Draft

Can "Anchor Institutions" Help Revitalize Declining Neighborhoods by Buying from Local Cooperatives?
The Evergreen Cooperative Initiative

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Nested within a multibillion dollar initiative to redevelop Cleveland's Greater University Circle area will be the Evergreen Cooperative Laundry, a private company owned by its employees. Its creators closely resemble doting parents who anticipate offspring small but mighty. They are prepared to launch and nurture their little company through the early years so that it can in turn become the creator of an entire new generation of worker cooperatives in Cleveland. This is their story.

The Evergreen Cooperative Laundry is to be an employee ownership initiative nestled within a large and complex web of partnerships directed toward the goal of creating a new urban neighborhood out of several old ones. The laundry and its future sister enterprises constitute an economic initiative that will accompany a surge of investments in large public and private anchor institutions in the University Circle neighborhood, including reconfiguration of transportation patterns, creation of a new public high school, private housing and retail developments, a new safety and security program, and an incentive program to attract and reward home ownership in the area, with a parallel incentive for renters. The Evergreen Laundry is to be the first of a network of new employee-owned enterprises that will employ neighborhood residents and stabilize the local economy.

The Greater University Circle (GUC) neighborhood combines Cleveland's university and cultural center and hospital district in the heart of the city with surrounding working-class and impoverished areas including parts of six neighborhoods (Glenville, Hough, Fairfax, Little Italy, Wade Park and Buckeye/ Shaker) in order to establish a safe, attractive, racially and economically diverse neighborhood without acute poverty, but also without throwing out or throwing away the people who live there now. It is an ambitious, first of its kind initiative in urban revitalization, and the laundry is likewise to be the first of its kind – a new workers' cooperative with industrial scale capabilities capitalized with loans and grants from philanthropic and private investors. It is the first enterprise in a planned family of cooperative enterprises that will employ neighborhood residents in new "green" businesses notable for their energy efficiency or for the development and manufacture of green technology.

The laundry is part of the economic inclusion strategy of the Cleveland Foundation, which has taken the lead in convening leaders and representatives from some 40 nonprofit institutions in the cultural center with city government, community development associations and other consultants, all brought together for the planning and creation of the new neighborhood. Other parts of the project include $2.5 billion in new construction and remodeling by the large, well-established anchor institutions (Case Western Reserve, Cleveland Clinic, University Hospitals, Cleveland Orchestra, Cleveland Art Museum), relocation and redesign of transportation hubs, new residential and retail facilities, three new high-performance high schools in an existing Board of Education landmark building, and a bold housing initiative to create new homeowners and renters.

The economic inclusion element of the project was born with a question: why were so few benefits flowing from the anchor institutions to their surrounding neighborhoods? By the opening of the 21st century, the city's most successful institutions were the universities and hospitals that had been created out of a century of successful industrial enterprise in and around the city. Many of the steel, oil and chemical firms were now closed or relocated out of the city, but the nonprofit institutions their wealth had created remained behind, and these were remarkably successful nonprofit enterprises. They attracted students and clients from the entire nation. Hundreds of millions of dollars flowed through their treasuries every year. But very little of that flow benefited surrounding neighborhoods. In fact, some of the neighborhoods were so blighted that they represented an obstacle for people wanting to use the hospitals, attend the university, go to concerts or visit the Art Museum or Botanical Gardens. People at the Foundation saw that the neighborhoods should participate, needed to participate, in the anchor institutions' success.

But how to do it? The Laundry is a part of that story, as are its future sister cooperatives, for this is to be a family planned on a large scale.

Economic inclusion and community wealth

The Greater University Circle project had been underway for more than a year by the time the idea of developing cooperative was raised. With the major plans for development and redevelopment of buildings and transportation already well underway, and a housing incentive scheme set to go, the Cleveland Foundation was looking for ways to reach out to the neighborhoods' residents with an approach that promised more visible success than efforts the city had made in the past. "For years, I ran job training programs worth hundreds of millions of dollars, and yet when I looked around the neighborhoods, I thought, 'Where is the impact?'" said India Pierce Lee, Program Director for Neighborhoods, Housing, and Community Development at the Cleveland Foundation.

