



## PLANNING FOR RESILIENCE AMID COVID -19 PANDEMIC: PROMOTING CO-OPERATIVES AS EMPLOYEE CENTRIC BUSINESS MODELS FOR THE FUTURE OF WORK

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### Abstract

Many businesses in Kenya and across Africa are employee-centric. These include the motorcycle and minibus enterprises. The two have grown to become the leading industry in the provision of self-employment and give the transport industry a new face and identity. The Jua Kali Enterprise is an example of an employee-centric business comprising informal traders and artisans who work alongside the road in many developed countries and are renowned for their ability to create pieces of objects for use at household level and enterprise level. They serve as a reminder to policymakers, local governments, and business communities that there are business models in place to invest in their communities and withstand economic shocks. This paper argues that worker co-operatives are particularly resilient in adapting to a crisis, due to the specific features of the Co-operative model, such as the values of democracy and solidarity, cooperation among co-operatives and concern for the community. Local governments and the community can recognize and adopt this business model as an instrument to enhance the central role of the Co-operative sector in transforming towards a more inclusive, sustainable and resilient society.

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### I. Introduction

Increasing cases of environmental, health and economic challenges coupled with the spread of COVID-19 has led to unprecedented uncertainty across the globe. The COVID pandemic could drive about 40 million African people into poverty, thereby doing away with years of hard work in fighting the menace (World Bank, 2020). Its impact is unevenly distributed for households, workers and businesses, further exacerbating inequalities that already exist. Many people who are already at risk of poverty are losing their main source of income and being denied access to essential goods and services.

History has signalled the need to look beyond current structures and models that have prioritised long-term gain over long-term viability, increase inequality, lower social capital and create environmental imbalances. Business models are employee centred and are keen on the kind of impact they have on their workers, stakeholders and communities in which they operate. Because workers make up the back and front end of a business, it is important to enshrine a culture that prioritises workers that can be reflected in their work and interactions with employees. Employee centric business environments comprise motivated employees who are eager to work and are more productive (Ruch, 2021). The Co-operative businesses model is an example of an employee-centred business, since it encourages employee ownership and supports workers, including those in underserved communities, to engage in dignified work that allows them to earn deserved wages as they create income for their community and families.

In the face of adversity, co-operatives have shown and proven their relevance and resilience as well as demonstrated their endurance. Having existed for generations, co-operatives are today being recognised for building economic

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advantage for the workers who own them. This reality is clearer during this pandemic period that has caused a lot of instability in various health and economic environments. Even though worker co-operatives are not popular in Kenya and Africa, many enterprises especially in the informal settlements have prioritised the employee ownership model. Informal enterprises in upcoming developing countries account for 25 to 40 percent of GDP and more than 60 percent of employment (World Bank 2020). These enterprises, mostly anchored under the service sector can be potential worker co-operatives since they encourage employee ownership and have demonstrated higher job quality and resilience during the 2020 public health and economic crisis (Democracy at Work Institute, 2021). Co-operatives have a significant responsibility towards the transition process of enterprises from informal to formal.

This paper highlights worker co-operative businesses as employee-centred models, value and principle-based businesses that adapt to the needs of communities during challenging times. Worker co-operatives are particularly resilient in adapting to crises and within this paper, there are examples of how these co-operatives have shielded their members against the impact of external economic shocks. Recognition, formalisation and adoption of the worker Cooperative Business model can be instrumental in enhancing the emerging role of the Co-operative movement as a pivotal actor in transforming towards sustainable and resilient societies.

## **2. The Problem Statement**

The COVID-19 crisis has created havoc in the economic and labour markets across the globe and this has negatively impacted supply (production of goods and services) and demand (consumption and investment). Many conventional business enterprises have faced unprecedented income losses and uncertainties about their future with many lacking financial reserves to meet expenses during emergencies (KEPSA, 2020). In Kenya, the impact of the pandemic on businesses was most felt from government restrictions on activities, reduced deliveries of the product by members and reduced revenue (Tango International, 2021). In the US, 43% of small businesses that employ almost 50% of American workers were temporarily closed and employment had fallen by 40%. These firms did not have adequate cash in hand at the onset of the pandemic, which meant that they would have to dramatically cut expenses, add to their existing debts or declare bankruptcy (Bartik, 2020). In Kenya, small businesses have been affected by income losses and future business uncertainties due to the interruptions by the pandemic. Most of these businesses lack financial reserves to meet expenses during emergencies and are forced to lay off staff to reduce costs. Only 39% of Kenyans have set aside funds to manage emergencies that arise from loss of income. Amidst these tumultuous events brought by the COVID-19 pandemic, there is no need for the reminder that the economic environment needs to adapt to a more sustainable business environment to survive. This, therefore, is a call to action for stakeholders to consider supporting and developing resilient business strategies for the economies to survive and adapt. Therefore, this paper seeks to test the following hypothesis; Employee centric business models such as worker co-operatives that are focused on inclusivity, group solidarity and collective identity can secure the future of work amidst the economic crisis.

