Prepared for the Babson-Equal Exchange Cooperative Curriculum
John R. Whitman, Ph.D., jwhitman@babson.edu
Posted 6 March 2011

The Worker Cooperative Life Cycle, by John R. Whitman

Learning objectives

1. To recognize different motivations in starting different types of cooperatives.

2. To learn the stages of the cooperative life cycle and possible conflicts that can be faced and possibly avoided at each stage.

While every cooperative is different, most face a similar series of start-up steps and common challenges that correspond to successive stages of development as the cooperative moves through its life cycle. According to Cook and Burress (2009), the cooperative life cycle consists of five phases: 1) economic justification; 2) organizational design; 3) growth, glory, and heterogeneity; 4) recognition and introspection; and 5) choice. Cook and Burress based their life cycle framework on agricultural cooperatives. Can their framework also apply to other types of cooperatives, such as worker cooperatives? While this question requires further research, a preliminary analysis of the early life cycle of Equal Exchange, a fair trade worker cooperative, suggests that the Cook and Burress model generally applies to this type of cooperative as well, but with some important differences. Let's examine the Equal Exchange experience, as recounted by two of its three co-founders. These co-founders had left the cooperative by 2000 and thus their reflections do not include the evolution of the organization over the past decade. Nevertheless, we will examine how the life cycle framework applies in the early years based on their recollections, and later on publicly available information on the cooperative. (Note that the personal tone of some of the excerpts from interviews should not detract from the important substance of the issues being addressed.)

Prepared for the Babson-Equal Exchange Cooperative Curriculum
John R. Whitman, Ph.D., jwhitman@babson.edu
Posted 6 March 2011

The Early Life Cycle of Equal Exchange

> We wrote a business plan to be a mail-order food company. We circulated it to a group of advisers and they all said, you guys are out of your minds. You don't have any money, you don't have any international trade experience, you don't know anything about international currency, you've never worked in marketing outside of the local Northeast region, you don't know very much about coffee, which is gonna be your main starting product, you know nothing about these other products you might import. What *do* you know about?
>
> Jonathan Rosenthal, co-founder of Equal Exchange, 18 July 2010

Introduction

Since its founding on Mayday 1986, Equal Exchange, a fair trade cooperative, has proven to date to be a viable, growing, and influential worker cooperative, with 90 members in 2009, sales of $35.8 million, up 4% over the previous year, and net income (after charitable contributions and worker-owner patronage distributions) before taxes of $1.37 million, nearly a 4% profit margin (see Exhibit 1 for financial data). Why and how did the founders start this cooperative? And has it evolved in discernible stages or phases over the past 24 years (see Exhibit 2 for historical highlights)? This chapter provides provisional answers to these two, key research questions based on interviews with the two of the three co-founders,[1] observations of the company during a public tour, conversations with several member-owners,[2] and an examination of the company's annual reports and other documents. The analysis of why and how the cooperative was

[1] Interviews were conducted by the author in person with Jonathan Rosenthal, 18 July 2010, 110 minutes, and by telephone with Michael Rozyne, 27 August 2010, 12 minutes. The third founder, Rink Dickinson, as well as his co-director, Rob Everts, were also interviewed, but both subsequently declined to participate in this study. Therefore, nothing in this chapter is based on their interview data; however, relevant material from public sources has been used.
[2] Various conversations during the case research period with Jessie Myszka, Directora of Distribution, Rodney North, Answer Man and Chair of the Board, and Daniel Fireside, Capital Coordinator, helped to clarify the bylaws, operations and financing of the cooperative, respectively.

founded was guided by a Model of Entrepreneurial Motivation (see Exhibit 3) proposed by the author, and the analysis of the phases of development was based on a framework of the cooperative life cycle drawn from the experience of agricultural cooperatives, developed by Cook and Burress (2009). This chapter was developed following Maxwell's guidelines for qualitative research design (Maxwell, 2005). The chapter itself is a pattern matching explanatory study (Yin, 2009, p. 136), in which empirical data is matched to predictions based on the Model of Entrepreneurial Motivation and the Cooperative Life Cycle Framework (Cook & Burress, 2009).

This study appears to confirm that cooperative entrepreneurs, like social entrepreneurs, can be motivated to action based on dissatisfaction with the status quo, however, the motivating values among the founders of Equal Exchange stem more from social and political rather than economic dissonance. With the exception of Phase One (see Table 1 for the Life Cycle Phases), the phases of cooperative development appear to correspond superficially to the Cook and Burress life cycle framework up to the phase that describes the cooperative's current status.

Table 1: Life Cycle Phases

Phase	Years	Cook and Burress	Equal Exchange	Sales	Members
1: Economic justification	**1983-1986**	**"... recognition, understanding, translation, transference and manifestation of patron enjoined collaborative action to ameliorate the socio-economic consequences of**	**Jonathan and Michael explore a collective need to better serve the needs and interests of producers through a cooperative form of worker organization**	**$0**	**0 to 3**

		the market contracting costs or collective rent seeking opportunities."	**based on principles of social justice.**		
2: Organizational design	**1986-1990**	**"The process of constructing the cooperative constitution tests [the] scope and degree of member heterogeneity through formulation of policies and rules affecting principal-agent relationships, collective decision making processes, and risk bearing responsibilities."**	**Consideration of alternative forms of organization—nonprofit, for-profit, cooperative—results in a cooperative fair trade organization, but issues of power, authority, and equitable reward for risk taking and innovation are not anticipated and only identified in retrospect.**	**$0 to 1 million**	**3**
3: Growth-glory-heterogeneity	**1990-1999**	**With growth, member heterogeneity may contribute to "stimulate the development of creative problem-solving and unique proposals," or it may lead to creating ownership costs that can "result in debilitating effects on the organization."**	**The "growth and glory" phase is influenced by chance factors, opportunistic response to political events, a combination of market-driven strong management and building ideological solidarity with suppliers, as well as introducing strategic business**	**$1 to 6 million**	**3 or 4 (best estimate) to 9 (1994) to 90 (1999)**

			planning. Issues of heterogeneity begin to arise.		
4: Recognition and introspection	**1994-1999**	**"As the once healthy consequences of member heterogeneity diminish and shift to inspiring fragmented coalitions the cooperative purpose and direction become less focused and ill defined thus accelerating a self-reinforcing degenerative spiral."**	**Tensions rise amongst the founders and between the founders and the board. Differences in management style and ability emerge. Two of the three co-founders depart, one willingly, the other forced out.**	**$2 to 6 million**	**9 to 90**
5: Choice	**2000 to present**	**"By the end of phase four, the member patron is being asked to inform a decision – a decision that affects organizational survival. If the full range of options is available, the member will choose from the following: to tinker, reinvent, spawn, or exit."**	**Following the departure of two co-founders, the remaining founder, Rink Dickinson assumes leadership with a co-director, Rob Everts. According to public sources, the cooperative experiences a decade of steady growth. Based on how the co-directors choose to "tinker, reinvent, or spawn," a new life cycle may**	**$7 to 24+ million**	**90+**

begin.

While Cook and Burress emphasize the economic justification for inspiring the formation of a cooperative, the founders of Equal Exchange speak to a combination of more ideological and less economic sources of inspiration. Similarly, while the other life cycle phases described by Cook and Burress are also based primarily on economic considerations that affect the behavior of cooperative members, the evidence here suggests that other, non-economic values might inform a modification to the framework proposed by Cook and Burress, a prospect further discussed below. Moreover, the two founders offer different interpretations of the salience of events that describe the transitions from one phase to the next. Additionally, while the Cook and Burress framework treats the cooperative as the unit of analysis, some of the characteristics of their phases of development may, as well, apply to the development of individual members in a cooperative, with specific reference to the founders.

This chapter attempts to provide both theoretical and practical value to scholars and students of cooperatives as well as to practicing cooperators who may benefit from the descriptive story told herein and the explanatory analysis of why and how a cooperative is created, how it evolves through distinct stages of development, and how social values other than economic values can motivate behavior, particularly that of the founders.

The chapter begins with a brief overview of the prevailing political and economic situation in the mid-1980s, followed by an examination of what is a cooperative. The chapter then reviews a framework of the life cycle of cooperatives and examines on a phase-by-phase basis how the history of Equal Exchange fits within this framework. The chapter next considers the suitability of using the Cook and Burress framework to map the life cycle of non-agricultural cooperatives, and finally closes with a vision for the future promulgated by Equal Exchange.

Anticipating a movement

In the mid-1980s the planet was a different place politically, economically, socially, and environmentally. Ronald Reagan was president of the United States, and like Margaret Thatcher, his political and ideological counterpart in the United Kingdom, he was working hard to reduce the size of government and dismantle components of the welfare state—the legacy of Franklin Delano Roosevelt's progressive policies to attenuate the disparities between rich and poor by creating a large middle class. Thus the Reagan administration attended to promoting business interests, the capitalist free market, and individual initiative and responsibility as the best solutions for managing social problems. Reagan likened the presumed relief of the country following a period of high inflation in the preceding Carter administration as "Morning in America" optimism, he pursued a militarist policy some would call imperialist in the Caribbean and elsewhere, and many would later give him credit for the sudden implosion of what he called "The Evil Empire"—the Soviet Union, the nemesis of the United States throughout the Cold War era.

