

Available online at [www.sciencedirect.com](http://www.sciencedirect.com)

SciVerse ScienceDirect

journal homepage: [www.elsevier.com/locate/orgdyn](http://www.elsevier.com/locate/orgdyn)

# Collaboration that goes beyond co-operation: It's not just “if” but “how” sharing occurs that makes the difference

Frank Shipper, Charles C. Manz, Karen P. Manz, Benita W. Harris

There is a big difference between cooperation and collaboration in business. Parties can decide to cooperate even when their motives and objectives are at odds and even when they are in direct competition. Mutual tolerance or compromise can allow for co-existence where minimum requirements are met to get by, despite neither party really getting what is wanted. *Cooperation* in relationships can be built on compliance with agreed upon behaviors and practices that allow for mutual survival and moderate levels of performance.

*Collaboration*, on the other hand, suggests commitment to mutual success ... to a win/win relationship. In fact, fostering collaboration through teamwork has become a bed-rock principle for effective contemporary management practice. At the employee level this involves people working together to solve problems and accomplish work in ways that are synergistic – where more is accomplished than organization members could achieve separately and additively. That is, with effective collaboration  $1 + 1 + 1$  can equal 5 or more. Historically, at the organization level, a type of firm that has symbolized a working-together spirit is an “employee cooperative.” Yet the label *cooperative* leaves open to question whether true collaboration really occurs.

In this article we describe the nature and practices of a highly successful hybrid cooperative – Equal Exchange (EE). Worker-owners enjoy some of the benefits of being a cooperative as well as having an Employee Stock Ownership Plan (ESOP) and vice versa. Further, we will outline some of the features that have allowed this employee cooperative to go beyond mere cooperation to collaboration that has allowed it to not only survive but thrive through both good and challenging times. Equal Exchange has accomplished this through ethical business practices that respect all involved – including employees, customers and suppliers, who in turn respect the physical and social environment. In particular, we will

address the significance of the idea that “It’s not just *if* but *how* sharing occurs that makes the difference.”

## ORGANIZATION BACKGROUND

In 1983, Rink Dickinson, Jonathan Rosenthal, and Michael Rozyne were recent college graduates working for a food co-op warehouse in the Boston area. They began to question the dominant food retail market system by asking questions such as, “What if food could be traded in a way that is honest and fair, a way that empowers both farmers and consumers? What if trade supported family farms that use organic methods rather than methods that harm the environment?” Almost simultaneously, they began to hear about groups in Europe who were doing Fair Trade. The advocates of Fair Trade try to ensure that the farmers who furnish the raw materials for products such as coffee, tea and chocolate get fair prices while supporting improvement in social and environmental conditions. Dickinson, Rosenthal and Rozyne liked the idea. According to Dickinson, they “... were basically food co-op people, interested in connecting small, local farmers with consumers to change the marketplace.” It was not their intention to start their own business at that time. Rather, they took the idea to the board of directors of the co-op warehouse. Half supported the idea and half voted against it. It became apparent to Dickinson, Rosenthal and Rozyne that if they were going to pursue their idea, they were going to have to develop an organization.

Over the next three years they met once a month to develop the plans and raise the capital for founding their own organization. During that time Dickinson said they used their jobs to learn about cooperatives, small farmers, entrepreneurship, marketing and “making mistakes, right and left.” The food co-op gave them “a great environment to

learn some skills". In 1986, Dickinson, Rosenthal and Rozyne decided to launch Equal Exchange (EE). By that time their ambition had evolved into wanting "...to change the way food is grown, bought, and sold around the world."

Before the company could be launched, sufficient capital was needed. They quickly learned that no institution would lend them money, including organizations that specialize in high-impact social justice ventures. Thus, the fundraising focused on family, friends and contacts. According to Dickinson, the low-promise sales pitch went something like this: "We want you to invest in this project, and it is almost guaranteed to lose all of your money." On those terms they were able to raise \$100,000.

After raising the initial \$100,000, no additional money was raised for several years. To stretch out the initial investment the founders, as Dickinson described, "... lived very low on the food chain."

Equal Exchange embarked on its pioneering efforts to sell fair trade products in the United States with coffee from Nicaragua. From the beginning, Equal Exchange paid the producers an above market price for their products; this was what they hoped would provide a living wage. The producers are typically small farmers indigenous to their region. The company slogan, "**Small Farmers, Big Change**," prominently displayed on each product, reflected their early mission sentiments.

Not content to just "...change the way food is grown, bought, and sold around the world," the founders of EE formally adopted a hybrid worker-owner co-op structure in 1990. They believed that such an ownership structure would make the employees feel valued and that they would in turn be willing to invest more of themselves into the organization. Each worker-owner buys one privately held share of Class A voting stock. No one could, or can even today, own more than one share of voting stock. Worker-owners can, however, buy shares of privately held Class B, non-voting stock. Thus, power, and potentially leadership, is distributed equally across all worker-owners.

## 2012

Twenty-seven years later not only is EE doing good – it is doing well (see [Appendix 1](#)). Sales of EE have grown from zero in 1986 to \$1,000,000 in 1991 to \$42,887,000 in 2010. In 2011, sales increased another 9% to \$46,819,829. They are projected to exceed \$50,000,000 in 2012. EE's four major product categories and their percentage of sales are coffee (80.1%), chocolate (16.1%), tea (2.7%), and snacks (1.1%). Ninety percent of its coffees are certified organic and 100% of its tea, cocoa, chocolate, sugar, bananas, nuts, and cranberries are certified organic.