## **3. Methodology and Review of the Literature**

The paper relied on intensive literature analyses. The review of the literature of this paper begins with the human relations theory of management as the foundation for understanding the importance of prioritising employee voices and concerns in the work environment. The next section addresses the importance of collective decision making through defined communication channels and why alienation of individuals from democracy undermines autonomy.

## **4. Human Relations Theory of Management**

Human Relations Theory is all about the needs of employees and their resultant behaviours in groups. The primary contributors to Human Relations Theory are Elton Mayo who is best known for his Hawthorne experiments and Mary Parker Follet who introduced the concept of de-personalized authority and responsibility. The Hawthorne experiment assessed attitudes and reactions of workers in job situations. It began by examining the impact of illumination levels on worker productivity. The study continued through the 1930s and was able to address more issues to do with workplace conditions. The Hawthorne Effect theory suggested that workers can perform much better when there is enough attention on their needs. Findings from this experiment indicated that; social factors are key determinants of job performance; and workers are not solely motivated by remuneration but are inspired by a sense of meaning and significance in the work that they perform.

This experiment by Mayo was instrumental in creating more meaning to group behaviours and individual psychology in management practice. The level of interaction of workers affects how productive an organisation will be. The

motivation level of an employee is related to job satisfaction. The worker's emotional state also has something to do with their motivation (Deci and Ryan, 1985). When workers shy away from activities, interactions, behaviours and feelings they become disengaged and are often defensive, which adversely affects their work performance (Deci and Ryan, 1985). In her collective works, *Dynamic Administration* Mary Parker Follet used psychology to explore various aspects of the organisational environment and emphasised that workers must participate in the decision-making process through defined communication channels (OlugbengaElegbe, 2015). Employees rather are included in the decision-making process than leave it to their managers to make decisions that affect them.

## **5. Traditional Theory of Democracy**

The Traditional Theory of Democracy promotes that the majority decision is what goes by and the minority rights are upheld to leave room for compromise and respect for the dignity of all. Alienation of individuals from democracy undermines genuine self-government and autonomy and erodes the empathic understanding citizens have for one another, a trait essential to making democracy work (Dahl, 1997). For a more global survival of free-market capitalism, the spirit of democracy has to be strengthened and this will ensure that the lives of a magnitude of people change for the better (Henderson, 2021). Inculcating a transparent, open and inclusive work environment gives room for critical conversations and discussions, a fair process of ideas exchange and this adds to the dissemination of new technologies around different democracies. Hence, democracies observe faster technological change, a primary driver of long-term growth (Knutsen, 2021).

## **4.0 Employee Centred Business Models**

Employee Centred business models are invested in the work of their employees and are 'people oriented' organisations. Workers in these organisations are respected, valued and empowered. High performing businesses have adopted a culture that keeps talent or workers within the organisation. Many youth across the globe are exposed to poor quality jobs and absurd working conditions that are less focused on building the skills and talents of youth. It is a business model that can provide a sense of purpose for thousands of skilled youth who lack jobs or are operating in poor work environments that have not improved their income or skills.

These business models operate on; all people are important; a strong belief in people shapes the culture; people working together perform at higher levels; all people benefit. These principles create highly productive and highly profitable work environments. The principles of a people-centred environment are intertwined within organisation culture and can be found in the aspirations, talents, and dreams of workers that constantly engage and interact with each other (Kendall and Bodinson, 2010). Employee centred businesses can establish a work culture that prioritises shared values, beliefs, expectations that are normally established over time within an organisation (Schein, 2004). Today there are various types of employee centred businesses that include: Worker-owned Co-operatives; Employee Stock Ownership Plans (ESOPs); and Employee Ownership Trusts. This paper focused on the Worker-Owned Co-operative Business Model and where two case studies have been shared from Kenya and USA.

### **4.1 The Worker Co-operative Business Model**

Compared to the traditional business model, worker co-operatives are values-driven and put the workers and the community at the core of their business. Due to the changes within the world of work, worker co-operatives are emerging as an organisational model with a specific democratic governance model of; member worker-owners where decisions are made by those who are directly involved in the enterprise. In comparing traditional companies with worker cooperatives, the owners of worker co-operatives who are also workers have a say in the profits attained, and the overall management of the organisation is through a democratic process. (Worker Co-operatives, 2019). A worker co-operative model is an efficient tool for establishing meaningful and sustainable jobs; wealth creation; improved living standards for workers and local community development especially for vulnerable community members who lack a way to access business opportunities and sustainable work options.

