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**Elements and Influences:
Major Features of the TeamWorks System**

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One of the TeamWorks Cooperative Network's central purposes is to create opportunities for people to overcome poverty and improve their lives. But we also hope that our experimentation will contribute to a broader movement that is creating genuinely sustainable organizational vehicles for overcoming the world's most vexing social and environmental problems.

There are five ideas that we think make TeamWorks' approach distinctive. We did not invent any of these; they came out of the pioneering work of individuals and organizations around the world. What we are doing is integrating these elements in a unique way that we hope is beneficial to our members and contributes experience to the broader field. These five distinguishing features are:

- 1. Social business orientation to the marketplace.** Social businesses sustain themselves in the market but do not make money for investors. Their sole purpose is to advance a social mission. Social businesses are not the same as socially-responsible businesses, nor are they social enterprises (businesses run by non-profit organizations). Rather, social business reflects a different way of working within the market to advance social purposes, one that stretches beyond the familiar categories of "non-profit" and "business".

Nobel Peace Prize winner Muhammad Yunus has led the development of this concept and definition of social business. We recommend Yunus' most recent book *Creating a World Without Poverty: Social Business and the Future of Capitalism* (see particularly Chapter 2 "Social Business: What it Is and What It Is Not").

In TeamWorks' case, the social purpose is for low-income workers to overcome poverty and for its entire workforce (including professionals in training and managerial roles) to create meaningful work that supports ongoing learning and personal development. The concept of social business overlaps substantially with the longstanding tradition of worker-owned cooperatives from which we also draw much of our inspiration.

- 2. Internal financial structure designed for scale and sustainability.** Many cooperatives pay out all of their earnings to cooperative members and do not have a financial/legal structure that creates an "automatic savings plan" for the cooperative itself. Without such resources, cooperatives are unable to self-finance their own growth and development. The Mondragon cooperatives in Spain overcame this problem by developing a financial structure that balances the interests of individual members with the need to have common resources that can be invested for long-term growth. Half of profits go into members' individual capital accounts within the cooperative, providing a vehicle for them to develop long-term financial assets; the other half is allocated to a shared permanent capital account

that is never distributed to members. We believe this structure is one of the primary reasons the Mondragon network has been so successful in meeting its social goal of creating employment in the Basque region (it has over 66,000 worker-owners and \$15 billion in annual sales).

TeamWorks has adapted the internal financial structure of Mondragon to the U.S. legal and business environment with the help of extensive *pro bono* legal counsel from the firm Bingham McCutchen LLP. TeamWorks' system is described in a separate paper, *A Layperson's Guide to the TeamWorks Cooperative Network's Financial and Legal Structures*, which is available on our website www.teamworks.coop for free download.

3. **Franchise-like system.** Many cooperatives are relatively small, and, because of their democratic values, tend to take pride in their independence. There are great strengths in these characteristics. However, we believe that the cooperative and social business movements could benefit many more people if local ventures belonged to something analogous to a franchise system. This kind of structure provides its member cooperatives with a tested industry-specific system, including a proven market strategy, training program, and shared administrative infrastructure. TeamWorks has created precisely this kind of structure for its member cooperatives.
4. **Financing mechanism for launching new social businesses and cooperatives.** A working paper published by Oxford University's Said Business School, *Nothing Ventured, Nothing Gained: Addressing the Critical Gaps in Risk-Taking Capital for Social Enterprise*, describes the "paradox of the nonprofit funding sector: it's often easier to find a grant that will deliver US\$0.85-0.90 of value (after overhead and programme costs, assuming a very lean operation) than it is to get a grant that will deliver US\$7 per dollar invested."¹

The philanthropic model creates dependence on ongoing fundraising to continue operations, a reality that is frustrating to many funders and grantees alike. More sustainable approaches to social and environmental issues lie beyond the experience and legal structures of foundations and nonprofits. Meanwhile, many community loan funds and community development banks are genuinely interested in financing the development of social businesses and cooperatives that are exploring ways to make social and environmental work more financially sustainable and scalable, but these institutions are not structured to manage the risk associated with making equity investments in new ventures.

To experiment with ways of bridging this gap, TeamWorks has created the TeamWorks Capital Fund in partnership with Opportunity Fund (formerly Lenders for Community Development). Foundations and individuals make grants and donations into the Fund which then makes loans on "equity-like" terms to launch new TeamWorks cooperatives. Repayment is tied to financial performance benchmarks to insure that the new cooperative can support the loan. As cooperatives make repayment to the Fund, the resources can be reused to finance the launch of new TeamWorks cooperatives. The social impact of grants made into the Fund has the potential to be leveraged many times as the funds are re-circulated, helping many groups of low-income workers improve their lives and reach self-sufficiency as they build their cooperatives. The TeamWorks Capital Fund recently

¹ *Nothing Ventured, Nothing Gained*, page 7. Copies of this paper are available at www.sbs.ox.ac.uk/skoll/research under the heading "short papers."

made its first investment in a new cooperative, financing much of the start-up costs for TeamWorks Peninsula.

New TeamWorks cooperatives can also receive Program Related Investments (PRIs) directly from foundations, as the Seattle-based Massena Foundation recently did (to TeamWorks Peninsula as well).

- 5. A democratic approach to management, training, and development.** There is a common perception that democratic governance and participatory management systems are inherently unworkable, at least for blue collar workers who have little formal education. At TeamWorks, we have a different view. We believe that with the right combination of intensive training and very clear delineation of authority and responsibilities, cooperative management can not only succeed it can actually be *more effective than traditional management systems*.

The reason is that good cooperative management aligns with and mobilizes basic human desires to belong, to be recognized, to learn and solve problems, and to improve one's situation. Mainstream contemporary management theory, at least for knowledge workers and managers, is increasingly recognizing these realities and is attempting to apply them.

These ideas are supported by the reality of businesses that are successfully applying democratic management principles. Semco, a Brazilian company with thousands of employees, is an inspiring case study. Its profits grew dramatically during the decades that it engaged in a process of gradually turning most traditional management assumptions upside down and replaced them with democratic practices. It has been dubbed by some observers "the world's most unusual workplace" because workers at every level set their own hours, solve major problems, and initiate new projects with very little direction or control from a central bureaucracy.

Developing an organizational culture that supports this kind of participation takes patient, persistent work. It runs counter to assumptions and behaviors that people bring from traditional schools and businesses. To support this process, TeamWorks has a highly structured yet self-paced training system that breaks down personal and professional development into tangible steps and provides supportive coaching that guides the process as individual participants set goals and learn a series of new skills.

Formal training is complemented by the tangible experiences that Members have in both day-to-day work in teams and also serving in their governance role as owners of their cooperative. Many members have commented that when they first started working in TeamWorks, they didn't really understand what a cooperative is or believe that their participation would matter. But after six months or so, they cannot imagine leaving and working in a traditionally structured business because they find the TeamWorks community to be very supportive and the journey of ongoing learning and development to be compelling.

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TeamWorks welcomes comments and questions about its approach and is developing relationships with foundations and individuals interested in supporting a major expansion during the 2009-2010 period.