Ms. Lee's thousand-watt smile is on full power when she talks about the plan for the cooperatives. "This is a way to get the residents long-term employment and ownership," she says. The idea of cooperatives and employee ownership was first raised in a community wealth-building roundtable in December 2006, sponsored by three philanthropic groups: the Cleveland Foundation, the Gund Foundation and the Sisters of Charity. They invited the Democracy Collaborative at the University of Maryland, a nonprofit group with a philosophic commitment to economic stability as the foundation of democracy, to organize the event. The roundtable offered leaders of institutions in the Greater University Circle a close look at a new, capitalist, strategy for creating economic stability and financial assets for poor and working people.

The first goal of the roundtable was to bring together people who were working on various aspects of wealth-building, without much awareness of the efforts and results of others working on other parts of the problem with other approaches. The image for this situation is "working in silos," with each effort and each group of practitioners isolated from the rest. The roundtable brought together representatives from the mayor's office, the Chamber of Commerce, the foundations, the six community development corporations operating in the GUC, the anchor institutions, several CEOs from employee-owned firms in or near Cleveland, the Ohio Employee Ownership Center at Kent State University, and a few outside consultants with hands-on experience. "They not only met people from other silos, but we also brought in experts from outside Cleveland, where elements of the strategy for community wealth-building were being developed around the country -- for creating capital, anchoring it, creating anchored jobs, all to generate wealth for low and moderate income neighborhoods," said Ted Howard, Executive Director of the Democracy Collaborative.

The practitioners met people outside of their own silos, and they heard about the philosophy and research of the Democracy Collaborative. "Our view is that where democratic life gets created is really in communities where people reside. Not that national policy isn't important, but that if you want a "big D" democracy in which national life is really healthy and meaningful and vibrant, in which people express themselves as strong democratic citizens, where that really gets built is on the ground, in communities, so that's one place we start. And when we look at that – my colleague Gar Alperovitz writes about this a lot – there are certain conditions that need to exist in a community that allow for that strong, healthy democratic life to flourish. One of which is … a sufficient amount of economic stability in the community. Not that there shouldn't be growth and expansion, but stability so that people are not scrambling for their next job and can't afford food for their family," said Howard.

Research shows that businesses owned by their employees are unlikely to sell out to foreign ownership or use overseas suppliers, as have so many Ohio companies, because that might mean losing their work as well as their ownership. In a recent survey, Ohio's employee owned companies reported that they were less likely to outsource than their industry. (Jacquelyn Yates and John Logue, "Effective Management Techniques from the Ohio 2004-2006 Survey of ESOPs and Stock Bonus Plans," located at http://dept.kent.edu/oeoc/oeoclibrary/Conf2008YatesLogueEffectiveManagementFinal20080417.pdf) Other research has shown that employee-owned companies are a little more profitable than comparable conventional companies, an advantage that continues over many years like compound interest (Blasi and Kruse [citation needed]). Companies that are wholly owned by their employees, like the cooperative laundry, also enjoy considerable tax advantages because there is no corporate tax above and beyond what the employees receive as wage and retirement income.

If that was the philosophy, how could it be implemented? “You must build assets. You must develop long term leadership, and you need assets to do that. Without it, you have the boom and bust of community development: because the people who you help succeed leave, then drugs and crime grow back and the community crashes again. This is the cycle that faces so many CDCs over and over. The trick to avoiding this cycle is to anchor both people and institutions by building assets in the community,” stated Cicero Wilson, CEO of Mid-Bronx Desperados Corporation in New York City at the December 2006 roundtable.