Many worker co-operatives around the world are concentrated within the retail and service sectors. This said any type of business can be worker-owned and controlled as a cooperative, and worker co-operatives can provide ways for organising new forms of work with less dependence on the boss and increased collaboration and interaction among workers. Owning their business enables worker-owners to make decisions that are in their best interest and the interests of their community, from setting wages to selecting health care benefits to deciding staff time that promotes a work-life balance.

Increasing income and wealth inequalities across the globe have sparked a desire especially among the youth and the skilled in the society for autonomy and flexibility in the workplace. Built on the principles of sharing and democratic control, worker-owners enjoy more influence over business decisions as well as more equitable pay. That's not to mention that worker co-operatives also tend to be more productive than more conventional businesses (Chen, 2021).

## **5. Worker Co-operative Case Studies**

### **5.1 Case Study 1: Joe Squared Workers Co-operative in the US**

1 in 6 restaurants in the United States had to shut down permanently or long term due to the impact of the pandemic. This number represents nearly 100,000 restaurants (National Restaurant Association, 2020). Many worker co-operatives in the US are cafes, restaurants, homecare workers, and childcare workers. Joe Squared, a restaurant in the US, is known as a worker co-operative that managed to stay afloat amidst the impact of the pandemic. The popular food, bar and music venue transitioned to a worker Co-operative after receiving guidance and support from local groups federal loans and grants that enabled them to stay in business. The Baltimore Roundtable for Economic Democracy, a worker-led non-profit lender that provides support for existing worker-owned cooperatives, supported Joe Squared to navigate their business transition process that involved training on how to make decisions together.

The restaurant was previously owned by one person and is currently owned by 15 workers who are also members. They have the same level of care and interest to see their neighbourhood survive and thrive and are committed to ensuring that their business plays a role. Members who returned as co-owners spent some time writing their business by-laws and applying for grants. All members participated in the decision-making process that included establishing COVID 19 business safety protocols and setting prices for meals. Members unanimously decided to use a voting system that ensured they do take-outs only, during the pandemic to limit contact/Covid spread.

The cost of each takes out boosted employee pay from \$3.63 an hour to \$12. Members decided to spread tips to the entire staff, ending the industry tradition of excluding other subordinate employees who work in the kitchen. They voted to split profits and invest one-third of Joe Squared's annual earnings back into the restaurant, to be used on renovations and equipment. A growing body of evidence from studies in the United States and elsewhere indicate that worker co-operatives are more resilient than conventional businesses, on average. This is major because profit-making is not the overall goal for these businesses, since they can overcome economic shocks due to their owners' commitment to their workplace. These businesses are therefore more productive and have an advantage over the other traditional businesses.

### **5.2 Case study 2: FundiTech Housing and Construction Service Co-operative in Kenya**

Founded in 2017 in Kenya by a group of technical workers and service providers in the building and construction industry. Funditech's is a pioneer service-oriented Co-operative that targets workers in the building and construction industry. The targeted members of the co-operative include carpenters, masons, plumbers, electricians, etc. FundiTech's business model addresses two key points necessary for rapid growth in the housing sector: The Co-operative is based on representative democracy and cooperation rather than competition. The cooperative's services contribute to Kenya's Big Four Agenda, particularly around challenges faced by the housing sector, including the cost of building affordable housing units for low-to-middle wage Kenyans. Its business model differs from the traditional single owner or limited liability business model in that every member is also a part-owner of the business and participates in the oversight, often the management, and the profits of the business, all of which are determined using democratic practices.

FundiTech has a membership of over 30 qualified artisans who are safeguarded from exploitation and work within an agreed level of professionalism during their work. Members can also learn about financial discipline as a way of

safeguarding their livelihoods and their futures. The Co-operative is changing the way local artisans, commonly known as *fundis* are perceived, and due to their sense of resilience – they can present as case studies for youth businesses to learn from. The success of the FundiTech model can be attributed to the generation of trust capital: its deep commitment to the co-operative’s purpose; commitment to the seven co-operative principles, and connection with their members. FundiTech has provided opportunities for local artisans to access the housing and construction market for job opportunities and be part of larger-scale projects offered at affordable rates to the consumers while boosting the living standards of the local artisans. The challenges facing upcoming worker co-operatives in Kenya include the fact that this is still a new model that is yet to get recognition and appreciation from the community and key stakeholders.

## **5.0 Why are Worker’s Co-operatives Good at Crisis Management?**

In the US, many people are turning to the worker co-operative model as a way to build economic resiliency and stability for themselves. The number of worker co-operatives doubled after the year 2008 (Harvey *et al.*, 2018). These businesses are said to be able to survive through their 1<sup>st</sup> six to 10 years at a rate of 7 per cent higher than traditional small businesses (DAWI, 2020). Due to their focus on employees and the community, worker co-operatives share benefits among worker-owners through increased wages, expanded benefits and dividends. They also reinvest them in their communities.