Snacks include products such as Organic Tamari Roasted Almonds, and Organic Dried Sweetened Cranberries. In 2010, EE increased its stake in Oke USA, an importer and seller of organic bananas, to 90%. Oke USA sales were \$4,400,000 in 2010. In 2011, it introduced organic olive oil.

Co-executive directors Rink Dickinson and Rob Everts and the worker-owners of Equal Exchange are still interested in changing the world through socially responsible business. Its mission statement reveals the heart of Equal Exchange:

... to build long-term trade partnerships that are economically just and environmentally sound, to foster mutually beneficial relationships between farmers and consumers and to demonstrate, through our success, the contribution of worker co-operatives and Fair Trade to a more equitable, democratic and sustainable world.

In 2009, EE announced, "Our Vision in 20 Years... A vibrant, mutually cooperative community of two million committed participants trading fairly one billion dollars a year in a way that transforms the world."

In this article we report our findings and conclusions based on our study of Equal Exchange, an employee cooperative noted for its highly collaborative and socially responsible approach to business. Specifically, we gathered information based on several data collection methods including a search of the literature; examination of documents and written accounts of the organization's history; direct observations made on-site by a four-person research team (the authors); video and audio recorded and transcribed interviews (both of individuals and groups of organization members); and accuracy review of our written interpretations and description of findings by key contact persons who were members of the organization. The remainder of this article is primarily organized around the key themes of our findings.

## COMPREHENSIVE SYSTEM OF COLLABORATION

Based on our qualitative study it became clear that the worker-owned cooperative Equal Exchange has established an approach and capacity for highly effective collaboration. In fact, it might be described as a comprehensive system of collaboration consisting of several distinct interrelated parts: a sophisticated collaborative governance structure, collaborative leadership of people and knowledge, collaborative relationships with suppliers, collaboration with consumers and the public for marketing and distribution, and collaborative ownership and financing of the organization.

## COLLABORATIVE GOVERNANCE STRUCTURE

The governance model at Equal Exchange is a hybrid worker-owned and operated cooperative that was put in place to foster collaboration among the worker-owners (employees) and multiple functions of the firm. [Figure 1](#) displays a graphic representation of the overall structure. EE has a board of directors that is elected by the worker-owners, who in turn hire two co-executive directors (currently Dickinson and Everts), who occupy the office of executive directors and are not board members. According to Lynsey Miller, market development leader and a former board member, "They're at the board table, but they don't have votes. They are very active in that discussion and agenda setting." Thus, the worker-owners who elect the majority of the board members are also responsible for hiring the executive directors. The board consists of six inside board members elected by the worker-owners and three outside board members who are nominated by a committee of worker-owners. As [Figure 1](#) indicates, the executive directors are responsible for hiring

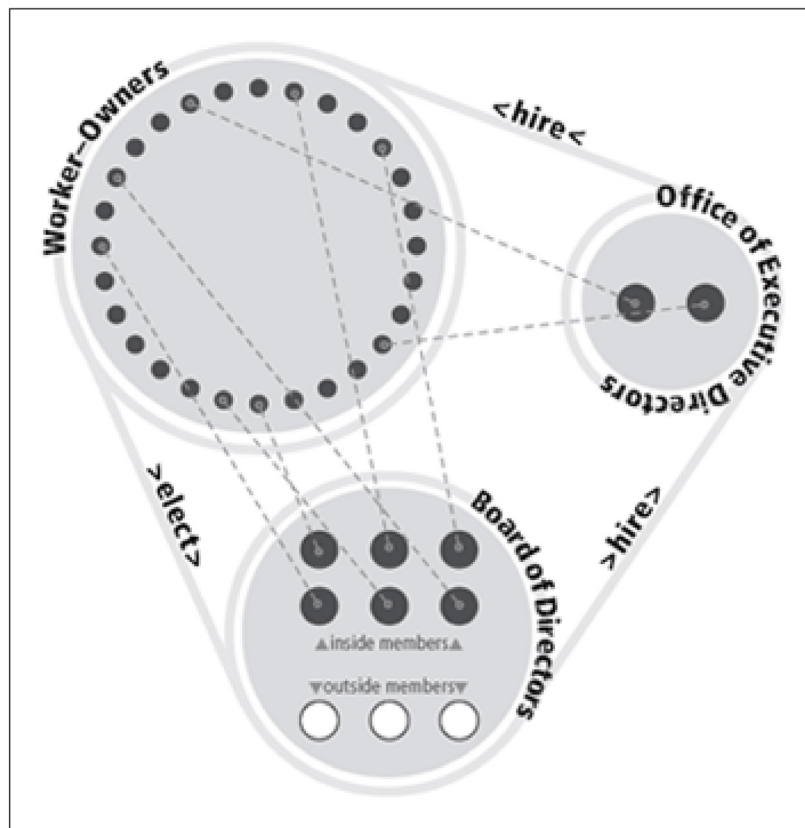


Figure 1 Governance model for Equal Exchange.

the worker-owners, but this does not happen without significant input from the other worker-owners.

All members of the board serve three-year terms. Instead of electing a new board every year, to promote continuity, only one outside and two inside directors are annually elected to the board.

This circular structure reinforces the following four pillars of the Equal Exchange governance model:

1. the right to vote (one vote per employee, not per share);
2. the right to serve as a leader (i.e. board director);
3. the right to information;
4. the right to speak your mind.

