

Type I Conversions

→ Namaste Solar

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NAMASTE SOLAR

Solar electric system design and installation
Boulder, CO

Date of conversion: January 1, 2011

Number of workers at time of conversion: 73; 49 worker-owners

Number of workers as of summer 2014: 90; 46 worker-owners

Conversion type: Type I

Based on Project Equity's interview with Blake Jones, Namaste Solar co-founder, current worker-owner, and President & CEO in May 2014.

Background

Namaste Solar, a Boulder, Colorado-based solar energy system design and installation company, was co-founded as an employee-owned business in 2005 by Blake Jones, Ray Tuomey and Wes Kennedy. In 2011, Namaste officially converted from its unique form of employee ownership to a worker-owned cooperative.

Why it became a coop

Namaste Solar has meticulously documented its experience transitioning to worker ownership. The “About Us” section of Namaste’s website explains why the company decided to become a worker cooperative:

We undertook the transition to this new capital structure for many reasons, mainly to better align our capital structure with our governance structure. Prior to the transition, our company operated on a one person, one vote basis for most operational decisions, but when it came to shareholder votes, we voted on a one share, one vote basis. The cooperative model more closely matches our democratic ideals and more equitably distributes the risk/reward equation of our employee-owners. In addition, this enables us to accept external investors without sacrificing internal control.³⁰

Conversion logistics

Namaste’s workers began discussing the possibility of transitioning the company from its unique form of employee ownership to a worker cooperative structure about a year before the conversion reached completion in January 2011. The idea received positive initial attention amongst Namaste’s workers, but not all employees were immediately in favor of the conversion. According to co-founder and current worker-owner Blake Jones, many of Namaste’s workers and shareholders expressed initial skepticism about the logistics of converting to a worker cooperative structure.

³⁰ “Employee-Ownership Model – About Us.” Website of Namaste Solar. <http://www.namastesolar.com/about-us/employee-owned-cooperative>. Accessed 2/10/15.

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A group of workers formed a committee to research worker cooperatives and to explore what converting might mean for Namaste. The research committee organized meetings with Namaste’s entire worker population to present their findings and to discuss the advantages and disadvantages of converting to a worker cooperative. The meetings functioned as an open forum for Namaste’s workers to ask questions and express opinions about cooperative ownership; the purpose was not, Jones emphasized, to convince Namaste’s workers to support the idea of converting the business into a worker cooperative. If it became evident that the worker cooperative model would not be a good fit for Namaste through the course of the meetings, the idea would no longer be pursued.

During the initial exploratory stage of Namaste’s conversion, the research committee conducted a number of interviews with members of the worker cooperative community to learn about the logistics of becoming a worker cooperative. Additionally, the committee interviewed existing and potential investors to gather knowledge about how to structure the cooperative’s capital structure, and to determine the exact investment (buy-out) figures. Jones notes that Namaste’s interviews and interactions with Equal Exchange, a well-known worker cooperative in Massachusetts that is the oldest and largest Fair Trade coffee company in the United States, were particularly valuable during the research and discussion phase of Namaste’s conversion. In addition to sharing advice, Equal Exchange invited Namaste to use its bylaws as a basis for Namaste to create its own. Jones also felt that the legal advice Namaste received from Linda Phillips, a Denver-based business law attorney with extensive experience in cooperative businesses was an invaluable aid to Namaste’s conversion process.

In a presentation at a special “Conversions” session of the 2014 National Worker Cooperative Conference, hosted by the U.S. Federation of Worker Cooperatives, Blake Jones outlined the key stages of Namaste’s conversion process (explained in greater detail in the “Coop logistics” section below):

Stage	Namaste’s Approach
Determine timeline for conversion	1-year process; monthly meetings; two company retreats
Determine new coop capital structure	Class A (voting) common stock (\$5,000 per share – 1,employee, 1 share, 1 vote) Class Z (non-voting) preferred stock (\$1 per share)
Develop coop bylaws	Based largely on the bylaws of Equal Exchange
Determine criteria for passing vote to “sell to ourselves”	90% of stockholders must vote “yes” to “sell to ourselves”
Vote & ballot details	Option for each worker-owner: Convert 100% of currently-owned stock into new coop entity, or redeem 100% of stock
Determine coop value and new class A stock price	Class A stock price: \$5,000 1 year candidacy period for prospective worker-owners 4-year loan available for the \$5,000 stock price