During the eighties large corporate agri-businesses were buying out struggling family farms in a process of farm industrialization that created giant agricultural corporations. According to Woody Tasch, founder of the Slow Money movement, "In 1950 there were 25 million U.S. farmers; today, there are 2 million; 163,000 'mega-farms' produce 60 percent of the nation's food" (Tasch, 2008, p. 17). This transformational process had been advanced by the policies of Earl Butz as Secretary of Agriculture in the Nixon Administration,[3] who exhorted farmers to "get big or get out." Industrial commodity crops, led by corn, were to be planted from "fence row to fence row," and corn and corn derivatives, notably high fructose corn syrup, continue to permeate American food products. While the controversial nutritional consequences of corn agriculture and corn-derived fructose on the nation would later be featured in the documentary King Corn, a public yearning for organic and locally produced crops was growing into a movement that patronized specialty and small-scale organic food stores.

During this era, Rink Dickinson, Jonathan Rosenthal, and Michael Rozyne were coming of age at a food distributor called Northeast Cooperatives based in Somerville, Massachusetts. As a purchasing cooperative, Northeast was owned by the businesses purchasing its wholesale goods, in this case food cooperative retailers, independent grocers, and buying clubs that purchased their food from the Northeast food distributor.[4]

After meeting together on weekends for three years, Rink, Jonathan, and Michael founded Equal Exchange in 1986 with $100,000 from family, friends, and wealthy individuals—previously unknown to the founders—who provided fully half of the raised amount (Michael). Their goal, according to the Equal Exchange web site,[5] was to create an enterprise that would be:

- A social change organization that would help farmers and their families gain more control over their economic futures;

---

[3] For phrases attributed to Butz, see http://en.wikipedia.org/wiki/Earl_Butz, cited 6 September 2010.
[4] The National Cooperative Business Association classifies cooperatives as Worker, Producer, Purchasing, or Consumer cooperatives. In this case, the consumers are businesses, and thus are classified as Purchasing cooperatives. See http://www.ncba.coop/ncba/about-co-ops/co-op-types, cited 28 August 2010.
[5] See http://www.equalexchange.coop/, cited 28 August 2010.

- A group that would educate consumers about trade issues affecting farmers;
- A provider of high-quality foods that would nourish the body and the soul;
- A company that would be controlled by the people who did the actual work; and
- A community of dedicated individuals who believed that honesty, respect, and mutual benefit are integral to any worthwhile endeavor.

What is a cooperative?

A cooperative is, generally speaking, a group of individuals who voluntary and democratically work together to pursue common goals and interests that benefit them as members. According to an historical account, the formally assembled cooperative as an economic organization may have originated in France in the 1750s, when cheese makers in Franche-Comté created a producer cooperative (Shaffer, 1999, p. 1). Since that time, cooperatives have emerged in nearly 200 countries worldwide. While each jurisdiction may have its own formal definition of a cooperative for legal purposes, the International Cooperative Alliance, established in 1895, promulgates a specific definition and set of principles to be followed by cooperatives: “A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.”

The ICA’s statement of values reads, “Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.” Cooperatives that follow the ICA model operate according to seven principles, originally formulated by Charles Howarth

(1818-1868) and known as the Rochdale Principles of Cooperation: 1) Voluntary and open membership; 2) Democratic member control; 3) Member economic participation; 4) Autonomy and independence; 5) Education, training, and information; 6) Co-operation among cooperatives; and 7) Concern for community. (See the ICA web site for further information: http://www.ica.coop/al-ica/.)

Cooperatives have historically been particularly successful in certain regions, including the Basque region of Spain (Whyte & Whyte, 1991/1988), Emilia-Romagna in the north of Italy (Logue, 2005; Putnam, 1993), and the Canadian provinces of Quebec (Juarez Adeler, 2009) and Nova Scotia (Wilkinson & Quarter, 1996). Although not well known outside of agricultural regions in the United States—even credit unions are not widely known to be cooperatives—one study reports nearly 30,000 cooperatives in operation in the country (Deller, Hoyt, Hueth, & Sundaram-Stukel, 2009).

In the United States, cooperatives that qualify may be established as nonprofit, tax-exempt organizations (501-c); otherwise they are typically treated as Subchapter C corporations, fully responsible for paying taxes at the state and federal levels. Indeed, most cooperatives are established to earn a profit. Under the United States Internal Revenue Code, a qualifying cooperative, once incorporated at the state level, may be designated a Subchapter T corporation and thus be exempted from double state and federal taxation. In a Subchapter C corporation, profits are taxed twice: first as profits to the company, and then, if distributed to shareholders as a dividend, taxed again at the individual level. In a T corporation, profits that are distributed to members as a patronage refund in the year earned are taxed only at the individual level (following distribution), and are thus not taxed at the cooperative level. The criteria for qualification as a T corporation are: 1) that the company is owned by those who use its services; 2) that these owners control the company; and 3) that the owners determine how the distribution of any surplus should be allocated (and, in the case of rebates allocated with member consent, at least 20% must be distributed to members in cash in order to provide liquidity to pay taxes, with no more than 80% retained as equity to be redeemed later). No reference is made to any of the ICA principles noted above. It is not unusual for a cooperative to hire professional managers who themselves are not members of the cooperative, but who serve as employees of the members.

The United Nations International Labor Organization, which brings together governments, employers, and workers (the ILO refers to this arrangement as a tripartite organization), promotes cooperatives as a means to reduce poverty, and notes that cooperatives today provide over 100 million jobs worldwide (Birchall, 2003). The cooperative model of building economic and social value has been celebrated by the United Nations by proclaiming 2012 as the International Year of Cooperatives.

The cooperative life cycle

Cooperatives, like any form of organization, have an apparent life cycle that exhibits several distinct stages, or phases. Drawing from the experience of agricultural cooperatives in the United States, Cook and Burress (2009) describe a cooperative life cycle framework consisting of five phases: Economic Justification, Organizational Design, Growth-Glory-Heterogeneity, Recognition and Introspection, and finally, Choice. In their review of the literature on organizational life cycle research, Cook and Burress report, “Opinions vary as to the optimal number of stages within an organization life cycle (varies from 3 to 10), but consensus exists that the stages are 1) sequential in nature, 2) occur as a hierarchical progression, and 3) become increasingly complex over time. In general, organizational life cycle models predict an organization moves from inception to growth, to maturity, to decline or redevelopment" (p. 2). In their own framework, Cook and Burress depart from the simplistic "beginning-success-end" life cycle models by considering the "intra-organizational dynamics" that promise to reveal managerial "actions cooperative leadership may take to avoid checkmate" in what otherwise might degenerate into an end state for the cooperative (p. 3). Cook and Burress (2009) provide a review of the literature on cooperative life cycles, and the only known application of their framework elsewhere has been in reference to dairy cooperatives in Brazil (Chaddad, 2007). Here the history of Equal Exchange will be considered in reference to each of their five phases. A subsequence discussion section will examine how this framework might be revised to apply to non-agricultural cooperatives like Equal Exchange. Future research on other types of cooperatives may further advance a more integrated life cycle framework.

Phase 1. Economic justification (1983-1986)

> I think the first phase would be a pre-incorporation phase, a very slow and deliberate and thoughtful creating-it-as-a-startup phase, and one of the greatest benefits that the three of us had, we were working together every day and were all single at the time. We had partners, some of us, but at the time of your life when we didn't have family responsibility. We were able to meet four hours once a week or more at night and take a very slow and steady approach to what the hell are we doing here and what do we really want to do and where do we agree. That was a really fortunate thing that we did really well.
>
> Michael Rozyne, 27 August 2010

According to Cook and Burress (2009), "Phase one includes the recognition, understanding, translation, transference and manifestation of patron enjoined collaborative action to ameliorate the socio-economic consequences of the market contracting costs or collective rent seeking opportunities" (p. 4). "Cooperative history," they note, "is filled with stories, case studies, survey results, legal documents and verdicts, theoretical explanations and thought pieces relating the origins of collaborative efforts inspired by the above mentioned forms of market failure" (p. 4).

Indeed, this financially driven and market-failure assessment may pertain with reference to producer cooperatives, the typical form of agricultural cooperatives. For example, prior to cooperation, farmers tended to compete with each other to sell their produce. The economic benefit of cooperation becomes apparent when farmers agree to pool their produce into a larger aggregate and command a higher price than any would have received through competition. A similar leveraging effect can be achieved by collectively purchasing supplies at lower prices. The effect is even more pronounced when virtually all such producers of a specific crop organize to constitute a virtual monopoly of supply. This monopoly-like position has largely been achieved by, for example, Ocean Spray, a cooperative of cranberry growers that now commands a price several times what could previously have been offered to individual growers.