Equal Exchange provides the following elaboration of this model on its web site: [www.equalexchange.coop](http://www.equalexchange.coop)

A worker cooperative is an alternative for-profit structure based upon standard democratic principles. It is not designed to maximize profits, nor returns to investors, but rather to bring to the workplace many of the rights and responsibilities that we hold as citizens in our communities. These principles include one-person/one-vote equality; open access to information (i.e., open-book management); free speech; and the equitable distribution of resources (such as income) . . . .

The delegation of responsibilities is very much like that of conventional firms – which allows for efficiency – except that at Equal Exchange those at the “bottom” of the organizational chart are, as owners, also at the “top” of the same chart.

Everts describes the genesis of this governance model as follows:

From the beginning, it has been a culture in a context of participation and shared ownership of strong management. The founders were quite clear that ownership would be shared and that ultimately accountability for the highest level decisions would be shared and that we would attempt to build a strong culture of internal participation and democracy. There was no interest in having it be a collective.

One other important position in this governance model of EE not shown on the diagram in Figure 1 is the *worker-owner coordinator*. This individual is elected by the worker-owners, but is not a board member. This person has many duties, the most public and demanding of which is facilitating the meetings of the co-operative that are held at least quarterly. Overall the coordinator is often akin to a police officer directing traffic. He or she does not make the rules of the co-operative, but is empowered by the co-operative to keep each portion of the system moving smoothly, so that the necessary work may be completed. To do this the coordinator directs the jostling interests, opinions and emotions of the members as best he or she can. One goal is to strike a balance between members’ rights to ask questions, be heard and press for changes and maintaining an environment that is safe, respectful, and constructive.

The coordinator is automatically the representative of the worker-owners on certain ‘tripartite’ committees and will serve next to representatives of the board and management. One example is the committee that nominates outside board

members. The coordinator also leads the ten member worker-owner cabinet. The cabinet is a group of volunteers, accountable to the coordinator. They carry out essential co-operative functions such as maintaining the internal education program and conducting the complex, multi-ballot, multi-site elections. A secondary function for the coordinator is to give the "State of the Co-operative" presentation at the annual meeting in May. It is an assessment of how well EE is functioning *as a co-operative*, not as a business per se. The worker-owners can call a meeting of the co-operative by presenting signatures of 10% of the worker-owners to the worker-owner coordinator. If a worker-owner wanted to bring something to an upcoming meeting, and had either the coordinator's consent or the required number of signatures, the coordinator would be responsible for putting the individual on the agenda and collaborating with that person so that the idea is thought out and well presented.

Communication and coordination are critical and complex components of the governance model and keys to enabling collaboration to occur. How the governance model works in practice is partially portrayed in the Equal Exchange Governance Matrix. According to an internal document, the matrix was developed "... to identify decision-makers and illuminate the decision-making process for key governance decisions at Equal Exchange." Thus, recruiting, selecting, hiring, developing, and retaining employees who can operate within this governance model and adapt to the needs of the organization are critical.

## COLLABORATIVE LEADERSHIP OF PEOPLE AND KNOWLEDGE

The worker-owners focus considerable attention on human resource management because of the need to assure that people involved fit with the distinctive ownership culture at EE. Recruitment is probably the HRM (human resource management) area of least concern. Whenever an open position is advertised, because of EE's strong reputation, multiple qualified applicants respond. Once a person applies, normal HR screening occurs to ensure that the person has the right credentials. After the HR screening, applicants are interviewed by the people with whom they will work.

Once hired, employees are matched with a mentor and put on probation for one year. There is approximately a 10% turnover during the first year. After a year, all worker-owners vote on each person, concerning whether to accept them as worker-owners or not. Before the vote the mentor who has worked closely with each new employee speaks on his or her behalf. All other worker-owners can discuss each individual before the vote is taken. Worker-owners can vote yes, no, or abstain. The vast majority of employees who make it to the one-year point are accepted as worker-owners. When one is not accepted it can be a traumatic event.

During the probation period each employee is expected to participate in a curriculum to learn about the mission of Equal Exchange, and how it works. The worker-owners feel that it is very important to form a worker-ownership culture. To support the development of the culture, Equal Exchange has developed a 200-page *Owners' Manual*. To both support this effort for new employees and to reinforce the worker-ownership culture for all, *Exchange Time* is held every

Thursday morning. At Exchange Time, discussions occur on topics such as Fair Trade, co-ops or geo-political issues in countries where EE obtains raw materials. New employees are practically required to participate and all other employees are encouraged to do so. The discussions are recorded and sent to remote employees. Cody Squire, Interfaith Department customer service representative, joined Equal Exchange right out of college a few years ago. He described Exchange Time as follows:

It's one structured thing that you can depend on having every week just to learn about something new, to look deeper into something you already know about, or to hear from somebody who has just returned from working with farmer co-ops in Peru.

In addition to Exchange Time, Equal Exchange has 10 percent time. Employees can use 10% of their work time to work outside their departments. This time can be used to cross-train, work on governance committees, or learn more about the product. For example, Miller used her 10 percent time when she was on the board of directors to work on a 20-year vision for Equal Exchange. Mike Mowry and his colleague, Danielle LaFond, in quality control created the "Brew Crew," a year-long curriculum on coffee. In this program, participating employees attend training every two-weeks for a year, where they will learn how to do "cuppings" (coffee tastings).

