducing expenses by teaming up on shared needs may be very important to some, while having a diverse team to handle larger projects may be the primary motivation of others. Will you be a group of workers who all do roughly the same thing, or an integrated team of different specialties? How will labor be divided? What types of clients will you serve? Why? If the interests in the group are divergent, that's not necessarily a bad thing—you may have two (or more) co-ops that need to be started, not just one!

Before proceeding, you should develop a single written vision that inspires everyone in the group. You don't need to be incredibly specific at this point, but it is important that everyone understands generally what the co-op will do, and why it would be valuable to do it together rather than as freelancers. And it's important that

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everyone understands the basic concepts of democratic worker control (shared power, shared responsibility) and ownership (shared risk, shared reward).

3. Design your process

Soon, you're going to need to start making decisions. So before going any further, it's time to develop a decision-making process that works for your group. This process will be used as you create your co-op, and will probably evolve into the governance model you use after your co-op starts up. Two main questions need to be answered: (1) who will make decisions, and (2) how will they decide? Specifically, what decisions require group discussion and decision? What decisions can be delegated to individuals or smaller groups? Will the group make decisions by majority vote? By a super majority (like 75%)? Or will the group use modified or formal consensus? The process should be very clear, especially regarding quorums, tie votes, limits on time spent in debate, and other seemingly small details.

Direct democracy is the norm in smaller worker co-ops, but everyone in your group should really buy into it before you head down that road—it can work very well if people are serious about it, but it's guaranteed to get ugly if people aren't. A decision-making process is a lot more than just counting votes. You need to think about “inclusiveness, your commitment to the democratic process, the relationships between the people in the group, and all the parts of group deliberation: speaking rights and responsibilities (agenda setting, reformulation, informing, articulation, persuasion, voting, and dissent) and listening rights and responsibilities (comprehension and consideration)” [Gastil, p. 16]. Take time to develop ways to move forward in case of an impasse. Suggested reading:

McLeod, Andrew and Williams, Rachel Deciding how to Decide and Consensus Decision Making. Northwest Cooperative Development Center, Olympia, WA. 2008. <<http://www.nwcdc.coop/Resources/Resources.htm>>

Gastil, John Democracy In Small Groups: Participation, Decision Making & Communication. New Society Publishers, Gabriola Island, BC. 1993.

Kaner, Sam, et al. Facilitator's Guide to Participatory Decision-Making. New Society Publishers, Gabriola Island, BC. 1996.

4. Create a start-up plan that will get you up and running

Okay, you've got your people, your vision, and the basics of how you decide things together. Now it's time for your first team project: transform yourselves from a group of interested people to a full-fledged, functioning worker co-op!

Spend some time studying Steps 5 through 10 below, and flesh them out into a true start-up plan. Break them down into smaller tasks, estimate completion dates and time lines, match them up with people according to

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relevant skills and experience, and piece them out. This is where you get to test out (and tweak) the decision-making process you created in Step 3. A facilitator, coordinator, or chairperson may be essential here to nudge people along and diplomatically ensure that things get done and that the plan stays more or less on track. Affirm that everyone is learning as they go, together.

5. Analyze who you really are and what you can really do

You're a bunch of freelancers—you're already all about what you do, right? Well, sort of. Most of your members probably have skills and experience that they aren't "featuring"—maybe expertise they've even forgotten that they have. Your new co-op will require a lot of global thinking, and is much more likely to prosper if everyone can know what everyone is bringing to the table. Experience in areas such as marketing, proposal writing, bookkeeping, business administration, negotiation, meeting facilitation, training, tech support, board service, and even politics can be invaluable to the co-op.

Before you go much further, take some time to do some real digging. Consider an actual survey that goes beyond people's resumes and asks open-ended and probing questions. This process always brings pleasant surprises; everybody ends up newly impressed with the group and all of the capabilities represented. So it doesn't just clarify the resources available to the co-op, it's also good for group bonding. Also, ideas for new markets and new services often arise from this process, things that people may never have considered as independent operators.