However, the founders of Equal Exchange were not primarily seeking more money or redress for market failure; they were already employees (but not members) of a cooperative warehouse where they met and enjoyed the benefits of such employment. Michael's quote opening this section makes no reference to financial need in his description of the planning stage. Indeed, as the quotation from Jonathan at the beginning of this chapter suggests, investors felt that the three founders did not appear to know much about business at all. Why, then, did they start a cooperative?

Despite the reaction of the quoted investors, the founders each had, in fact, several years experience in working for a cooperative under their belts and were well on their way to making innovations in business practice. Of the three founders, two—Jonathan Rosenthal and Michael Rozyne—had been familiar with cooperatives from a relatively young age. Jonathan became a vegetarian at 12, and had been patronizing food co-ops ever since. He attended Colby College in Maine for two years, where he was a political activist, and worked in Hungry Chuck's food co-op in Waterville. When he moved to Boston, he joined the Boston Food Co-op in Allston and then got the job at NEFCO (New England Food Cooperative Organization, later, through a merger with other cooperatives, the entity became Northeast Cooperatives), the warehouse. Hardly motivated by money, Jonathan relates, "my mother said to me, 'You're such an idealist, it seems like your ideal job would be to write poetry in the morning and garden in the afternoon; how are you going to support yourself?'"

Michael attended a cooperative nursery school, where his mother was a teacher. He was educated in the public schools and attended Bowdoin College in Brunswick, Maine, majoring in biology. He spent half a year at the Cornell agricultural school, but his first exposure to fair trade was as a foreign exchange student in Bombay, India in 1974. He joined NEFCO in his early 20s. Michael elaborates:

> In addition to that, one of the farms where I worked as a member was a cool farmer cooperative, and I used to sit in on the meetings and got a real view of some of the problems that small cooperative producers face and also some of the dysfunctional management styles where leadership isn't strong enough. That was illustrative to me as a 19 or 20-year-old.
>
> I've been in and out of co-ops ever since then -- consumer co-ops, worker co-ops, farmer co-ops, and so forth, and steeped in cooperative management training mostly in short-term types of training.

The roots of Equal Exchange appear to have been born from a compelling motivation to use their existing food warehouse cooperative to advocate on behalf of the interests of the producer-suppliers to the cooperative. The challenge faced by Jonathan and Michael was that as members of a distribution cooperative owned by retail food cooperatives, they were buying produce from poor farmers in developing countries to sell in turn to grocery stores and other outlets in well-to-do towns. Thus, the warehouse attempted to drive down the prices offered to farmers in order to ensure an appealing margin for its member stores. In his book on creating sustainable food communities, Carlo Petrini, founder of the Slow Food movement, describes this predicament as follows (Petrini, 2009):

> Trade or commerce performed by middlemen is not an outright evil, but it is hard to find a trader, outside the world of fair trade, who does not look exclusively after his own interests. According to Jean-Anthelme Brillat-Savarin, commerce "purchases at as low a rate as possible what it consumes, and displays to the greatest advantage what it offers for sale" [J. Esquinas Alcázar, "Protecting Crop Genetic Diversity for Food Security: Political, Ethical and Technical Challenges," in *Nature*, no. 6 (December 2005)]. In this sense, it appears to be normal and even fair for the trader not to work with humanitarian or charitable aims in mind. (p. 104)

This arrangement was problematic for Jonathan and Michael. They were sympathetic with the farmers and wanted the warehouse to do more on behalf of the very farmers who were the suppliers to the warehouse. Drawing from the Model of Entrepreneurial Motivation, in which the social entrepreneur's behavior is motivated by strongly held, intrinsic values that create cognitive dissonance with the status quo, the behavior of the founders may be explained as motivated by a strong, internal sense of social justice and solidarity with the farmers whose products they were passing through, at a profit to the members of their cooperative, to comparably wealthy consumers. This arrangement was untenable to them, and their first act was to work through their cooperative to seek a more appropriate balance of interests. Their motivation was driven more by a social mission than by any economic self-interest. However, the board of directors of the cooperative of which they were members did not support these initiatives. According to Michael (personal communication, 29 September 2010), the cooperative had been facing difficult times. The different members, characteristic of a diverse board, had different, sometimes competing concerns—some around pricing dynamics, others politics, others natural food—and such contests may be seen as a challenge to cooperative, democratic decision-making. Jonathan recounted how the founders' political orientations motivated their marketing actions:

> Michael was pushing this idea of marketing, and so we flanked them. In the politics of the day we were both to the left and to the right of most of the people at NEFCO. We were more entrepreneurial, more risk-taking business-wise, but also we wanted to be more of a socialist organization. So Rink and I tried a variety of different projects. We tried to institute a tax on Third World luxury goods to set up an educational fund—sesame seeds, banana chips, that kind of thing. We gave talks at various meetings and conferences, we wrote articles in the co-op newsletters, and for a little while we a had contact with somebody in Honduras who was working through a Catholic group that was working with banana unions and that person disappeared unfortunately never to be heard from again. I don't think we would have pulled it off importing bananas directly but it was the idea. It wasn't because of us; it was the politics of the time.

But Jonathan also alluded to deeper, psychological sources that may have influenced the founders to pursue a social mission that was counter to the imperialistic political economy of the era:

> One of the things about founding Equal Exchange was that all of us had deep issues with power and authority. I think that's part of our bond, in a way. Michael's dad, an Auschwitz survivor, died when Michael was 6

> months old. So he was raised by his mom and two aunts. So that male role model thing was not very present. He eventually had a step-father but that didn't really work well. And I had childhood abuse that my whole family denied ever happened. That's the theme for me through all of this, that Equal Exchange became a way for me to integrate my own personal healing with how to create a better world. And so that's what brings me my view of fair trade, that it's a healing journey, starting with personal healing and connecting out to the global.

Cook and Burress describe several ways in which the divergence between members' preferences in a cooperative can lead to degeneration of the cooperative. In the case of Jonathan and Michael, such divergence was not between them, but between them as a group and the cooperative, NEFCO, of which they were employees. In Hansmann's theory of enterprise ownership, prospective owners seek the rights to control the enterprise and appropriate its profits (Hansmann, 1996). Consistent with their reasons for starting Equal Exchange, the two co-founders were clearly more concerned about control than profit. In Jonathan's words:

> The gestation phase ... is long. From this idea of solidarity and wanting to have the co-op import internationally to eventually saying, well we just want to start our own business in a way as a reaction to everything we didn't like in the co-op world.

Thus it was this divergence that ultimately led the founders of Equal Exchange to leave the warehouse cooperative to start their own, for reasons that had no strong, or even apparent personal financial or economic motive. The founders left the warehouse in different ways and at different times. According to one co-founder, Rink left to get a master's degree in urban planning from the Massachusetts Institute of Technology, which took two years, while Jonathan left to work unpaid at home, writing a business plan for Equal Exchange. As Jonathan tells it,

> Then, by the end of 84, I left the co-op because I decided not to take the job as the lunch cook. I decided to try to start Equal Exchange. So I basically sat in my house everyday. I had to convince my grandfather to give me $700 a month for a year, so that's how I was going to pay my bills.
>
> Michael remained at the warehouse until he eventually joined Equal Exchange.

During the two-year period, the three met more and more frequently to discuss their plans for a new cooperative. In Jonathan’s words,

> We had a big argument: do we write a business plan or do we just order some coffee from the Dutch and see what happens? So the planner, in planning school, just wanted to order some coffee. And Michael and I said we wanted to write a business plan. As I got older I've gotten more and more respect for the just-order-the-coffee approach. Rink probably would say the opposite, that business plans have their place.
>
> Rink was in school full time. I had a little more leverage because I had thrown my hat in the ring, so to speak, even though I wasn't that productive. So we decided to write a business plan. Our idea at this point was really to be a mail-order food company, to have a range of foods, all from supporting social movements. We had a study group in those early years, studying front line states in ex-colonies in Africa that were now socialist countries, and comparing and contrasting them, looking at what was going on in Nicaragua. The three of us would read and discuss political books, even some pretty theoretical stuff about socialism and cooperatives, Benedict Anderson. Rink was the Leninist, I was the anarchist, and Michael was the practical person, saying, “I’m not an ideologue.”
>
> So we wrote a business plan to be a mail-order food company. We circulated it to a group of advisers and they all said, you guys are out of your minds. You don't have any money, you don't have any international trade experience, you don't know anything about international currency, you've never worked in marketing outside of the local Northeast region, you don't know very much about coffee, which is gonna be your main starting product, you know nothing about these other products you might import. What *do* you know about?
>
> So we looked at each other and we said that we learned something about coffee doing the Nicaraguan coffee thing, which was primarily me. We know about food co-ops, we know something about marketing, and so we decided we should start with coffee and we reason we would take the Northeast market away from Friends of the Third World, since we knew

> all those co-ops, and those solidarity groups, and that would be our starting point.