To further increase intellectual capital, Equal Exchange maintains a library to which all employees have access. Mowry described the library as, "Awesome ... it's full of DVDs and books on anything from economics to feminism to Fair Trade ...." The worker-owners also have responsibility for the education committee, originally, a board committee. At Equal Exchange, education was identified by the company as a "... vital function. In shifting accountability for this committee, Worker-Owners became more accountable for their own education and the orientation of new employees to our co-operative."

Worker-owners fulfill many roles in this governance model. In addition, they share in the profits of EE. Because Equal Exchange operates as a hybrid worker-owner model, profit sharing is referred to as Patronage Rebate. Patronage is a common term in consumer collectives where purchasers (a.k.a. patrons) receive a share of the profits based on the amount they bought. At Equal Exchange, all worker-owners receive the same amount regardless of their position in the company. In fact, each worker-owner receives the same share of the company's net profit or loss each fiscal year. The total Patronage distribution consists of 40% of net income after state taxes and preferred dividends are paid. Half of this distribution is reinvested in Equal Exchange, and half is paid in cash. In years of losses the Patronage Rebates are charged against the retained distributions.

In terms of employee benefits, Equal Exchange "is generous," according to Brian Albert, chief financial officer, who had approximately 30 years with some well-known international firms before joining Equal Exchange. For example, it offers all employees 12 sick days. A worker-owner can use them for him/herself, to take care of a sick child, to attend a doctor appointment, or to spend time with a sick parent. All worker-owners receive two weeks of vacation for the first

two years. After that, they receive four weeks. In addition, employees receive the standard holidays plus the Friday after Thanksgiving.

EE is also generous in the area of pay – it pays above average at the lower levels. However, consistent with its emphasis on collaboration and equality, it pays below average at the upper levels. It maintains a top-to-bottom pay ratio of 4-to-1, in stark contrast to many organizations that have pay ratios as high as in the hundreds. It clearly states on its website that EE's pay ratio was adopted to reflect the Fair Trade ethic inside the organization.

## COLLABORATIVE RELATIONSHIPS WITH SUPPLIERS

In many ways Equal Exchange treats its small farmer cooperative suppliers like collaborative partners in the process of converting raw materials into quality products for consumers. EE goes out of its way to relate to its suppliers with fairness and support that goes beyond normal business concerns to address growers' needs – e.g., paying more for purchased goods to promoting better wages for farmers, as well as providing training assistance and resources for education. To produce organic coffee, chocolate, tea, and its other products, Equal Exchange must first secure raw materials provided by suppliers that are located around the world. In fact, EE buys raw product from four continents – North and South America, Africa, and Asia – and primarily from developing countries.

For example, coffee is grown largely in developing countries. Chocolate also is primarily exported by developing countries. The large multinationals typically buy their raw materials from either large plantations or large sellers of coffee. The large sellers depend on middlemen, often referred to as “coyotes,” to buy the coffee from small growers. According to an article in the April 25, 2011 issue of *Time* magazine, Ugandan coffee farmers get less than 1% of the retail value of their product. In contrast, the U. S. Department of Agriculture estimated that U.S. farmers receive 12% of the retail value.

Equal Exchange buys directly from co-operatives that represent small producers, cutting out the middlemen. It buys raw materials from approximately 39 small farmer cooperatives in 19 countries at higher prices than typical. EE maintains that “great” coffee can be obtained from many sources. What sets it apart is that it buys “great” coffee from “great” sources. In its 2009 annual report, EE defined its sourcing standards as:

- **Quality** – Find the best beans.
- **Flavor** – Select sweet beans with unique flavor characteristics.
- **Farmer Partners** – Trade with small farmer co-operatives that share our vision of community empowerment.
- **Direct Relationships** – Import directly from farmer co-operatives.
- **Fair Price** – Pay above the market price, often above Fair Trade prices.
- **Environment** – Support sustainable agriculture, the preservation of sensitive areas, and reforestation of degraded land.

- **Commitment** – Source all our coffee according to the quality of the beans and the quality of the source.

Equal Exchange supports the co-operatives with both financial and technical assistance. In its 2008 Disclosure Document to Sell Class B Preferred Stock, the relationship with small farmers was described as follows, “Our Commitment: we pay a fair price to the farmer, trade directly with democratic co-ops; supply advanced credit and support sustainable agriculture.” In other words, Equal Exchange goes beyond just paying a fair price; it pre-pays on its contracts with the cooperatives. Also, it provides assistance to the cooperatives to ensure that they can provide a high quality product. For example, Mowry, a quality control specialist, described what he did on a trip to Nicaragua:

We do a lot of work going down and actually training about quality. Even with their quality departments, we do extensive training on how to roast samples and how to cup coffee (An expression used to describe the industry standard process to test the quality of coffee.). The whole idea is collaborating with their tasters and our tasters.

Equal Exchange provides assistance to the small farmer co-ops beyond food products based on their initiatives. For example, it has provided assistance for training programs for women in Guatemala, an ecotourism project in Nicaragua, and new classrooms in El Salvador.

