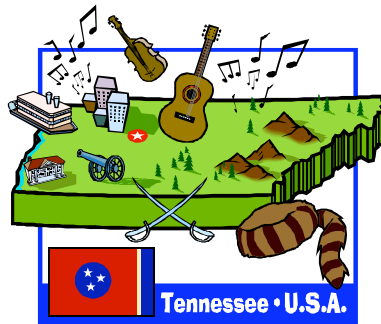


# Not-Just-For-Profit

## Alternative Business Models



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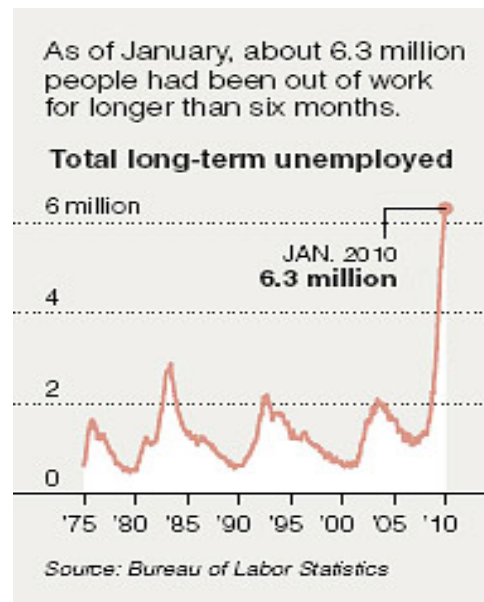
## 1. Introduction

The focus of this report is on business models and their successful adaptations, which have expanded the conventional corporate value system to include creating local jobs and institutionalizing the best environmental practices while remaining financially profitable entities.

### 1.1 Current State of the Economy

The latest recession has had a large impact on cities in the United States as well as countries across the globe. There are a number of factors beyond the scope of this report that have contributed to this recession including consumer debt, mortgage backed derivatives, housing market trouble and the emergence of global markets and global workforce. Globalization, a process largely driven by consumer demand for competitively priced goods and the responsibility of companies to provide the highest return on investment for their stakeholders, has placed our economy into unfamiliar territory. Home foreclosure rates are at an all time high and continue to climb<sup>1</sup> but one of the largest concerns of economists are the long term unemployment numbers - a number possibly sustained by the global market system. (See Figure 1.)

Current long term unemployment numbers dwarf any previous recession both in duration of unemployment and number of unemployed. The number of Americans in this unemployment category is currently at the highest level since spanning back to 1948 when the government began tracking the number. The reason for the concern by economists is clear: consumers account for 70% of the U.S. GDP. When a consumer base is hollowed out by individuals' long-term debt, which is exacerbated by foreclosures as well as long-term unemployment, then the economy is prone to stalling or contracting for longer periods of time. Accordingly, the Federal Reserve Board forecasts a full recovery as late as 2016<sup>2</sup>. The Brookings Institute estimates that the U.S. economy would need to have 11 consecutive years of strong job growth to bring U.S. employment back to pre-recession employment levels.<sup>3</sup>



**Figure 1**  
Long term unemployment in the U.S from 1975 through January 2010. The long term unemployment remains unchanged as of August 2010.

Recovery of jobs remains elusive since rehiring and/or retraining U.S. workers often is not in the best interest of the company. The fact remains that companies are not setup to create jobs, rather their goal is to remain fiscally responsible to their stakeholders while producing a competitively priced, high-quality product to their costumers. To achieve these two objectives, companies increasingly are turning to incorporating a global labor pool that is far cheaper. Companies are also continuously upgrading technologies that increase productivity and reduce labor costs. Therefore, when a company cuts jobs during a recession, it will retool with better technologies requiring less human capital or cheaper labor found elsewhere. Compounding the problem is that small start-ups businesses are often forced to use the same tools to survive or achieve profitability.

Economists are coining people who lose their jobs from this process as being the "structurally" unemployed since their position has been permanently eliminated, merged into another position or become obsolete. Structural unemployment is not a new phenomena and has been happening over the past 30 years in the low skilled labor market; it's just now gaining attention as the effect has migrated and is now affecting middle class workers. The New York Times has reported on the "new poor" that have emerged from the loss of jobs among the middle class.<sup>4</sup> Particularly hardest hit have been minorities that recently gained middle class status only to have been pulled back into poverty. An article in the New York Times reported a large-scale reversal by middle class African Americans back to poverty in Memphis, Tennessee.<sup>5</sup> Whether it's the "middle class poor" or the "low-skilled poor" that populate the inner cities of many U.S. regions, our country faces a conundrum where creating new U.S. jobs are not in the best interests of consumers or companies relative to product value vs. price; yet jobs remain the key driver for ensuring that the economy moves forward and stabilizes. This report focuses on evaluating business models that could be applied towards solving this economic conundrum.