The Cook and Burress model serves well to initiate the cooperative life cycle with a justification phase; however, the Equal Exchange chapter suggests that such justification may be other than self-interest economic. In this chapter we see the protagonists deeply motivated by social values that indicate a sympathetic concern for poor farmers in economically poor countries, and possibly informed as well by a mistrust of figures of power and influence who yield power in ways seen to be exploitative and unjust. These non-economic social values are among those that explain the motivation of social entrepreneurs to "change the world" (Bornstein, 2004; Bornstein & Davis, 2010), which, in turn suggests that the Model of Entrepreneurial Motivation may apply to the founders of some cooperatives whether preferred economic or other social values pertain.

Phase 2. Organizational design (1986-1990)

> Then the next phase I might identify as the founder phase or the startup phase, and that might be from 1986, we were incorporated May 1, 1986, that's our anniversary date, from then until maybe the early 90s we had an organization that was completely founder dominated and it was really all about the three of us and a couple of key early employees who had a very unique and unusual circumstance of being hired to work with the three of us, a lot of credit goes to those early employees. The founders' stage was extremely stimulating, challenging. It was lovely to really go through such a difficult time and share it three ways, and in a collective or co-operative management most of the time [but] we certainly had our problems.
>
> We had a couple of periods that were really difficult but on the whole it was great. We played each other's strengths and weaknesses, our communication was reasonably good most of the time, and I think on the success side our commitment was equally strong. We had three people who were all about making a crazy idea work, crazy idea because in those days fair trade was not commonly understood or even accepted by progressive business people.

Michael Rozyne, 27 August 2010

According to Cook and Burress, once the principals move to the stage of organizing, differences in their preferences emerge that can have implications for future flexibility in the organization. They write, “The process of constructing the cooperative constitution tests that scope and degree of member heterogeneity through formulation of policies and rules affecting principal-agent relationships, collective decision making processes, and risk bearing responsibilities. ... Developing an organizational design that recognizes the existence of member heterogeneity facilitates the entry into phase three” (p. 5). What happened at Equal Exchange during this phase?

It was not unanimously recalled that the founders specifically intended to start a cooperative; indeed, there was considerable debate about what corporate form would serve best as the organizing model. As Jonathan recalled,

> Then there was a big decision point in those early days; we had a big debate about being a nonprofit or a for-profit. The argument for the nonprofit was, I think Rink was clearest in saying, I don't think this concept can ever really survive in the capitalist marketplace, and so I think we have to be a nonprofit to survive. This isn't a phase but an understanding of our particular roles in the start-up. We all three pretty much have the same story that what made Equal Exchange happen was that the three of us were a three-legged stool and none of us would have done it without that three-legged stool.
>
> ...
>
> Well, in the end we decided that being a nonprofit, that one of our goals was to change the way business was being a done, and that if we were nonprofit that people wouldn’t take us seriously, was our fear. And then, if we were going to be a co-op, one of the fears that Michael and Rink had was that if we became a worker co-op and hired the wrong people, what if they booted us out? And I somewhat naïvely, idealistically argued that, well I guess it's then time for us to go, which in fact did kind of happen to me. And it was time for me to go, although the way it went down was not the way I would've liked.

According to Michael,

> I would not say we were strongly for starting Equal Exchange as a nonprofit. I am in a nonprofit mode right now and I felt like when I made the transition from Equal Exchange to a nonprofit, to really get at what running a nonprofit was really about, took a long time to really understand. In the discussion we had in the mid-1980s at Equal Exchange I would say that we weren't coming from deep experience in the nonprofit world, that's for sure. I think there was a very broad consensus among the three of us that a worker co-op was the best choice. I don't really remember a lot of controversy or interesting debate about nonprofits.

Jonathan, in reflecting on what could have been done differently in setting up and running Equal Exchange, shared lessons learned concerning Phase Two organizational issues:

> There are a couple of lessons, to me. In the fair trade movement, and in Equal Exchange to a great extent, we did not create a healthy dialogue to talk about power and authority. In fair trade in general and in the co-op movement, for me that comes down to race, class, and gender. It can be done, but early on you have to be able to go slower, to figure out a way to handle those issues. We had a tough start because the three of us happened to come together and we were three straight, white guys. So that was challenging. One of the biggest shortcomings at Equal Exchange was not being able to talk about power and today even trying to figure out where does the worker co-op go.
>
> So, number two, the structure that we set up did not recognize the role of the founders. And I was the chief ringleader in this, I would say. And that is manifest in a few ways. Number one, we did not reward the incredible risk in terms of low salaries and level of stress. Two, we didn't build in an ongoing role for our expertise.
>
> Interviewer: Are these structural issues resolvable?
>
> Yes. One thing is that Michael, Rink, and I and maybe all the early people, the way you set it up so that you get a profit that year is so short-sighted. I feel like right now, Equal Exchange and its worker owners are benefiting from my work and I feel like I didn't get properly compensated. And I set that up. Overall, I'm happy. We did this incredible work and helped start this movement and all. So on that level I'm happy, but I feel like we set up in the culture a thing of we're not honoring or rewarding risk and innovation. We just accepted innovation as a normal and natural thing. Equal Exchange is more short-sighted than Wall Street in a way. There is no willingness to invest in the future.

Interviewer: How would you do it differently if you could start over?

I would say that the founders would be given some role for life. And we talked for years about having some senior alternative traders group. I'd set up some criteria, maybe a club for just the founders or maybe after ten years to pass a screen you'd get to be in that club and that club got to be the golden vote and share and make major decisions bigger than any of the equal owners have now.

Interviewer: Does that take away from the cooperative model?

Not in my mind. You still have one share, one vote in terms of the board of directors and all that. But there would be certain major decisions, that you'd have these elders who wouldn't have a vote, in anything except for a couple of really big things. So I would study the Iroquois and look at their model of how do you respect elders in the community. There is no room in our culture to really respect our elders. In fact, we don't trust our elders and so when you're out, you're out. So that's number one.

Number two, on an ownership level, I think certainly founders and early people should at least have some profit-sharing decades into the future. And I think for the three founders the price should be in perpetuity. I think I can make the argument now that x percent of what they have gained ever since I left had something directly attributable to my work. When I look at Equal Exchange today, so much of what they have, whether it's the personnel policy, the exchange time they do, the worker curriculum, sending workers to visit farmers [were our contributions]. We had such an imprint on the company.

For me, post-founder is always difficult in any kind of organization, nonprofit or for-profit, but I think they lost by not having Michael or me connected in some ongoing way as advisors.

Now, is that a structural thing? Should it be built into the by-laws? I don't think so. There's a lot of wisdom that I gathered while at Equal Exchange and from other organizations I've worked for since then that could be useful for them. So it might not be a structural thing, but it's part of that inward looking structure that might not consider reaching out to me.

So I would change ownership and reward risk more. It's not just the founders; we do not do a good job of rewarding risk. We were not good at celebrating our accomplishments. I think that could be built in more in a co-op. The really important thing for me is clarifying the role of founders and CEOs and the board. The tragic mistake I made was saying, "You're the board, come up with the vision" as it says in the by-laws or in theory,

> and waiting for them. There was no "them" to do it. And I could have done that fairly easily, and I didn't.
>
> Most of those things relate to our mistrust of power and people in power. I think formally we did not set up a healthy relationship for people in power. I think Rink and Rob [the current co-directors of Equal Exchange] figured out a really good way to bring on just the right managers to do their own thing. And now I think they've got an organization that might be understaffed in terms of senior managers. It's very inward focused and they don't have many people with deep outside experience, especially from organizations bigger than Equal Exchange. Maybe they feel that's not helpful, as there aren't many bigger places in the world that share Equal Exchange's values.

In 1990, Equal Exchange formalized its worker-owner cooperative structure. As is clear in retrospect from the Equal Exchange experience, not only are some formative organizational issues recalled differently, but also, based on Jonathan's analysis, some differences cannot even be anticipated at the time of organization. This is one reason it may be beneficial for prospective cooperators to learn from the experience of others, and for further research on cooperatives to be undertaken and shared with both practitioners and academics.

Phase 3. Growth-glory-heterogeneity (1990-1999)

> If there is a phase after this it happened when we start to get enough employees that [there is a] crying need for some more structure, some more formality, a more formal division of responsibility and role between the founders and among the founders. That's probably the early 90s when sales are in the low millions, maybe $2 million range; then I think at that point we enter into this phase where the founders need to differentiate themselves and centralize some more, and we begin to do that. We all had reasonably good process skills, we were all trained in cooperatives, and yet I'd say some of our individual weaknesses begin to show through, more as the organization needed more structure and differentiation. I think that provoked a lot of soul searching among the three of us.

Michael Rozyne, 27 August 2010

Member heterogeneity, according to Cook and Burress, may contribute to "stimulate the development of creative problem-solving and unique proposals," or it may lead to creating ownership costs that can "result in debilitating effects on the organization," but there is no strong correlation with either positive or negative consequences, and thus Cook and Burress "stress a neutral interpretation of heterogeneity in preferences" (p. 6). Heterogeneity may, of course, provide diverse but complementary perspectives, preferences, and skills, or it may characterize divisive differences, and it would be natural to expect such differences to increase as the number of members grows.