The roundtable participants wrapped up by brainstorming next steps. That was followed by six months of interviewing by the Democracy Collaborative. Said Howard, “We did about 120 interviews with people across the board, in all levels of these large anchor institutions, in community development corporations, the city government, the county government, business, right across the board, to explore with them what might be a strategy for the anchor institutions in the area to work together with them for mutual benefit.”

Out of the roundtable and the interviews grew both a strategy and awareness of business opportunities. The Foundation’s favored imagery for the strategy is a three-legged stool. A stool can’t even support its own weight without at least three legs, and the three legs of the strategy were local purchasing by the anchor institutions, getting local residents into owning the enterprises that employed them, and taking advantage of emerging business opportunities to produce in a more energy efficient, green economy.

Evergreen Cooperative Laundry

The laundry itself was conceived when William Montague, Executive Director of the Cleveland Veterans Administration Medical Center, pointed out that the VA would soon be needing a vendor of laundry services, because the current laundry facility in Brecksville would be closed when the VA’s Brecksville center closed and operations were consolidated in Cleveland. Since the VA is a federal facility, the laundry service would be competitively bid, and there was no guarantee that any business from the GUC would get the contract, but a feasibility study by the OEOC showed that the demand for laundry service was strong. About five years earlier, the Cleveland Clinic had built a state-of-the-art laundry facility for its laundry vendor, Sodexo, a French multinational with US headquarters in Gaithersburg, MD.[1] The feasibility study revealed that although commercial laundries are known to pay low wages, in fact, they are profitable businesses whose earnings go to owners and shareholders, not the employees. Making the employees owners meant that an employee-owned laundry could immediately provide jobs paying a little better and with better benefits than the going rate for such work and could also be a wealth-builder for employees over the years.

[1] Sodexo, a facilities services provider, started out as a food service provider in 1966, and gradually converted to providing a broader range of services. In 1998, Sodexho merged with Marriott Management Services, at the time one of the largest food services companies in North America. It went public on the New York Stock Exchange in 2002.

So there were two legs of the stool – a local laundry service for anchor institutions and wealth-building through ownership. But can a laundry really be green, with its voracious appetite for strong chemicals, hot water and steam? It turned out that it could at least be greener than the competition, by using the most efficient machines, minimizing the use of chemicals within the requirements of its customers, recycling water, using waste heat to preheat its hot water, and eventually installing solar panels for heating hot water and generating electricity.

To get the laundry up and running, the Ohio Employee Ownership Center provided from its staff Jim Anderson, a former CEO experienced with employee ownership and large-scale industrial processes. He took on the challenge of launching and leading the laundry in the crucial months of operation required to qualify for bidding on the federal contract. In the meantime, leaders of some private health care institutions in the area expressed an interest in patronizing the laundry.

Anderson began by visiting the VA laundry in Brecksville, to which the Cleveland VA's linen was making a 40-mile round trip every day. He saw the operation and learned that bidders for the federal contract at the VA must have demonstrated capacity and a business track record. That knowledge set the timetable for starting the Evergreen Coopertive Laundry. Anderson then visited other potential customers, including Cleveland Clinic and University Hospitals. He found that both institutions are currently contracted – Cleveland Clinic with Sodexo for about 10 more years, and University Hospitals with Paris Company, headquartered in DuBois PA. UH sends laundry to the Paris facility in Ravenna, OH. In his search for laundries to visit, Anderson came across M&L Supply in Akron. M&L sells commercial laundry equipment, and they opened the door for Anderson to visit some large and small facilities in Ohio.

With CC and UH out of the immediate picture as customers, Anderson, with business consultant Stephen Kiel, began to develop a picture of the potential customer base in a 10-county area around GUC. They found 53 hospitals and 259 nursing homes washing an estimated 246 million pounds of laundry per year.