During a crisis, worker co-operatives equitably share the burden. Instead of letting go of workers who are also owners - worker co-operatives collectively find solutions that can work for them. Unlike conventional businesses, worker co-operatives don’t see liquidation or buy-outs as desirable reactions to crisis, nor do they favour layoffs. Their democratic control allows them to respond more fluidly to the crisis (Osterweil, 2013). Worker co-ops also consider human needs outside work, such as those of workers, their families and communities, which means that people can thrive while being able to work, he added. The sector is identifying the manifestations of inequality and working to tackle it. (Voinea *et al.*, 2021). Worker co-operatives are at an advantage during crises because they are good at analysing the management process. In traditional business set-ups, a lot of resources is reinvested into maintaining discipline, but in worker co-operatives, their attention is on; sufficient capital accessible to worker co-ops; technical assistance provided to worker co-ops in the start-up phase; a mandatory indivisible reserve, at least for those “mostly mutual”.

## **6.1 Co-operatives Resilience Factors**

Resilient businesses anticipate material changes to their environment, systematically develop and test plans in the changing contexts and allocate resources while creating value in ways that enable success in multiple futures. At the organisation level, resilience is defined as the ability, capacity or capability of a business to emerge against disturbances and manage to survive” (Ruiz Martin, López-Paredes and Wainer, 2018, p. 21). Thus, resilience factors are the measures put in place inside co-operatives in various fields (Eum, 2012). Companies owned by their employees have significantly outperformed other organisations in keeping employees, protecting employee health and safety, maintaining correct work hours, wages amidst economic trials and uncertainty. People-centred (as opposed to capital-centred) governance and management assumes people are intrinsically motivated social beings capable of balancing personal and group interests by general moral principles. Co-operatives, in this view, embrace a balance of objectives (including financial) and tend to involve or consider key stakeholders in their decision-making process. Joint ownership and control (distributed, rather than concentrated) is a hallmark of co-operative organisations, and it is intertwined with members as owners, controllers, and beneficiaries. Although typically operating under private property regimes, co-operatives distribute ownership rights equally among their members and may hold a part of their assets in non-divisible reserves.

## **6.2 Global Demonstration of Co-operatives Resilience**

In Argentina in 2001, after a serious financial meltdown had led to thousands of bankruptcies, workers took over upwards of 200 firms and, with government support, ran them themselves (known as ‘Empresas recuperadas’). Co-operatives in British Columbia between 2000 and 2010 had a five-year survival rate of 66.6% (100 out of 150), compared to conventional Canadian businesses that had a 43% and 39% 5-year survival rate in 1984 and 1993, respectively (Carol Murray, 2011). Alberta co-operatives, created in 2005 and 2006, had a three-year survival rate of 81.5% compared to 48% for conventional businesses in that province (Richard Stringham, 2011).

In Quebec, co-operatives had a five-year survival rate of 62% and a ten-year survival rate of 44%, compared to 35% and 20%, respectively, for other Quebec businesses. Worker co-operatives and social co-operatives in Spain and France have been more resilient than conventional enterprises during the economic crisis (Bruno Roelant, 2012). Co-operatives in Italy have shown a lower mortality rate and incidence of bankruptcy than conventional businesses (CICOPA). In 2005, 1% of German businesses were declared insolvent, but the statistic for co-operatives was less than 0.1% (ILO).

## 7. Conclusion and Recommendations

Globally and especially in developing countries, policy action needs to be taken to expand and grow employee centred business models like the worker owners' co-operatives. There needs to be support in the development of legislation that aims to ensure that worker co-operatives can access financing support and technical assistance to achieve growth and development. In addition to policy and legislation, partnerships by the national stakeholders and labour unions together with co-operative stakeholders, philanthropy and local government are key and they play a larger role in building opportunities for worker co-operatives especially those in marginalised communities that have been shut out of generational wealth building and might not have equity to start their worker coop business. Stakeholders need to appreciate the reliability and sustainability of the co-operative business model which is based on internationally tested and approved principles, values and ethics. This paper concludes that employee-centred businesses such as co-operatives can add value through manufacturing, through addressing technological gaps to target commercialization and creating opportunities for diversification of co-operatives in various sectors. In conclusion, worker co-operatives can be a solution to the ever-increasing unemployment and foster working environments that prioritise employee satisfaction. This model that is based on mutual aid and solidarity has begun gaining interest as the world continues to adapt to the impact of the COVID 19 pandemic. As many economies struggle to rise from the effects of the pandemic and other economic shocks, worker-ownership could as well be one of the most sought-after solutions towards re-building economic resilience for everyday people.

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