

Co-Ops and ESOPs Offer Strengths and Challenges



By Diane Mastrull
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When James G. Steiker first got involved with worker cooperatives, it was 1984 and he was a law student serving an internship at the Philadelphia Association for Cooperative Enterprise, where he became in-house counsel a year later.

Better known as Pace of Philadelphia Inc., the nonprofit was promoting employee ownership, particularly worker cooperatives, because they give employees decision-making power, not just a financial share of the business.

Founded in the 1970s, Pace's most notable achievement was the development of a network of worker cooperative supermarkets under the name O&O. They were a response to A&P's closing a number of stores in the area, Steiker said.

"The good news was, some of the [O&O] stores survived for a decent while and jobs were saved," Steiker said. "But developments in the industry overtook these stores. The days of independent grocery stores sort of died."

Pace would wind down in 1987, to be followed by a for-profit firm created by Steiker and others, as well as a law firm - now Steiker, Fischer, Edwards & Greenapple P.C. in Manayunk. Both would promote employee ownership, with a primary focus on employee stock-ownership plans.

"The ESOP structure had a degree of flexibility and tax advantages and attractiveness to existing businesses that made it easier" to implement, Steiker said.



Worker cooperatives were more a strategy for developing companies, with ESOPs being for existing businesses looking to convert to a broader ownership form, he said.

ESOPs have become the dominant example of worker ownership in the United States, involving more than 13 million people employed by more than 11,000 companies, according to the National Center for Employee Ownership, a research nonprofit in Oakland, Calif., on whose board Steiker serves.

Of the estimated 500 worker-owned cooperatives nationwide, only a few exist in Philadelphia, including Greensaw Design & Build, a small Northern Liberties construction company with a sustainability mission.

Steiker advised Greensaw as it went through its conversion to a worker co-op last month. Though admirable from a democratic-workplace perspective, worker cooperatives should not be entered into lightly, Steiker cautioned.

Among the issues he said need to be carefully considered:

How much should employees be required to invest?

Must they have a certain amount of assets?

How long should workers be employed by the company before qualifying for ownership?

"There's really no single right answer," Steiker said.

There are definitely negatives, he added:

"First of all, you're not going down a really defined path, so you'll have to find really specialized resources to help you."

That involves time and money - "a big thing for small businesses," he said.

It also requires educating the workforce about what being a business owner really means. Entrepreneurs considering a worker-cooperative structure for their business "may need to change their expectations of what their reward will be," Steiker said. "You can probably get more money growing and selling [the business] than you may get by converting it to a cooperative."

Judy Wicks, former owner of the White Dog Cafe in West Philadelphia and a leader in the city's sustainable business movement, was among those in attendance as Greensaw celebrated its switch to a worker cooperative last month.

For her own business purposes, she found such an ownership structure an unsuitable option when she sold White Dog in January 2009 to restaurateur Marty Grims.

After running White Dog for 26 years, she said last week, "I found I hadn't cultivated [among the employees] the leadership necessary to take my place."

She attributed that to the nature of her industry - largely populated by workers who are not viewing the job as a career.

"The only way to make a worker cooperative or ESOP work is if you have employees who stay for 20 years," Wicks said.

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