6. Feasibility check: look before you leap

Everyone's confidence is probably pretty high at this point. As a group of independent professionals, you probably sense that you already have all of the knowledge that you need to succeed. When someone is starting a business from scratch, they usually prepare (or contract with someone to prepare) a market study and a feasibility study, to really flesh out and quantify their great idea. If there aren't enough customers or their expenses will always be much too high for their revenue, they want to know that as early as possible so they don't waste money and time on an idea that just won't work. In your case, you may be creating a business that looks a lot like the work already done by several individuals—now in aggregate—so you already have a pretty good sense that the co-op's business model will be feasible. But if you're adding new features to your business model, you'll need to think about how the numbers will work out. In either case, the check for feasibility (as informal or formal as you need) is an important moment in the development of your co-op.

So, it's time for the "look before you leap" step. It's not just about an appropriate sense of caution (aka "due diligence"); it's also about making sure that all of your members are aware of all of the opportunities that are out there for you. Another reason to do this is member education - you need to be sure that everyone is making the

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same assumptions about your new co-op's process and expectations. Conduct a SWOT analysis—itemize your Strengths, Weaknesses, Opportunities, and Threats (Step 5 will help you here), and brainstorm about how to mitigate the negatives and make the most of the positives. What will change? Will you need an office, extra equipment, bookkeeping assistance, etc.? Will you start out small in a living room and grow into an office? Or will you invest in a bunch of things up front?

Put together a subcommittee of the number-lovers in your group, spend some serious time with spreadsheets, and create a presentation for the whole group. Pay special attention to capitalization—although you may not need a huge investment from each member, the commitment that goes with capitalization is the heart of worker co-op success. Double-check your margin, expenses, tax liabilities, etc. Make conservative projections of your expenses and income. Create optimistic and pessimistic scenarios, and make sure everybody knows, and is committed to, the collective risks.

Your group already has substantial knowledge about the market, but consider some “outside the box” market research anyway. Many experienced co-op developers emphasize that a feasibility study should be done by a relatively objective, “arms-length” person to be considered trustworthy; consult the Democracy at Work Directory cited in Step 8 for contacts. Consulting with a full-time marketer in your field will at least confirm your assumptions, and may provide critical insight into industry trends and new markets. Some co-ops choose to outsource their entire marketing effort, so that worker-owners can focus on doing the production tasks that they love. At the very least your group should do a “marketing show-and-tell” meeting, in which everyone makes a presentation of market research they've done, so that the collaborative juices can flow in the direction of new and better clients.

The output of this process also provides key support to the development of your business plan in the next step.

7. Business Plan

If you've been thorough in all of the previous steps, this step largely consists of “putting it all together”. A business plan may not tell your founding members anything new, but the process of assembling it will alert you to any areas in which you need to do more preparation or group processing. It's also essential for new member induction—someone thinking about joining your co-op should want to see your business plan, and it should tell them much of what they need to know. Also, if you're considering a loan or line of credit, potential lenders are going to want to see it, and they're going to want it to be thorough. (So, again: if you're starting small and self-capitalizing, you may not need a very formal business plan. If you need to attract members or borrow start-up capital, you'll need to be much more formal.) It's important that your business plan clearly explain financial and other risks to participation so that your prospective members can make an informed decision before they invest their time, energy and capital.

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A traditional business plan usually contains: an executive summary, a company summary, an itemization of products and services, a marketing plan, a management summary, a financial plan, and any supporting documents. As a group of independent professionals, you may be able to write most of this off the top of your heads. (On the other hand, the extra credibility of a third-party assessment may be critical if you're looking for financing. If you're going to hire a professional later, focus your efforts on pulling together the basic concepts and info and leave the polishing to the pro.)

8. Organizational Plan

Finally, it's time to select and formalize the legal entity your co-op will use. Will your co-op be a partnership, an LLC, or a corporation? Does your state have a distinct cooperative corporation statute? You should research and discuss the important advantages and disadvantages of different structures. Some important issues: how the entity's legal liability can impact its owners; how the profits of the entity are taxed; how easy it is to form and operate the entity; and how easy it will be to add or subtract members in the future. Existing tech worker coops may also be able to share their experiences. If it's at all possible to find a cooperative-savvy attorney to shepherd you through these issues, avoiding serious trouble in the future is almost certainly worth buying a little of their time. (But beware of lawyers who don't understand co-ops. Some of them are utterly convinced of false information and can cause a lot of confusion.) Find a helpful attorney here:

Democracy at Work Directory United States Federation of Worker Cooperatives. 2008.
<http://www.usworker.coop/system/files/Democracy_at_Work_Directory_2008.pdf.zip>

Based on your choice of legal structure, create your fundamental chartering documents, governance and operating procedures. You may need a partnership agreement (general partnership), articles of organization and an operating agreement (LLC), or articles of incorporation and bylaws (corporation). Among other things, these should cover initial member capitalization, ownership, decision-making, profit distribution, succession, member exit, and dissolution procedures. This can be a tedious step, but a little forethought here goes a long way towards preventing very painful problems down the road. Some people have a knack for this kind of detailed verbiage—find those people in your group and empower them to shepherd this process. Again, an attorney can be very helpful here, or you can borrow and revise the organizational documents of existing worker co-ops, or you can develop the documents yourself with the help of books like this:

Baldwin, Van P. Legal Sourcebook for California Cooperatives: Start-up and Administration. Center for Cooperatives, Davis. 2004.

Mancuso, Anthony Form Your Own Limited Liability Company. Nolo Press, Berkeley. 2007

Mancuso, Anthony Incorporate Your Business: A Legal Guide to Forming a Corporation in Your State. Nolo Press, Berkeley. 2007

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Mancuso, Anthony LLC or Corporation? How to Choose the Right Form for Your Business. Nolo Press, Berkeley. 2006

Warner, Ralph and Clifford, Denis Form a Partnership: The Complete Legal Guide. Nolo Press, Berkeley. 2008

If you've developed your own documents, you should have an attorney at least review them before you proceed. You should also create an initial operating plan to describe the policies and procedures of your co-op as you imagine it working.

9. Incorporation and Start-up

First, before you collect a single dollar of revenue, work with a cooperative-savvy accountant to set up your co-op's bookkeeping. If you have a co-op member who loves numbers, they can serve as your bookkeeper; otherwise, you may need to outsource to a freelancer. In any case, get these systems set up early. Later, you'll be very glad you did.

Now, after all that planning, you're ready to begin the final steps that legally create your business: file any required organizational chartering documents with the state and wait for their approval; register with your state and federal governments to get Employer Identification Numbers; register your business with your city or locality. (Your state or city probably has small business start-up guides available to make sure you don't miss a step.) Collect initial capital contributions ("buy-in") from your initial members, and open a bank account into which to deposit them. Investigate and acquire business insurance (consider especially General Liability and Errors & Omissions insurance.)

If you are planning on borrowing start-up money, think about applying to worker co-op friendly sources:

Worker Ownership Fund <<http://ncdf.coop/WorkerOwnershipFund.html>>

Local Enterprise Assistance Fund <<http://www.leaffund.org/>>

Cooperative Fund of New England <<http://www.cooperativefund.org/>>

10. Operations

You're done! Oh, wait—you're just beginning. Start operating your business! Broadcast your new identity proudly to your clients, or advertise to find new customers. Be sure to make use of the co-op advantage in your marketing efforts; you may find that people are excited to work with you because they perceive you as democratic, personal, trustworthy, responsible, ethical, or many other possible things, most true!

It's likely that there will be plenty of things that only become clear once you start really working together: ways that your imagined structures don't quite work; situations you didn't plan for. No problem; just make sure to

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keep a clear record of your operational policies and procedures, and revise them as needed. Make sure your entire co-op meets regularly. Take detailed minutes of each meeting—the issues, decisions and action items—and record and store these notes carefully, as they constitute the legal record of your business decisions.

Make sure your workers stay informed about the co-op: its policies and procedures, financial status, etc. Most worker co-ops find continuing member education in meeting process, finances, business administration, marketing, and co-op culture to be very rewarding, strengthening the co-op and preventing problems. For support and solidarity, reach out to other worker co-ops in your area or your industry. If there's a local worker co-op federation in your area, join it! Join the United States Federation of Worker Cooperatives (USFWC)! Join the Network of American Tech Worker Cooperatives (NATWC)!

People to contact

**Still have questions? Want to get in touch with an experienced tech co-op worker?
Please feel free to contact us:**

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