Anderson, taking on the role of chief marketing officer, visited some of the nursing homes. He found that although most hospitals were already outsourcing their laundry, most nursing homes were not. He developed an educational marketing approach, helping the nursing homes to understand what it cost to do their laundry in-house. "A typical reaction would be, 'Our costs are somewhere around 15 cents a pound,' and when we get done with [a cost study], we find out that their costs are somewhere between 60 and 70 cents a pound, so they're off by a factor of four or five," reported Anderson. With his informational approach, he had opened a door to a huge market. Nursing homes with an interest in the GUC project immediately expressed interest in becoming customers of the new "green" laundry. They could use their current laundry space for profitable activities and retrain and redeploy their laundry workers in better jobs in their growing business. It was a solution where everyone would benefit.

“We can probably break even at 2 percent of the market, make money at 3 or 4 percent, and we’re still a very small share of a growing market,” observed Anderson. Kiel, who wrote the business plan for the laundry, observed, “The most important thing is that we’re not looking to penetrate a great deal in order to reach our hurdle. We‘re building this facility to go to about 15 million pounds so the business plan calls for us to grow over a 10 year period of time to 10 million pounds We have the capacity to grow beyond that just by making minor investments in additional equipment. We’ve got the footprint and the capacity to do 15 million, but at 10 million pounds we’re looking to penetrate 4% of the marketplace. We think that is a practical challenge and something that is achievable.”

They plan that the laundry will be launched as a cooperative. As a legal entity, a cooperative is a private company that is owned and democratically controlled equally by its members, in this case its employees. But the Laundry is a little unusual among worker-owned cooperatives. Cooperatives usually begin with a few workers pooling their work and their small personal funds to build up the enterprise. However, the laundry is being started from above. It will receive a substantial capital investment from the CF and local banks to purchase its equipment and help from state and local government to train its employees. Management, provided by the OEOC, will hire employees from the neighborhoods who will then become co-op members after meeting the probationary period and applying to join. The membership fee will be paid through a wage check off.

Anderson and Kiel planned for six months to launch the laundry -- two months to finalize and order equipment, two months to install the equipment, and two months of training for the employees. The equipment was ordered on July 2, 2008. Opening is scheduled for late winter 2009.

The laundry washers and dryers are made in the U.S.A. and they are the very latest and most efficient. To reduce the energy needs of the laundry, heat from the used water will be recycled to heat clean water and the laundry will use the “greenest” chemicals acceptable to its customers. It will have large windows and skylights to take advantage of natural daylight, and rooftop solar panels will further conserve gas and electricity.

The laundry building is located in the Shore Bank Complex on 105th and Elk in the Glenville neighborhood, near the boundary of the GUC project. The neighborhood has been hard hit by economic reverses. The facility is on a bus line and there is nearby daycare for workers. The lead employees have been identified, and they are beginning to participate in the development of the laundry and its workforce. Anderson expects to hire all the employees from the GUC neighborhood, including several veterans who have been rehabilitated and released from the Cleveland VA Hospital.

He has identified and hired an experienced manager for the laundry and is currently looking for someone with experience in maintenance and a leader for operations to be the lead personnel for the new firm. The maintenance specialist will visit the plant and see how the machines are constructed. The maintenance specialist will receive training on operation, maintenance and repairs from the manufacturer. The leader of operations will learn to operate all the machines and train the other employees. Together, these three will train the other employees in running the laundry.

The final two months of startup will be devoted to training the rest of the employees. With a workforce drawn from people who may have been out of work for a long while, there will be substantial training for all jobs. Jim Anderson: "There were four issues that we knew we needed to address as we were hiring people from the neighborhood. Many of them probably hadn't worked in a long time, so they needed some basic work reentry training. The Volunteers of America do that with veterans these days. There are some basic work skill issues that they have to learn, like getting to work on time, how to get to work, and that kind of training. We would have some of those folks do some of that training. For environmental sustainability and operations, the equipment operators and suppliers of materials to the laundry have already committed materials, resources, time, and people. Our two managers in the laundry will also assist in the training of employees as well. With regard to environmental issues and sustainability issues E4S is a group of folks housed in the Shore Bank facility working in green sustainability issues, and they currently have an 8-week training program for hotel workers. We would take that program and size it for our laundry and put our workers through and train our folks in sustainability. Quite frankly, this would [also] be cost reduction issues and cost containment that we want our company and our employees in that company to use and follow on a daily, routine basis. And then certainly [there's] the employee ownership component. We at the OEOC would provide that component.