Further, when aspects of the business are not consistent with fair and collaborative treatment of suppliers, Equal Exchange will work with suppliers to stay true to its underlying values. For instance, EE attempted to procure tea from a region of India famous for tea, Darjeeling, around 1997. At that time, the formal Fair Trade standards for tea were different than they are today. To EE's dismay, they were focused on plantations, and yet EE plowed ahead. A hurdle was that there was no tea available that was Fair Trade certified *and* organic *and* high enough quality for EE's market *and* from small farmers. The market demanded the first three criteria, but not the fourth (which was most important to EE). EE, with the help of key, even ironic, allies in Darjeeling and Germany began to create a path that EE thought gave it the best chance to eventually deliver a tea with all four characteristics. Rodney North, spokesperson for EE, characterized its most important ally as “ironic” because it was a big tea plantation called TPI. In fact, it had been one of the model plantations for Fair Trade tea certification. The owners of TPI, the Mohan family, shared EE's aspirations to bring small farmers into the Fair Trade criteria. Thus, in the early years, 50% or more of the tea EE imported was from the TPI estates, and TPI gathered tea leaf from co-ops of small farmers around them for the rest. TPI also assisted these co-ops with organic certification, Fair Trade certification, rehabilitating their tea bushes, and improving quality. Over time it shifted the tea blends to have more and more sourced from small farmers.

There were many more evolutionary steps thereafter, so that today EE has a line of 12 teas. Ten are 100% small-farmer tea leaf. And two are “other” (neither small-farmer sourced nor traditional estate – that is because one, the mint, is sourced from a U.S. farm, and the other, chamomile, is from an exemplary philanthropic Egyptian NGO (Non-Governmental Organization) farm entity called SEKEM. “BUT it is only a

temporary source until we locate a suitable Fair Trade certified co-op of organic, small-scale chamomile growers,” asserts Rodney.

This is an example of how it sometimes takes a collaborative community to effect significant change. In other words, an organization with permeable boundaries where ideas can be freely exchanged and where the distinction is blurred between where the company's interests end and its partners' and customers' interests begin can develop additional collaborative opportunities.

## COLLABORATION WITH CONSUMERS AND THE PUBLIC FOR MARKETING & DISTRIBUTION

After the product is received in the United States, and additional processing has been performed – coffee roasted, tea packaged, bananas ripened and chocolate processed – marketing and distribution come next. Equal Exchange takes a collaborative approach to getting the word out and for distributing its products. With limited funds for marketing through costly traditional media advertising, EE instead goes directly to potential consumers and partners with institutions including schools and religious groups and organizations.

Equal Exchange markets and distributes its products through multiple channels, including retail outlets, schools, an interfaith network, and the Internet. Approximately 72% of its products are sold through retail outlets, including health food stores, food co-ops, cup shops (i.e. cafés and restaurants), universities, and chain stores. The largest portion of these sales is through food co-ops. Selling to the chains is particularly difficult, as Dia Cheney, director of marketing, explains:

It is tougher to succeed in that channel, because we don't have the marketing dollars that major food companies have, and that's been something that's been a struggle to try to figure out how to succeed because you need to have a national brand awareness, which is really tough to do on a small budget.

Thus, Equal Exchange has developed some unconventional promotional strategies. In fact, Miller referred to them as “guerilla marketing.” In the early days, she described some of the marketing:

We would go out on the streets of Boston handing out coffee samples and when the police would come over to ask if we had a permit, we'd try to get them to have a coffee sample because we didn't get permits; kind of have to think on your feet and talk your way through challenges.

Another tactic is to create grass roots events. Beside traditional in-store product demonstrations, Equal Exchange worker-owners do public speaking, organize consumer letter writing campaigns to ask supermarkets to carry its products, and even go door-to-door to get its message across.

The interfaith channel is Equal Exchange's second largest form of distribution, with approximately 25% of sales. It includes American Friends Service Committee, American Jewish World Service, Catholic Relief Services, Church of the Brethren, Disciples of Christ, Lutheran World Relief, Islamic Relief U.S.A., Mennonite Central Committee U.S.,

Presbyterian Church USA, United Church of Christ, United Methodist Committee on Relief, and Unitarian Universalist Service Committee. The interfaith program affords churches and faith-based organizations another opportunity to support missions by assisting them in supporting small-scale farmers through receiving a fair price for their products. Equal Exchange also provides materials to educate consumers on issues of economic justice, sustainable farming, and the effects of an increasingly industrialized food industry.

The development of the interfaith channel is a great example of collaboration with institutions on the consumer end of the supply chain. Prior to the mid-1990s, Equal Exchange worked with individual faiths on individual events. Then Timothy Bernard, a Lutheran minister, and Irvin Kroll, a salesperson at the time, hit upon the idea of formal relationships with faith-based communities. As explained by Rodney North, “Irvin had to sell this idea internally to Rink and others, and Timothy had to do likewise within the Lutheran community. Eventually, they created a pilot project which grew to be very successful.”

Another example of a collaborative approach to marketing and distribution was led by Virginia Berman. She facilitated a refocusing of school fund-raising activities. Instead of selling items such as wrapping paper and popcorn, she helped move the product mix sold by schools to fair trade products. And when she heard from teachers that they wished their students would “get it” – that they would understand why it is important to sell fair trade products, she requested and received funding to create educational materials. Currently, there is a flexible and engaging curriculum targeted for grades 4–9 that teaches the value of responsible fund raising that does more than just raise money.