From the first introduction of the idea to the official completion of the conversion, Namaste's transition into worker ownership took just over a year, with the following key milestones:

November 6-8, 2009: First introduction of the idea to possible convert to a cooperative at a company retreat;

May 14-16, 2010: Continued discussion at company retreat;

November 4-6, 2010: Finalization of cooperative conversation terms and details at company retreat;

December 1, 2010: Official stockholder vote took place regarding cooperative conversion;

January 1, 2011: Cooperative conversion officially became effective.

Coop logistics

Namaste's membership requirements set a 12-month probationary period for each prospective worker-owner, after which he or she becomes eligible to purchase one share of voting common stock. During the year long "candidacy period," each prospective worker-owner has a "candidate curriculum" to follow. Blake Jones noted in a 2013 interview with the Democracy Collaborative that each prospective worker-owner is assigned a mentor who connects them to internal resources and makes sure to get their questions answered. And, each prospective worker-owner must complete a "curriculum check list" by attending orientations and learning about different areas of the company, including company background, financials, history, and "how we do things and why."³¹

At the end of this candidacy period, current worker-owners vote to approve the prospective worker-owner and enable him or her to buy a share of common stock. A single share of common stock—which every worker-owner must hold—may be purchased for \$5,000. The \$5,000 figure was chosen, according to Jones, because it represents a significant financial commitment by the worker to the cooperative but is still low enough to be affordable for all workers: "about the cost of a used car." Still, to reduce the financial burden on prospective worker-owners who "don't have access to capital," Namaste also offers four-year loans to finance the up-front purchase of a share of voting common stock.³²

To ensure that the democratic nature of Namaste's organizational structure carries through its decision-making processes, all of Namaste's meetings and all of the company's books are "completely open," and the company "encourage(s) people to attend committee meetings, team meetings, and board meetings." Additionally, the company holds monthly "Big Picture Meetings," during which worker-owners "review our financial statements together, we review our performance against our goals, we have big picture discussions, and we make big picture decisions. That is a great way for people to learn about our culture and how we democratically engage in discussion and decisions." Also, the company shares literally all company information, including everyone's compensation levels, every detail of financial information, and all meeting minutes, but with the exception of legally protected personal information. To deepen the democratic culture of the company, Namaste also holds two retreats every year,

³¹ "C-W Interview: Blake Jones Co- Founder, President and CEO, Namaste Solar." The Democracy Collaborative. Feb. 13, 2013. <http://www.namastesolar.com/news-awards/our-news/top-news-stories/2013/02/13/c-w-interview-blake-jones-co-founder-president-and-ceo-namaste-solar>

³² Ibid.

where worker-owners “go up in the mountains and talk about highest level, big picture strategy and decision-making.” Together, says Jones, all of these forums “create opportunities for people to interact and engage in and foster a stronger democratic culture.”³³

Namaste’s understanding of management reflects the democratic culture the company builds through the various forums described above. Namaste’s worker-owners “don’t call it management,” Jones says:

We talk a lot about the difference between leadership and management. It is more leadership than management. Most people in teams are self-managed, but we do need leadership. We call it a meritocracy whereby the people who have earned the trust and confidence of their coworkers tend to be democratically empowered with more responsibility. Leadership does not entail an entitlement to authority, but instead is democratically empowered. Teams have the largest voice in determining their team leaders.³⁴

Challenges during conversion

The primary initial challenge to Namaste’s conversion was the widespread skepticism about the logistical feasibility of converting to a worker cooperative, which Jones attributes to the scarcity of published information about worker cooperative conversions. Additionally, in his presentation at the 2014 Worker Cooperative Conference, Jones noted the difficulty encountered by Namaste in obtaining loans from traditional lenders for converting the business to a worker cooperative; this, too, stems from a general lack of familiarity with the model. This barrier is frequently echoed by the worker cooperative community. As Namaste experienced, because of the general unfamiliarity with and uncertainty about the worker cooperative model, lenders often require that loans taken out to transition a business to a worker cooperative structure be personally guaranteed.