"And then there's a fifth kind of training that I've just become aware of that I wasn't aware of before. That goes to [reality of] the employee who gets a call from home: "We've got a problem, and I need you here to solve the problem." Typically, that employee, who is probably the most responsible person in the home because they're the one who is working, then needs to leave work and go home to deal with the problem. We need to have, on site, accessible to us, immediately, folks who could provide intervention for that person who got the call, [who could say,] 'No you can't go home. You have responsibility [to your family] and to your job. We need to find out how to get somebody in your home to deal with those issues in the future.' In a conventional workplace, if that problem were to come up, you would deal with it through discipline. Somebody would [do their] job and you would give them time off. Here, it's going to be an ongoing, daily [challenge] and our workers will need somebody to focus on providing the change in the future [when problems] come up. So that's a fifth component of training that's going to be critical to the success of the enterprise. I say that for a social reason but also for a business reason, because it's something that would differentiate this laundry from its competitors, never mind that no other laundry would have the green facilities that we have.

"[The training] is definitely connected to […] the issues that we're touting: We're going to have higher quality. [And] we're going to have lower costs, because we're going to have significantly reduced turnover. If we begin to have a lot of turnover, we're not going to have the quality, we're not going to have the [lower] costs, and we're going to defeat the purpose of this laundry, and it is going to disappear. Our competitors are going to look at that turnover and make sure our customers know about it and in fact, inside the company we're going to lose our quality and cost and the advantages we've built up. But because of the fact that you're an employee owner and have vested in yourself an account, in your name, that is generating income and funds for you in the future, that's going to provide some glue to keep you here in the company."

Despite its annual goal of 5 million of pounds of laundry per year at startup expanding to perhaps 15 million pounds over 10 years, Evergreen Cooperative Laundry isn't expected to take anyone's job. Health care laundry is a growing business area, with nursing homes and hospitals flourishing and expanding to serve the growing number of retirees.

Growing Employee Ownership: The Evergreen Cooperative Development Fund

However, the horizons for Evergreen are farther out than just creating a successful business. The laundry is expected to be just the first new employee owned enterprise in the GUC. Six or seven additional business opportunities identified by Howard's interviews were selected for their feasibility. These include a solar panel installation and service company and an industrial scale greenhouse. Says Howard, "What we are trying to create is a network of cooperatively owned enterprises. … One of the things that we believe will help make that work is what's called the Evergreen Cooperative Development Fund. It will be a nonprofit fund that will receive monies, certain kinds of commercial loans, grant monies and so forth, and we'll use them to help seed the creation of new cooperative businesses in this area. So it will be in the sense of a venture capital [effort] targeted specifically at cooperative development, and the incorporation papers and bylaws of each firm will designate that a percentage of profits will go into the cooperative development fund, once the firm is profitable." The Evergreen Cooperative Development Fund (ECD) for creating more cooperative enterprises will be launched along with the Laundry. After repaying its startup debts to commercial banks and the ECDF, each successful new business will contribute a portion of its profits to the Fund.

Howard recognizes that not every new business can succeed, even with all the help in the world. Having a variety of enterprises going at one time will spread the risks of failure and increase the probability that some will succeed. And if just some succeed, they can grow and expand to employ more neighborhood residents.

How long will all this take? Howard observes that it took a long time for economic decline in Cleveland to get to where it is today. "In the 1950s there were over 800,000 people who lived here and now there's less than 450,000."