As Michael indicates in the quote opening this section, the increasing number of members did create tensions and the need for more structure and formality; however, it is helpful to understand the growth of membership in the context of the events that created such growth.

Missing from this account are the issues arising from member heterogeneity that Cook and Burress and Hansmann argue may create collective decision-making costs. Cook and Burress, however, circumscribe their use of the term: "We are interested in heterogeneity primarily because divergence in interests coupled with the existence of vaguely defined property rights have the potential of manifesting as ownership costs which result in debilitating effects on the organization. A thorough investigation of how emerging heterogeneity may result in ownership costs may allow cooperative leaders to preemptively address growing challenges" (p. 6). Regardless of a connection to vaguely defined property rights, Cook and Burress are right to examine divergence in interests during this phase of growth. Jonathan's account certainly addresses heterogeneity, though the differences he recounts reflect different styles and strengths principally among the founders, whether or not they share common or divergent interests. For example, according to Jonathan, both he and Rink shared an interest in strong and effective management, yet their styles were quite different, and these differences appeared to have both debilitating and salutary effects on the organization, an apparent paradox that may be endemic in organizations that need both democratically participatory decision-making and strong, decisive leadership.

Jonathan, as one who had been forced out of the cooperative, critically reflects throughout his interview on issues of divergence that are clearly emotionally important to him from his now more distant perspective. While these issues of divergence do not substantively relate to property rights, they are nevertheless legitimate examples of heterogeneity that could as well inform other cooperators and guide them to minimize or evade the costs invoked here.

Phase 4. Recognition and introspection (1994-1999)

> By 1995 I was the first founder to make a different move and I took a one-year sabbatical leave and wasn't sure what to do after that. So I would say at that point I stepped out of that third phase and began to pursue a strong need to work on different products—local agriculture—and needed to be able to express my creativity in a different way from what I was finding myself able to do in the collective. It was great to have the opportunity to take a one-year sabbatical at that point and I think I gave enough notice to everybody. My specialization at that point was marketing and I carried some of the sales burden.
>
> I left Equal Exchange in June of 1994, the beginning of my sabbatical, which means that by a year later I was back in Equal Exchange on a special project, and it was clear that I was not going to return full time. I was starting Red Tomato the other half time. I stayed on the board of Equal Exchange for many years after leaving it in 94-95.

Michael Rozyne, 27 August 2010

Cook and Burress describe Phase Four as one in which members fall "into one of four categories: apathetic, targets for aggressive rivals, vacillators, and the loyalist" (p. 13). They write, "As the once healthy consequences of member heterogeneity diminish and shift to inspiring fragmented coalitions the cooperative purpose and direction become less focused and ill defined thus accelerating a self-reinforcing degenerative spiral" (p. 13). They continue:

> Recognizing in a transparent manner, analyzing the causes of, and contemplating options to the phenomenon of rising ownership costs is the activity of phase four. The end of this phase draws near when cooperative leadership presents or membership demands explicit action to remedy perceived and real challenges. (p. 13)

The recognition and introspection phase as applied to Equal Exchange may best be characterized by the tensions amongst the founders and between the founders and the board, resulting, ultimately, in resolution. The resolution in this case was the departure of two of the co-founders and the eventual assumption in 1999 of Equal Exchange leadership by Rink Dickinson and another co-worker, Rob Everts.

Jonathan describes a fairly placid period leading up to the emergence of tensions:

> For those next three years, that was 95 through 98, I think, Rink was running sales, it was going well, and I kind of left him and he did his thing. I was in charge of basically everything else. And it was a family run company. I was the CEO-Executive Director, he was chair of the board, Michael was still on the board. It was a family run company, essentially. And I would say as a worker cooperative it was pretty meaningless; it was a family run company. And yes, the workers got to make some decisions, and elect the board, and organize elections when there was more than one person running for a seat, but it was founder-led, family-led, whatever you want to say, amongst the three of us.

Then Jonathan recounts several tensions that characterize the recognition and introspection phase, though this perspective is retroactive and follows his departure from the cooperative:

> ***Concerning the board***
>
> As part of my frustration as an executive director and as an entrepreneur was that I felt like the board of directors was very conservative and had very little professional capacity, and so they were more of a weight than a support. I don't even think they had the skills to hold me accountable. So I felt it was the worst of all worlds. Theoretically they had all this authority, but they didn't have the capacity to really exercise it. And I had all this responsibility and wasn't willing to take all the authority.
>
> ...
>
> Interviewer: Getting back to the board, was the board ever officially elected by the workers?
>
> Oh, yeah. We had democratic worker by-laws. So it always had legitimacy, but in my opinion it never really did much. Rink had a much more pragmatic attitude, that we don't need it to do much. If there ever was an emergency, then it's kind of there and we have a legal structure to do it and that's enough.
>
> Interviewer: Was there every any kind of evaluation of the board itself?
>
> Well, that's what I started calling for in the last few years of my work as executive director, saying the board has never had a review, never had an evaluation, never did any development work. You don't have a board manual, you don't have any job descriptions; it's a very unformed entity and we need more from the board. And that's part of my personal challenge, as I always had as part of me the sense that power is abuse. And when I became the person in power and control, that was very challenging, in ways I never fully reconciled. So that's my lifelong journey.

Jonathan later in the interview added a further reflection on the board and inadequate recognition of the role of the founders:

> The other thing for me, with Equal Exchange in particular, is the board. There are two thoughts. One, I don't have a really clear view on how to make it really democratic and have essentially working class people run

> the board. So I would want to study Mondragón more and really understand how it works there. I think they have some better functioning models. Next thing would be at Equal Exchange to really recognize the role of the founders, and have more of a transition where their power and authority is recognized. Don't say it's a totally democratically-run co-op if in fact the family is running it. And since the family doesn't have formal authority, it's just up to personalities to just take power. But it really undermines the whole sense of democracy and empowerment.
>
> ***Concerning executive leadership***
>
> So Rink has no problem, I mean he has a problem on the other side, in that he can be hard sometimes in a way not everybody likes. He was much more comfortable being director. And he was much better than I strategically figuring out how to work with the board in a way to keep people happy and do what he wanted to do. I just didn't have the personal wherewithall to just take power.
>
> Interviewer: If Rink is so self-directed in terms of power, how do you explain his need for a co-director?
>
> Well, I don't know. I think in the last ten years he's grown in some ways that I don't really know about because I haven't been part of Equal Exchange. I think for one, Rink has an interesting blend about being very collaborative and very solo. He used to like to exercise his authority very discreetly.

Clearly, Jonathan is describing fragmentation during this phase of recognition and introspection, but is Equal Exchange in "a self-reinforcing degenerative spiral," as suggested above by Cook and Burress? From all available evidence, it appears that following the departure of two of the three founders, the remaining Equal Exchange members are strong loyalists. The explanation is simple: Founders with preferences that were no longer aligned with the cooperative either left or were forced out.

Michael, as recounted in the quotation above, chose to leave the cooperative to pursue his interest in Red Tomato,[6] while continuing to serve on the Equal Exchange board. Jonathan was, for all practical purposes, forced out for reasons that, according to

[6] See http://www.redtomato.org/, cited 4 September 2010.

Michael, stemmed from the board's increasing concern that Jonathan was not providing needed leadership, conflict resolution, and decision-making acumen for just too long (personal communication, 29 September 2010). According to Jonathan, his treatment was painful.

> Then I go off with my family to take a vacation trip to California to visit friends in the Bay Area. And on my trip, the last night of my trip, 10 o'clock at night, so it's one o'clock in the morning in Boston, I get a call from [a board member]: Jonathan, I wanted you to know before you come back, I wanted to be the one to tell you we had an emergency board meeting and we're asking you to resign. I said, well based on what? I had a review just before I went on sabbatical and basically it was a glowing review .... He said there are some management issues, you're not managing people that well. I would say it was a B, a B-, but from everybody else I got a glowing review. ... Why would I step down?
>
> So he said, well, people don't know when you're going to come back, people are not happy internally, things are really stuck, and we need to move forward. And it doesn't seem like you can provide that leadership. So I said, it would have been nice if, like how can you do that in secret? I thought everything was transparent, and how could you meet without me, and you didn't tell me, and I'm coming home tomorrow, you had to call me on my vacation at 10 o'clock at night while I'm sitting in a studio apartment with my family?
>
> So, anyway I was pretty pissed off to say the least, and I said no, no way, let's meet in person and talk about this. So then we had a meeting with the board and it was very unpleasant and they said we'll get back to you on Monday, they didn't get back to me on Monday, and I had keep calling. Anyway, it was really ugly, I was treated very poorly, there was no transparency, they weren't telling me what was going on. So I felt like I dropped the ball in leadership and probably should have resigned and left. It was my baby and then I hadn't figured out how I could walk away.

