

Worker Cooperative Definition

BACKGROUND

Worker cooperatives are values-driven businesses that put worker and community benefit at the core of their purpose. In contrast to traditional companies, worker members at worker cooperatives participate in the profits, oversight, and often management of the enterprise using democratic practices. The model has proven to be an effective tool for creating and maintaining sustainable, dignified jobs; generating wealth; improving the quality of life of workers; and promoting community and local economic development, particularly for people who lack access to business ownership or sustainable work options.

WORKER COOPERATIVE DEFINITION

The term “Worker Cooperative” means any enterprise that meets all of the following criteria:

- a. The enterprise is a business entity with one or more classes of membership
- b. All workers who are willing to accept the responsibilities of membership and who meet member eligibility criteria are eligible to become worker-owners
- c. A majority of allocated earnings and losses are allocated to worker-owners on the basis of patronage
- d. The class of worker-owners has a controlling ownership interest
- e. A majority of the Board of Directors or governing body is elected by the worker-owners on the basis of one-member-one-vote
- f. Decisions about return on capital investment are made by the worker-owner class or by the Board of Directors or governing body

TERMINOLOGY

1. A “worker” regularly contributes labor or personal services to the organization in return for financial compensation
2. A “worker-owner” is a member of the enterprise who qualifies as a “worker”
3. “Member eligibility criteria” may include minimum tenure, minimum hours worked per year, payment of a buy-in amount, being voted by in by current members, or other criteria that are not intended to limit membership to a select group or groups, and not based on gender, social, racial, political or religious discrimination. The eligibility criteria is provided in the governing documents of the organization.
4. “Patronage” as it applies to worker-owners is measured with reference to the value of labor contributed, where:
 - a. Value may include labor or personal services contributed, number of hours worked, amount of wages or other compensation earned, seniority, number of jobs created, or any other measure of value of labor contributed except capital investment; and
 - b. Measurement of patronage is provided in the governing documents of the organization
5. A “controlling interest” means, in the case of a corporation, more than 50% of the total combined voting power of all classes of stock of the corporation and, in the case of an entity taxed as a partnership, more than 50% of the beneficial ownership of the partnership, where “beneficial ownership” is ownership of tangible or intangible property by a person or entity that does not have legal title to the property but has ultimate control of the property in regard to the transfer of a controlling interest between that person or entity and a separate legal entity.

	'Worker Coop' Definition	Notes on implications
WC (a)	the organization is a business entity with one or more classes of membership;	This provision has two meaningful parts. First, it requires the organization to be a business entity, not a nonprofit, trade association, volunteer organization, or other organizational form. Second, it requires the entity to have at least one class of membership, while permitting the organization to have more than one class. This language creates the foundation for a controlling worker-membership class, while allowing for multi-stakeholder coops to be included in the definition.
WC (b)	all workers who are willing to accept the responsibilities of membership and who meet member eligibility criteria are eligible to become worker-members;	This provision requires that all workers who meet certain minimum requirements are eligible for membership. It has two meaningful parts. First, it encompasses the principles of open membership and nondiscrimination. Second, it provides a safeguard against structures that would limit membership to a select few (e.g. founders or executives). Note that the current language requires that workers who meet the minimum requirements be eligible for membership; they are not required to become members. The language also does not set a minimum percentage of workers that must be members or eligible for membership. For example, this provision could include language that says: "If the organization has been in operation for five years or more, a majority of workers must eligible for membership," or "At any given time, at least one-quarter of workers must be worker-members."
WC (c)	a majority of allocated earnings and losses are allocated to worker-members on the basis of patronage.	"Allocated" earnings are the portion of net income that is designated as surplus and allocated to members. This provision is based on the language of §1042 for Eligible Worker Owned Cooperatives, except that it (1) requires that the majority of allocated earnings go to worker-members specifically, not members generally, and (2) does not permit allocated earnings to be distributed on the basis of capital contribution. The language does not require that any earnings be allocated to worker-members (i.e. all earnings could be retained in a collective capital account if the worker-members choose), but specifies how earnings that are allocated should be allocated.
WC (d)	the class of worker-members has a controlling ownership interest;	This provision requires that ownership and control of the organization be in the hands of worker-members. The implications of the language offered to define "controlling interest" are included in section (5) below.
WC (e)	a majority of the board of directors or governing body is elected by the worker-members on the basis of one-member-one-vote;	Having a controlling interest in the organization does not automatically give members the right to vote for the board. For example, in some corporations, a majority of board members are appointed by an executive. This provision specifically requires that worker-members elect a majority of the board of directors on a one-worker-one-vote basis, consistent with cooperative principles. Under this provision, cooperatives could still choose – as some currently do – to have a board that includes all members of the cooperative.
WC (f)	decisions about return on capital investment are made by the worker-member class or by the board of directors;	Worker cooperatives are currently using a variety of equity structures. Any prescriptive language about the relationship between a co-op and its investors would likely exclude authentic worker cooperatives from the definition. On the other hand, it is important to have language that prevents capital interests from extracting value from the cooperative and its members. This provision attempts to strike that balance by requiring that all decisions about return on capital are made by the worker member class, or the board, the majority of which was elected by worker members.