To reach the technologically savvy in a collaborative way, Equal Exchange has adopted widely shared social media such as Twitter, My Space, YouTube, and Facebook to communicate its message to current and potential consumers. Additionally, Equal Exchange takes advantage of the electronic media to offer a blog and to provide newsletters to which anyone can subscribe. All of these efforts are, as Miller said, “To try to connect with the public and consumers.” The use of social media also reinforces its marketing efforts through retail stores, and the interfaith network. Moreover, it leads to its fourth marketing channel, the Internet. In 2011, Internet sales accounted for approximately 2% of sales. Currently, Equal Exchange is looking at how to expand its Internet sales. Over half of interfaith sales previously discussed are also executed via online stores. Thus, in total approximately 12% of EE's sales come through the Internet.

Equal Exchange's two cafés, located in Boston and Seattle, are another form of marketing and distribution. They provide patrons with wireless internet access for free in their cafés, which began operation prior to the 2008 recession. Due to the high capital costs of cafés and an 18–24 month breakeven point, at the time of our research Equal Exchange had begun creating cafés on wheels that are designed to go directly to consumers on the streets. They are described by Albert as follows:

We have two custom built tricycles very close to completion. They'll be in the Boston market probably within the next 30–60 days. They are stand-alone. They have marine batteries and they carry all the supplies they need. They

can brew coffee right there onsite. If you park it here in the morning and not much action, you can park it over there in the afternoon, yeah, that seems to be a better spot. It's kind of a brand building, and they have kind of a wow factor.

Equal Exchange also enlists its customers in its commitment to responsible fair business practices by communicating directly with consumers. As with all Fair Trade products, the pricing has to be above the price charged by large multinationals such as Procter & Gamble and Unilever to support the price paid to the producers. The prices for Equal Exchange products are on par with premium producers such as Starbucks and Green Mountain. To persuade customers to buy its product, EE uses a significant amount of informational marketing. For example, on the packaging of every chocolate bar, tea bag or box, and every bag of coffee is the slogan, "Small Farmers, Big Change." In addition, information on how the product is grown, who grows it, where it was grown, and why it is different often appears on the packaging material. Sometimes pictures of growers also appear. To further differentiate the products, Fair Trade and USDA Organic seals are on the packaging materials too. The purchaser is also informed that soy-based ink was used for the printing. EE tries to use every opportunity to get its message across and connect with the public and consumers.

## COLLABORATIVE OWNERSHIP AND FINANCING OF THE ORGANIZATION

Everyone at Equal Exchange is a part owner of the organization. EE issues two forms of stock – Class A Common Stock and Class B Preferred Stock. Every worker-owner is required to own one share of Class A Stock. No outsiders can own Class A stock, and worker-owners can own only one share. This ensures equal voting rights, one person-one vote, and thus, equal power among all worker-owners. Worker-owners purchase a share when they are elected into the company. When originally issued in 1990, each share was worth \$2000. In January 2011, each Class A share was worth \$3170. The price of a share is adjusted each year for inflation so that each new member buys in for the same amount as all prior worker-owners. To prevent stock ownership from being an obstacle to joining the company, once elected to join the company worker-owners are provided with an interest free loan to purchase a share. They have four years to repay the loan and it can be repaid with the cash portion of the Patronage distribution.

Stock ownership extends beyond EE members and is designed to enlist investors in the spirit of collaboration, both financially and in terms of understanding and supporting the organizational mission, rather than as a means of financial speculation. Both worker-owners and outsiders can own Class B Preferred Stock. Shares sell for \$27.50. Dividends are declared annually by the Board, usually in January, and are targeted at 5%. Originally, individual shares could be purchased. As Rob Everts related, "Someone could buy a share for their grandchild for \$27. We loved that type of thing, but we are operating under limits of 500 maximum outside shareholders. If you exceed that limit, then it is considered

to be publicly traded." In 2011, preferred shares must be purchased in lots equal to or greater than \$10,000.

When Equal Exchange offers its preferred shares, it does so in the following manner, according to Everts:

We do have to be diligent and deliberate about talking to people and sharing. We have a very extensive disclosure document that everyone has to look at before they invest in us. There's got to be some connection to Equal Exchange to get them here in the first place, whether it's a personal connection or whether they represent an account of ours; maybe they actually are an owner and they want to be an investor. It has to be people who fundamentally know us and have direct access to the books and can see quite closely.

To assure all direct access to financial information, Equal Exchange practices an extreme form of open-book management. Privately or closely held firms such as Equal Exchange are not required to make available to the public an annual report, EE publishes each year's annual report on the web.

Preferred shares are sold as a long-term investment and are designed to provide a fair and reasonable return rather than potential large capital gains for investors. Preferred stockholders can redeem them for their full price only after five years. Shares cannot be redeemed until after two years and then for only 70% of their value, 80% after three, and 90% after four. In addition, there is provision in the disclosure statement that the board of directors "... may postpone or delay a request for redemption" if the total debt to total equity ratio exceeds 2:1 or the redemption would cause it to exceed that ratio.

Class A Common Stock and Class B Preferred Stock have the following unusual restriction and explanation for that restriction on them in the disclosure document:

On sale or dissolution, in which the assets or receipts of the sale exceed the paid in capital of the Preferred and Common stockholders, the remaining assets, those over and above the redemption prices for the stockholders, is distributed to other Fair Trade organizations. Basically the capital gain due to the Company's growth, if it is ever realized through a sale, stays within the Fair Trade community, rather being distributed to stockholders.

The mission purpose of this treatment is to remove the likelihood that the Company will ever be sold for reasons of personal financial gain. Therefore, the likelihood is that the company will remain independent, and its mission remains intact. As the mission and the dividends, not the capital gain, are the basis for investment, this protects the stockholder's interest.