Jonathan subsequently left the cooperative and turned to consulting, specializing in fair trade.[7] Michael's exit is explained in the opening quotation. By 1999, Jonathan's departure, along with Michael's left in Rink's and Rob's hands the reins that were once held by the founding troika. Thus Rink is the survivor. According to Jonathan, building

[7] See http://www.just-works.com/, cited 4 September 2010.

loyalty was a priority for Rink: "Rink was looking for character and values, and he would mold people. He would mostly hire young people who would be really passionate and loyal to Equal Exchange."

Phase 5. Choice (2000 to present)

> The most striking evidence of the high costs of collective decision making is the scarcity of employee-owned firms in which there are substantial differences among the employees who participate in ownership.
>
> Henry Hansmann, The Ownership of Enterprise (1996, p. 91)

As Cook and Burress write, "By the end of phase four, the member patron is being asked to inform a decision – a decision that affects organizational survival. If the full range of options is available, the member will choose from the following: to tinker, reinvent, spawn, or exit" (p. 13). As a cooperative may increase in value, as has been the case with Equal Exchange, the option of exiting through a public offering or sale to another company may be tempting (see Exhibit 5 for the value of Equal Exchange vs. S&P).

Cook and Burress suggest that the choice, or in this case, choices emerging from Phase Four that define Phase Five may be informed by analyzing Phases One through Phase Three of the cooperative's history, and that once a choice is made a new life cycle begins. Based on such an analysis, we see that Michael and Jonathan have made the choice to exit, and that the Board has appointed Rink and Rob in co-leadership positions. This leaves Rink and Rob to consider their options to "tinker, re-invent, and spawn" and based on the interviews, all options are on the table. With the departure of two co-founders who faced high costs in collective decision making, the challenge for the current leadership is to ensure homogeneity of interests in policies among remaining and new members going forward.

Discussion

In this research we have examined why and how the founders of Equal Exchange started their cooperative, and how the Cook and Burress five stages of a cooperative life cycle, based on agricultural cooperatives, map to the history of a fair trade, worker cooperative as recounted by two of the three co-founders of Equal Exchange. The five phases of the Cook and Burress framework—Economic Justification, Organizational Design, Growth-Glory-Heterogeneity, Recognition and Introspection, and Choice—have proven reliable rubrics for explaining the growth of Equal Exchange. However, the Cook and Burress emphasis on self-interest economic variables within these stages, particularly at the justification phase, in which the founders describe why and how they started Equal Exchange, is not supported by the interview evidence. Far more salient in this narrative are the founders' concerns for social justice and their determination to undertake what they see as preferable management styles as an alternative to the cooperative practices they have observed. Burress (personal communication, 22 February 2011) suggests that had the co-founders spent time discussing and resolving economic issues of self-interest in Phase 1 or 2, it is possible that some of the economically related disagreements that arose in Phase 3 may have been obviated. Moreover, she notes, had the concept of maximizing utility function rather than self-interest economic (profit) been used as the justification in Phase 1, then indeed the co-founders were engaged in utility maximization. Utility here is meant in the economics sense of meaning satisfaction, which could thus include more than simply profit and could include social values other than economic values, as was the case with the co-founders. In any case, she notes that the co-founders' concern for the well-being of Northeast Cooperatives' suppliers was, in fact, an economic concern, though one characterized by "other-centeredness," rather than their own economic self-interest, and that the fair trade movement itself had an economic justification.

In addition to the implicit but apparently unrecognized economic dimensions of the justification phase, the length of time the founders spent deliberating the purpose and organization of the cooperative during its justification phase is also noteworthy.

The Cook and Burress stages do not seem to be discretely sequenced in the Equal Exchange experience. There is considerable overlap in the events that constitute the Phase Three (Growth-Glory-Heterogeneity) and Phase Four (Recognition and introspection) stages, and the Phase Five (Choice) stage appears to consist of choices made both in Phase Four and in Phase Five. According to Burress, this is common: "a healthy organization is always tinkering" (personal communication, 22 February 2011).

The chapter draws exclusively on the accounts of two co-founders, others willing to share their comments, and publicly available information, such as from published reports and the Equal Exchange web site. It does not take into consideration the views of the third co-founder or of many other members of the cooperative who joined since the early 1990s. The Cook and Burress framework does address cooperative members as a whole and also appears to refer to the cooperative as a unit of analysis. Thus the account here, based largely on two of the three founders, may not be a high quality or sufficient example to test the Cook and Burress framework. Nevertheless, it seems reasonable to draw from the Cook and Burress model to understand the life cycles of other types of cooperatives, noting differences where they occur and alerting potential cooperators to costly issues that might be avoided.

The narrative in this chapter alludes to but does not examine the differences between the three co-founders that might explain why two left and one prevailed. The extent to which the co-founders disagreed on economic, purely management style, or other issues is unresolved in the interviews. Chaves and Sajardo-Moreno (2004) provide a theoretical foundation for such an analysis based on differences in managerial orientation, either driven by predominantly business values and instrumental methodologies typically taught in business schools, or by the more democratic values of a social economy ideology. Such an analysis could be integrated with the Cook and Burress framework as a guide for managing potential threats to the survival of cooperatives. Future research may thus allow a more integrated framework that could fine-tune the Cook and Burress framework and also address managerial characteristics to better explain both the dynamics and sequencing of the phases or stages of the cooperative life cycle.

What's next?

On 29 June 2006, twenty years after its founding, the worker-owners of Equal Exchange approved a Vision for Equal Exchange. Through its ongoing business practices combined with the leverage of 7% in pre-tax revenues to advance its mission, Equal Exchange challenges everyone to achieve its vision within 20 years:

A Vision for Equal Exchange

There will be...

A vibrant mutually cooperative community *of two million committed participants*

trading fairly one billion dollars a year

in a way that transforms the world.

Thus, by 2026 Equal Exchange, including new product lines and business affiliates, is seen to be building a nationally collaborative community of customers, workers, producers, merchants, and investors with a shared vision to transform the world through fair trade, while meeting or exceeding $1 billion in exchange. It is hoped that the present and future research will facilitate the healthy and sustainable development of all cooperatives that similarly combine creating both social and economic value.

Exhibit 1: Financial Data

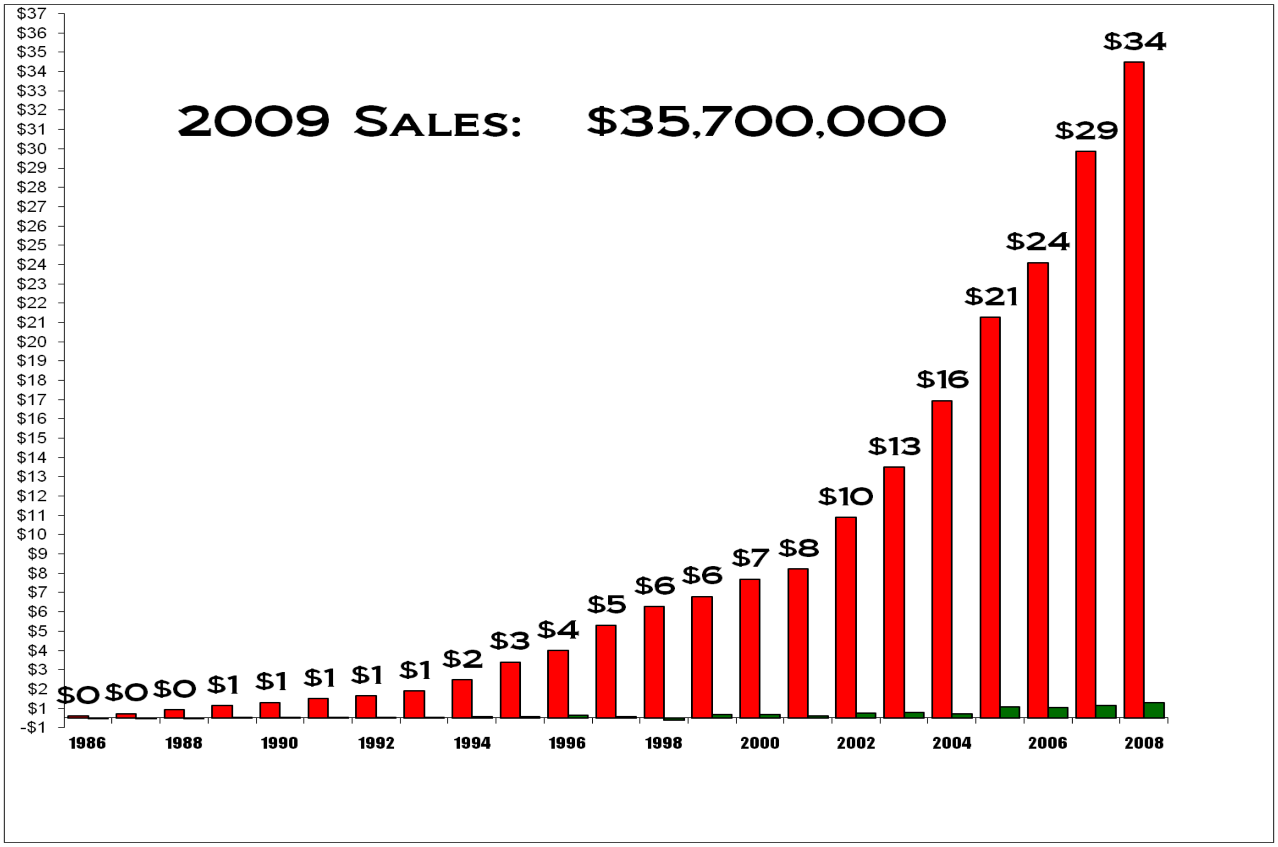


Exhibit 2: Highlights

May 1, 1986: U.S. customs officials release the first shipment of Nicaraguan coffee from the Port of Boston, and Equal Exchange is born.