Before the cooperative conversion, Jones notes that Namaste’s stock prices had gone up as the value of the company increased, creating different financial benefits for worker-owners depending on when they joined the company. Because of the increasing stock prices, those who joined Namaste later got a lower financial benefit in the cooperative conversion than did those who joined earlier. Namaste wanted stock ownership to provide an income-generating benefit proportional to profit rather than a benefit based on capital gains using (what they felt were) imperfect valuation methodologies. Because of this, as part of the cooperative conversion, all of Namaste’s stock was set to a fixed price.³⁵

Key lessons / effective practices

Although Namaste Solar did not legally convert to a worker cooperative until 2011, it was founded in 2005 as an employee-owned company. In addition to being employee owned since its founding, Namaste was also always managed in a democratic manner. Because of this, a culture of cooperation and transparency was built into the company from the start. Additionally, the pre-conversion employee-ownership structure meant

³³ Ibid.

³⁴ Ibid.

³⁵ Note that there are ways within the cooperative structure to incorporate a financial benefit to founders for taking on the initial risk in launching the cooperative. For example, see Project Equity’s Case Study on New Era Windows.

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that all employees already had “skin in the game,” according to Jones. These two factors—an existing culture of cooperation and employees’ feeling of ownership over the company—were key contributors to the success of Namaste Solar’s conversion to a worker cooperative.

Namaste’s democratic culture laid the groundwork for workers to take on strong leadership roles throughout the conversion planning process itself, and strong employee leadership has likely also played an integral role in Namaste’s continued success through its transition to a worker cooperative. The deep, constant dialogue among workers about what becoming a worker cooperative would mean for Namaste allowed the company to develop a specific version of the worker cooperative model that worked for Namaste. Moreover, the emphasis on open communication solidified the democratic foundation of Namaste’s current decision-making processes.

Blake Jones emphasized in an interview with Project Equity that another key lesson learned from Namaste’s conversion stems from the company’s struggle with the unequal financial benefits received by workers who joined the company at different times. Partially for this reason, Jones says he would not recommend starting a business as a worker cooperative, but would instead start the business with a five-year plan for converting to a worker cooperative. Doing this, Jones noted, would allow the business adequate time to prepare for and plan around this challenge.

One of the big learnings from Namaste was their need, as the company grew from three to 100 people, to make a series of changes across internal decision-making, compensation practices, and external directors and investors. The following pulls out some key takeaways about these changes from Blake Jones’ interview³⁶ with the Democracy Collaborative in 2013.

Namaste started with consensus decision-making (everyone had to vote in agreement) and by the time they grew to 15-20 people, they changed to consent (requiring no thumbs down, but people could abstain). At this stage, they also created committees that enable a smaller group with the right expertise to analyze and deliberate issues, then bring recommendations to the larger group for voting. At 30-40 people they moved to democratic decision-making, requiring either a simple or super majority, depending on the issue. And finally they adopted “empowerment votes,” by which a team, committee or individual is given decision-making power within certain guidelines or budget, then reports back to the group.

As Namaste grew, they also changed their compensation practices. Everyone started with equal pay, and over time they evolved to having a cap of a 2:1 ratio between the highest and lowest pay, then 3:1, then 4:1 (which is still significantly lower than industry norm).

With their growth, they also figured out how to leverage external expertise and investment without giving up governance or control. Namaste has brought on two external board seats in addition to the five co-owner directors, and has also brought on external investors by selling a class of non-voting preferred stock.

36 “C-W Interview: Blake Jones Co- Founder, President and CEO, Namasté Solar.” The Democracy Collaborative. Feb. 13, 2013. <http://www.namastesolar.com/news-awards/our-news/top-news-stories/2013/02/13/c-w-interview-blake-jones-co-founder-president-and-ceo-namast%C3%A9-solar>