	Terminology	Notes on implications
1	A “worker” is actively contributing labor or personal services to the organization in return for compensation	This provision provides a definition of worker that is broad enough to include non-traditional employment relationships such as independent contractors. On the other hand, it excludes certain groups by requiring (1) that the worker be paid, which excludes individuals in a volunteer relationship with the organization and (2) that the worker be actively contributing labor or personal services, which excludes former employees. There may need to be some further clarification on this definition to ensure that seasonal workers can remain members during the off-season, etc.
2	A “worker-member” is a member of the organization who qualifies as a worker under (3)	This provision simply defines worker-member as a worker who is also a member, as this term is used throughout the Definition. It does not speak to the requirements or process for membership; these are unique to each cooperative and will be in the cooperative’s bylaws.
3	“Member eligibility criteria” may include minimum tenure, minimum hours worked per year, payment of a buy-in amount, or other criteria that are not intended to limit membership to a select group or groups, and not based on gender/sex, social, racial, political or religious discrimination*. Eligibility criteria is provided in the governing documents of the organization.	This provision provides a definition of “member eligibility criteria” and requires that the criteria be included in the organization’s bylaws or operating agreement. The definition provides common examples of “eligibility criteria” while setting the following limits: (1) the criteria cannot have the purpose of limiting eligibility to a select few, such as founders or executives, and (2) the eligibility criteria cannot be discriminatory.
4	“Patronage” as it applies to worker-members is measured with reference to the value of labor contributed, where:	This section provides a definition for patronage, but only as it applies to the patronage of worker-members. This allows patronage for other member classes to be defined as needed, while providing guidelines for allocations to worker-members—who receive the majority of allocated earnings—that are in line with cooperative principles.
4(a)	Value may include labor or personal services contributed, number of hours worked, amount of wages or other compensation earned, number of jobs created, or any other measure of value of labor contributed except capital investment; and	This provision provides a broader definition of “value of labor contributed,” than just hours worked or other typical measures used. This broader definition addresses an inflexibility in some current statutes, which do not allow worker cooperatives to build in rewards for founding members or other members whose contribution to the organization is not reflected by hours worked. It does, however, restrict the definition to exclude capital investment in the organization in order to ensure that worker-members are allocated earnings based on their labor and the results of that labor, not capital contribution.
4(b)	Measurement of patronage is provided in the governing documents of the organization	This provision requires that the definition of patronage is included in the organization’s bylaws or operating agreement to ensure that it is transparent and complies with the requirements of the statute.
5	“Controlling interest” means, in the case of a corporation, more than 50% of the total combined voting power of all classes of stock of the corporation and, in the case of an entity taxed as a partnership, more than 50% of the beneficial ownership of the partnership, where “beneficial ownership” is ownership of tangible or intangible property by a person or entity that does not have legal title to the property but has ultimate control of the property in regard to the transfer of a controlling interest between that person or entity and a separate legal entity.”	This provision defines “controlling interest,” which sets the minimum requirements for worker-members to be deemed to own and control the business under the statute. The language used here mirrors other statutes unrelated to worker cooperatives, and applies to both corporations and partnership entities. This definition of controlling interest requires that the worker-member class, if they all vote the same way, has the voting power to control how any shareholder decision (or partner decision in the case of a partnership entity) for the organization is made. It does not, however, restrict other member classes from having veto power over certain decisions, or require that the worker-member class actually makes all of the shareholder/partner decisions.

This definition is silent on the following topics:

- Number of worker-owners at a minimum to constitute a worker cooperative
- Required ratio of worker-members to employees at a worker cooperative
- Wage ratio between highest and lowest paid workers at the cooperatives
- Limits on outside investment, beyond the member controlled specification
- How the remaining board members are selected or elected for multi-stakeholder cooperatives (majority elected by worker-members), see 1(d)
- Best practices, including Indivisible Reserves and Demutualization clauses