1987: Equal Exchange launches our second product, Samusala Tea, the first to be directly imported from producers.

1988: Office of Foreign Assets Control in the U.S. Department of Treasury issues a reinterpretation of the Nicaragua embargo that threatens to make importing "Cafe Nica" illegal. Organic Peruvian, Equal Exchange's first organic product, quickly becomes our top seller.

1989: International Coffee Agreement expires - coffee prices drop from $1.30 to $0.80 per pound.

1990: Equal Exchange formalizes worker-owner co-op structure.

1991: Equal Exchange formally adopts European Fair Trade pricing. Product line expands to include a full assortment of whole beans, decaf, different roasts, and flavored coffee. Sales break $1 million.

1992: Equal Exchange introduces "Cafe Salvador" in partnership with Oxfam and Neighbor to Neighbor.

1994: Equal Exchange's first producer trip with customers to El Salvador. Freeze in Brazil causes spike in world coffee prices.

1995: Equal Exchange moves from Stoughton to Canton, Massachusetts, and opens new office in Madison, Wisconsin. Staff defines Mission and Guiding Principles at weekend retreat.

1996: Pilot project with Lutheran World Relief. Equal Exchange is the first U.S. coffee company to actively provide pre-harvest credit to small farmer cooperatives.

1997: Equal Exchange creates Organizing Department for grassroots outreach, and launches first national advertising campaign as part of three year, intensive marketing plan.

1998: TransFair USA creates Fair Trade seal for U.S. market. Equal Exchange launches new tea line, and opens new office and warehouse in Hood River, Oregon.

1999: Rink Dickinson and Rob Everts assume Equal Exchange leadership as Co-Executive Directors. Board approves first strategic plan for 2000 - 2003.

2000: Equal Exchange receives *Business Ethics* magazine award for Stakeholder Relations.

2001: Coffee prices hit lowest price in 100 years: $0.42/lb.

2002: Equal Exchange introduces hot cocoa mix, the first U.S. cocoa product to carry the Fair Trade Certified™ seal, and to use Fair Trade Certified™ sugar. Sales break $10 million.

2003: Equal Exchange launches baking cocoa. Farmer co-op makes first investment in Equal Exchange. Equal Exchange helps provide $1 million in pre-harvest credit for producers.

2004: Equal Exchange purchases new building in West Bridgewater, Massachusetts, and introduces three organic, Fair Trade chocolate bars and the first Fair Trade Certified sugar on the U.S. market.

2005: Equal Exchange builds the largest worker-owned coffee roasting operation in the

U.S.

2006: Equal Exchange reaches our 20th anniversary!

Exhibit 3: Model of Entrepreneurial Motivation

In North's theory of institutional change (North, 2005/1990), social institutions, such as politics, the market, education, and the law, consist of social organizations (governments, businesses, schools, courts), which, in turn, are created, led, and managed by entrepreneurs. These entrepreneurs effect incremental changes over time. Rarely do institutions change as a result of radical, e.g., revolutionary change.

Entrepreneurs, according to North, are motivated by incentives. However, incentives may be external, such as financial incentives, or internal, such as values commitments. External incentives that are not aligned with internal motivations may not be sustainable. Thus, the sustainable incentives according to the model described here are the entrepreneur's internalized social values that provide motivation to action.

The following model shows how an individual Entrepreneur's personally held social values create a perceived dissonance with the status quo. The logic of how the elements of this process are related builds on what psychologist David C. McClelland would label a high "need for achievement" (McClelland, 1961) and constitutes a conceptual framework for understanding how the entrepreneur becomes a change agent within North's institution theory (North, 2005/1990). The relevant change is a function of the outcomes resulting from how the Entrepreneur operationalizes his or her internalized social values (for a thorough treatment of how motivation influences entrepreneurial behavior, see Bird, 1989).

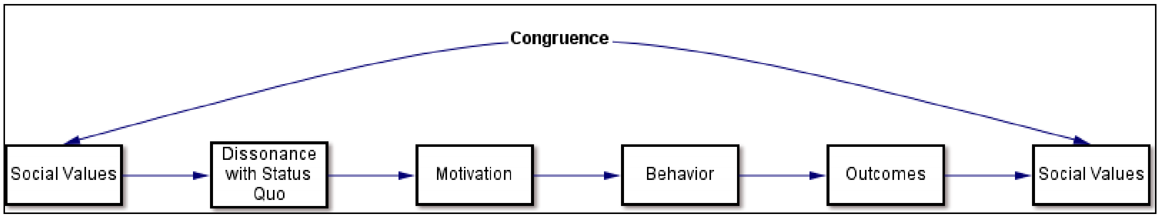


Figure 1: Model of Entrepreneurial Motivation

In brief, the Entrepreneur's social values create a perceived dissonance with the status quo, and in turn motivate him or her to behave (take action) to rectify or change the status quo, resulting in outcomes that should convey the Entrepreneur's preferred social values. The social values that are produced as the outcome of the Entrepreneur's behavior should be congruent with those that motivated his or her behavior.

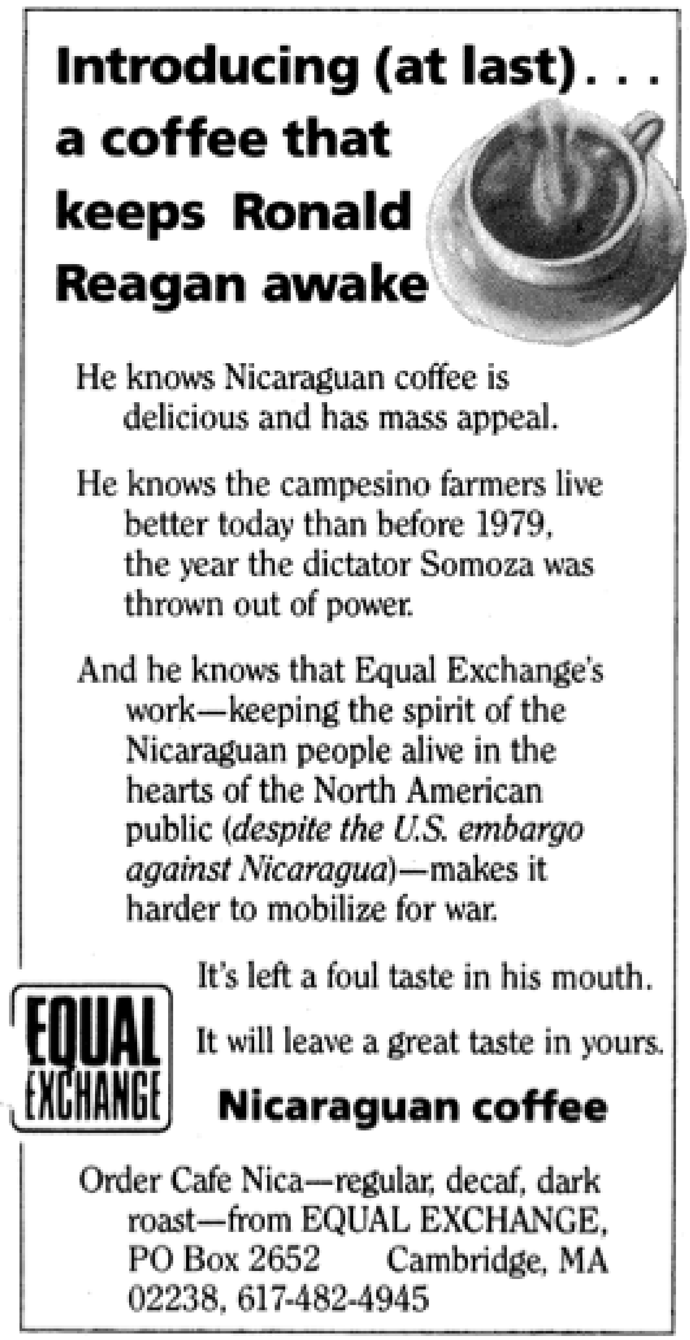
Another way of understanding this model is that the Entrepreneur's social values constitute his or her Vision of a Better World, which, in turn motivates the Entrepreneur to behave in a way to achieve this vision. Thus, if Profit is the principal social value of interest to the Entrepreneur, the organization will behave accordingly and create profit, perhaps through the production and marketing of goods and services. If other social values prevail—such as Human rights, Solidarity, Community, Health, or Spirituality—the organization will behave accordingly and convey these social values. In this model, the Social Entrepreneur is differentiated from the Classical Entrepreneur principally according to the social values that motivate the Entrepreneur. The Social Entrepreneur is primarily (though not necessarily exclusively) motivated by social values other than profit.