This version of a "poison pill" to prevent takeover by outsiders is not commonly encountered. Albert related the following regarding this provision:

Anecdotally, I bumped into an attorney, she specializes in ESOP's and employee owned accounts ... she said that our by-laws are maybe a little over the top, but in the next breath said, she's used them more than once as the model for others.

To raise additional working capital, Equal Exchange uses an unusual method for debt financing. Anyone can buy an Equal Exchange Certificate of Deposit (CD) through Eastern

Bank of Massachusetts. The minimum for these CD's is \$500. It also has received loans from the Calvert Foundation, Everance, religious institutions and individual supporters. These organizations and individuals are referred to as mission lenders. Although atypical, the financial policies collectively support Equal Exchange's unusual governance model for a for-profit corporation.

**CONCLUSION: COLLABORATION THAT GOES BEYOND COOPERATION**

Cooperation is not enough for fully tapping the capacity of the human resources of an organization. Coordinated effort, compromise, mutual tolerance, and compliance with agreed upon norms, all have a place in work contexts. However, the pursuit of optimal performance and sustained effectiveness requires more. Collaboration can be the key where mutual win/win success is built into the entire system of doing business, all the way from suppliers on one end to customers on the other.

The co-op based organization Equal Exchange serves as a model of a comprehensive system of collaboration in all parts of the business. EE has effectively created an overall approach that includes collaboration in its governance structure, its leadership of people and resources, its relationship with suppliers, with consumers and the public in its marketing and distribution, and even in its ownership and financing. All the while, this collaborative system is anchored in deep values committed to fairness and sustainability that prioritizes treating everyone and everything with decency and

respect. This extends from small grower farmers who supply raw materials, to worker owners who perform the work of the organization, to customers, and to the earth that provides the organic ingredients of EE's products.

Looking ahead, Equal Exchange faces many challenges. It directly competes with many very large multinational firms that have more resources and potential clout for promoting and selling its products. And organizations incorporating aspects of Fair Trade and "organic" products into their businesses have been rapidly increasing. Although Equal Exchange is the largest company that sells fair trade products exclusively and has continued to grow, Rob Everts sees challenges ahead including

...being prepared to take more risks, being prepared to reinvest in ourselves structurally, or whether it's to spin off cooperatives, we're contemplating this with the retail café sector. Being prepared to take risks and also how do we look at this thing, a big company succeeding in many local markets where we aren't necessarily based there, that's a challenge.

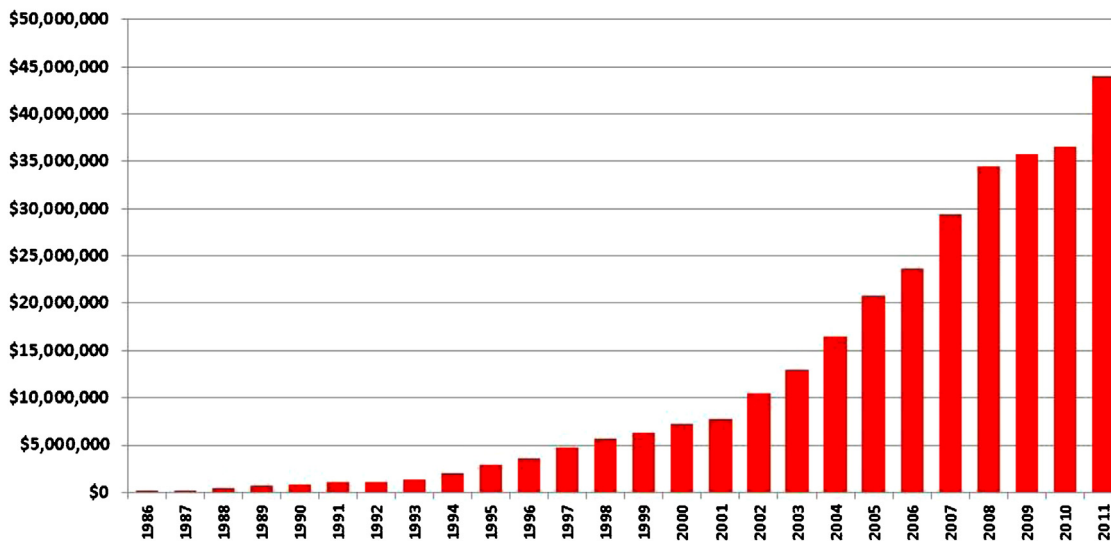
So far, Equal Exchange's collaborative approach to all aspects of doing business has enabled it to succeed in both good and challenging times. In doing so EE has provided a vivid example of collaboration that goes beyond cooperation.