Social values are the means and end-states that describe preferred social arrangements (Whitman, 2006). As preferred beliefs, they guide behavior accordingly.

They may be used to describe a vision of a better world or an organizational mission. They may also be used to rationalize making resource allocation decisions. In applying this model, financial values are imputed to social values by assuming that the organization's budget and expenditures reveal its preferred social values, and thus these social values may be monetized by the corresponding financial amounts.

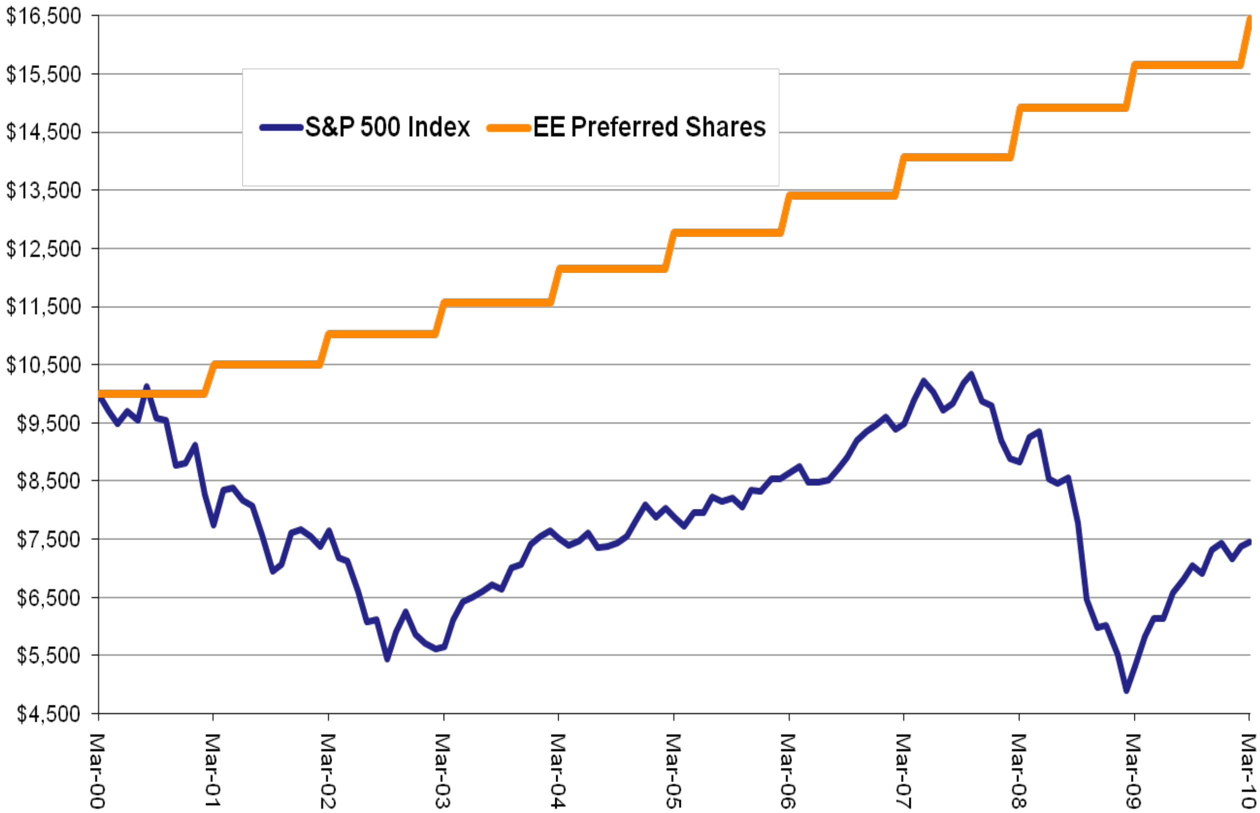
Exhibit 4: Advertising

The political edge concerning contemporary issues was clearly evident in early advertising.




"Excuse me waiter, there's the blood and misery of a thousand small farmers in my coffee."
First national advertising campaign launched in 1997.

Exhibit 5: Value of Equal Exchange vs. S&P



Discussion questions

1. Could the co-founders have achieved their objectives better by choosing an alternative organizational model other than a cooperative (C-corporation, nonprofit organization, partnership, etc.)? Why or why not?

2. Were the founders acting more like capitalist entrepreneurs or social entrepreneurs? Why?

3. How does the Equal Exchange experience portray a model of democratic, flat governance versus authoritative, hierarchical leadership? How can a cooperative resolve this tension, perhaps differently at different stages of the life cycle?

4. Do you think another company would ever want to acquire or merge with Equal Exchange, and on what terms? Why or why not?

5. Given the history of Equal Exchange from its origin to 2000, how do you think it should position itself going forward? (Be sure to visit its web site to be informed of its current status as well as other competitors and conditions in the present market.)

Background reading

Henry Hansmann, *The Ownership of Enterprise* (Hansmann, 1996).

Required reading

Zeuli and Cropp, Chapter 8.

Worker Cooperative Toolbox, pp. 20-46.

Optional reading

Chaves and Sajardo-Moreno, “Social Economy Managers: Between Values and Entrenchment,” (Chaves & Sajardo-Moreno, 2004)

Cook and Burress, "A Cooperative Life Cycle Framework," (Cook & Burress, 2009).

Burress and Cook, "Lessons from Community Entrepreneurship: The Concept of Spawning," (Burress & Cook, 2009).

Exercises

If possible, take a tour of Equal Exchange and/or visit one of their coffee shops.

Check to see if their products are locally available.

References

Birchall, J. (2003). *Rediscovering the cooperative advantage: Poverty reduction through self-help*. Geneva: International Labor Office.

Bird, B. J. (1989). *Entrepreneurial behavior*. Glenview, IL: Scott, Foresman and Company.

Bornstein, D. (2004). *How to change the world: social entrepreneurs and the power of new ideas*. New York: Oxford University Press.

Bornstein, D., & Davis, S. (2010). *Social entrepreneurship: What everyone needs to know*. New York: Oxford University Press.

Burress, M. J., & Cook, M. L. (2009). Lessons from community entrepreneurship: The concept of spawning. In R. Fanfani (Ed.), *The role of cooperatives in the European agri-food system*. Bologna: University of Bologna Press.

Chaddad, F. R. (2007). The evolution of Brazilian dairy cooperatives: A life cycle approach (pp. 14). Londrina: Sociedade Brasileira de Economia, Administracao e Sociologia Rural.

Chaves, R., & Sajardo-Moreno, A. (2004). Social economy managers: Between values and entrenchment. *Annals of Public and Cooperative Economics, 76*(1), 139-161.

Cook, M. L., & Burress, M. J. (2009). A coopeerative life cycle framework. *Draft paper*, 20.

Deller, S., Hoyt, A., Hueth, B., & Sundaram-Stukel, R. (2009). *Research on the economic impact of cooperatives*. Madison: University of Wisconsin Center for Cooperatives.

Hansmann, H. (1996). *The ownership of enterprise*. Cambridge: Harvard University Press.

Juarez Adeler, M. (2009). *Enabling policy environments for co-operative development: A comparative experience*. Saskatoon: Center for the Study of Co-operatives, University of Saskatchewan.

Logue, J. (2005). *Economics, cooperation, and employee ownership: The Emilia Romagna model -- in more detail*. Kent: Kent State University, Ohio Employee Ownership Center.

Maxwell, J. A. (2005). *Qualitative research design: An interactive approach* (2nd ed. Vol. 41). Thousand Oaks, CA: Sage Publications.
McClelland, D. C. (1961). *The achieving society*. New York: The Free Press.
North, D. C. (2005/1990). *Institutions, institutional change and economic performance*. New York: Cambridge University Press.
Petrini, C. (2009). *Terra madre: Forging a new global network of sustainable food communities*. White River Junction: Chelsea Green Publishing Company.
Putnam, R. D. (1993). *Making democracy work: Civic traditions in modern Italy*. Princeton: Princeton University Press.
Shaffer, J. (1999). *Historical dictionary of the co-operative movement*. Lanham, MD: The Scarecrow Press, Inc.
Tasch, W. (2008). *Inquiries into the nature of slow money*. White River Junction: Chelsea Green Publishing Company.
Whitman, J. R. (2006). Evaluating philanthropic foundations: A comparative, social values approach. Ontario Institute for Studies in Education of the University of Toronto.
Whyte, W. F., & Whyte, K. K. (1991/1988). *Making Mondragón: The growth and dynamics of the worker co-operative complex* (2nd ed.). Ithaca: ILR Press, Cornell University Press.
Wilkinson, P., & Quarter, J. (1996). *Building a community-controlled economy : the Evangeline co-operative experience*. Toronto: University of Toronto Press.
Yin, R. K. (2009). *Case study research: Design and methods* (4th ed.). Los Angeles: Sage, Inc.