 To order reprints of this article, please e-mail [reprints@elsevier.com](mailto:reprints@elsevier.com)

**APPENDIX A**

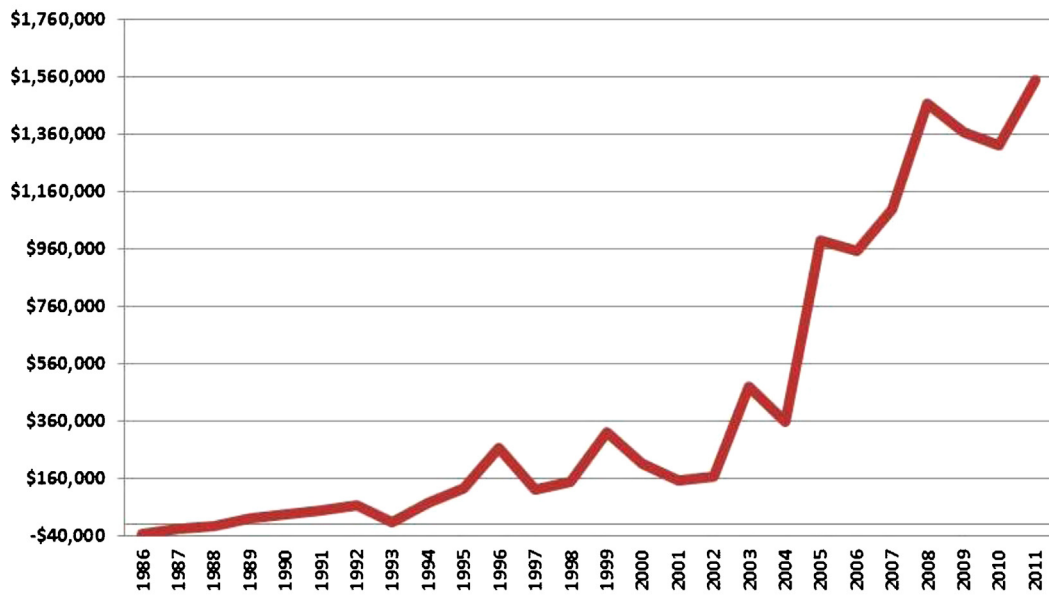
Graphs of Equal Exchange's Growth in Sales and Profits

**Equal Exchange's Growth in Sales: 1986 to 2011**





## Equal Exchange's Growth in Pre-tax Profits/Losses: 1986 to 2011





## SELECTED BIBLIOGRAPHY

If interested in how other companies use creative collaboration, please see F. Shipper and C. C. Manz, "Employee Self-Management Without Formally Designated Teams: An Alternative Road to Empowerment," *Organizational Dynamics*, 1992, 20(3), 48–61; C. C. Manz, F. Shipper, and G. L. Stewart, "Everyone a Team Leader: Shared Influence at W. L. Gore & Associates," *Organizational Dynamics*, 2009, 38(3), 239–244; C. C. Manz, K. P. Manz, S. B. Adams, and F. Shipper, "A Model of Values Based Shared Leadership and Sustainable Performance," *Journal of Personnel Psychology*, 2010, 9(3),

212–217; and B. W. Harris, F. Shipper, K. P. Manz & C. C. Manz, "Equal Exchange: Doing Well by Doing Good" in *Competing for Advantage* by R. E. Hoskisson and M. A. Hitt, (Ireland, forthcoming and Mason, OH: Cengage).

Last, but certainly not least, the authors would like to thank the many worker-owners of Equal Exchange who generously shared their time and experiences to assist in an accurate portrayal of the enterprise's practices and culture. Without their assistance this article would not have been possible.

**Frank Shipper**, Ph.D., is an award-winning researcher and Kelso Fellow whose work has been recognized by The Academy of Management, The Center for Creative Leadership, Employee Ownership Foundation, and others. His work has appeared in publications such as *The Academy of Management Learning and Education*, *Leadership Quarterly*, *Organizational Dynamics*, and *The Academy of Management Journal*. He is a professor of management and chair of the Management & Marketing department in the Franklin P. Perdue School of Business (Salisbury University, United States. Tel.: +1 410 543 6333; fax: +1 410 543 8425; email: [fmshipper@salisbury.edu](mailto:fmshipper@salisbury.edu)).

**Charles C. Manz**, Ph.D. is an award-winning author whose more than 20 books include *Mastering Self-Leadership*, *The New SuperLeadership*, *The Power of Failure*, *Emotional Discipline*, and *The Virtuous Organization*. His work has been featured in *The Wall Street Journal*, *Fortune*, *Fast Company* and other national publications. Formerly a Marvin Bower Fellow at the Harvard Business School he is the Nirenberg Chaired Professor of Leadership at the University of Massachusetts (Isenberg School of Management, Amherst, United States; e-mail: [cmanz@som.umass.edu](mailto:cmanz@som.umass.edu)).

**Karen P. Manz** is a researcher, writer and speaker in the area of values, collaboration and work life. She is co-author of related articles and books, including *The Wisdom of Solomon at Work: Ancient Values for Living and Leading Today* and *The Virtuous Organization: Insights from Some of the World's Leading Management Thinkers*. Manz has taught M.B.A. and M.A. courses at UMass Amherst and Hartford Seminary. She is a member of the Academy of Management and the American Academy of Religion and is on the editorial board of the *Journal of Management, Spirituality and Religion*. Her current interests are sustainable organizations, boomers in work-life transitions and folk work for the 21st Century. (P.O. Box 3497, Amherst, MA 01004, United States; e-mail: [kmanz@prodigy.net](mailto:kmanz@prodigy.net)).

**Benita W. Harris** is an ordained elder in the United Methodist Church. She has a passion for missions, including fair trade and human rights. She is also a registered nurse and is actively involved in medical mission work. She holds a Master's in nursing, a Ph.D. in human development and a Master's of Divinity. Her current interests include developing community among people of different socioeconomic and cultural classes and interfaith relations (Asbury United Methodist Church, 1401 Camden Avenue, Salisbury, MD 21801, United States; e-mail: [benita@asburyweb.org](mailto:benita@asburyweb.org)).