## **2. Cooperative Business Model Overview**

### **2.1 Business Models That Expand the Corporate Value System**

The Mondragon Cooperative Corporation (MCC), City of Cleveland Economic Policy, and B-Corporations (B-Corps) will be examined within this work for their application in U.S. cities, especially Memphis, TN. All three models have effectively expanded the corporate value system. The goal of this report is two-fold. 1) To encourage entrepreneurs to make social and environmental changes through business by providing real life case studies where businesses and social entrepreneurial organizations are making or have made significant socio-economic and environmental impacts on their communities. 2) To serve as a resource and advocacy guide for cities that are focused on economic revitalization in their low-income urban-core, neighborhoods.

### **2.2 The Mondragon Corporation**

The Mondragon Cooperative Corporation (MCC) is a private, for-profit, highly competitive business conglomerate consisting of 264 business enterprises known as cooperatives.<sup>6</sup> The cooperatives that make up the MCC share a strong commitment to cooperation and democracy in the workplace, backed by a unique system of worker participation. Each cooperative has the same corporate structure shown in Figure 2. The role of these entities that form this corporate structure are discussed in the reference section of the report.<sup>7</sup> The cooperatives are grouped into four areas – Industry, Retail, Finance and Knowledge.

Enterprises within Industry include consumer goods, industrial components, capital goods, construction and enterprise services. Cooperatives within Finance include an internal social security cooperative, a credit union that has 370 branches throughout Spain, and its own health-care cooperative, which provides full health care coverage and services for employees and external clientele. The local Basque government has become one of the major clients for the health care system since the system is far more cost-effective than the previous government-run system.

The Knowledge enterprises include the companies own educational system consisting of 40 schools, the University of Mondragon, and a product-development consulting services division.

The MCC is the seventh largest corporation in Spain and employs more than ninety two thousand worker-owner employees. Mondragon posted \$16.7 billion in revenue for 2008. While Mondragon effectively competes in the free market system, MCC demonstrates that a company can be driven by a set of social values while operating as a fiscally responsible and profitable business.

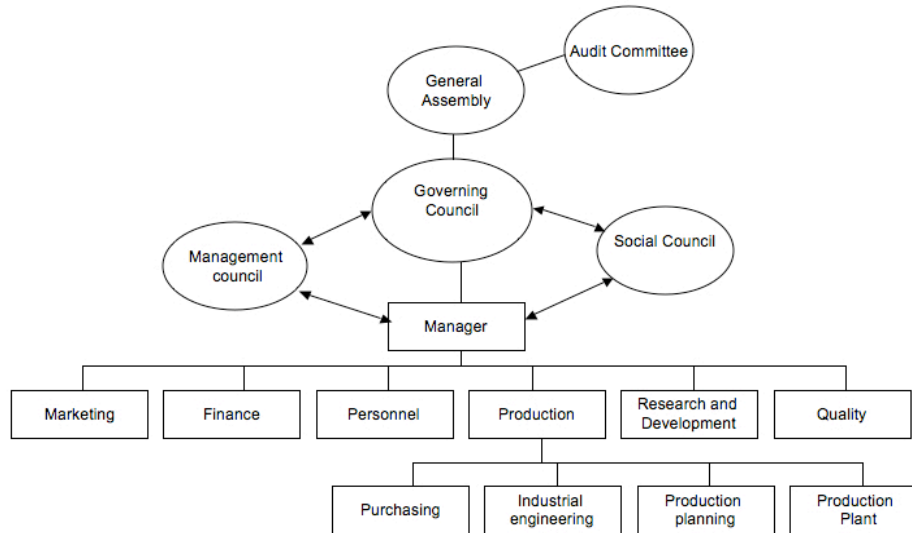


Figure 2

Each of the 264 businesses enterprises follow the general corporate structure depicted in Figure 2. MCC was organized in this manner to maximize a democratic approach to corporate decision making. The structure ensures that decision-making power would not become overly concentrated. Maintaining this structure guarantees that employees remained fully engaged, thus maximizing the productive capacities and creative contributions of each employee.

### 2.2.1 Why Was Mondragon Created?

To appreciate the socio-economic void that Mondragon Corporation fills within its surrounding community, it's well worth considering the cultural tensions and economic conditions during the time period when the company was founded.

The company's founder was a Spanish catholic priest by the name of Jose Maria Arizmendiarieta known as Father Arizmendi. In 1941, he was assigned a church in the town of Mondragon, located within the Basque country of Spain. Arizmendi was never employed or paid by MCC, but was the pioneering master-mind of the company.

Prior to Arizmendiarieta's arrival, Spain had endured one of the most challenging periods in its history, the Spanish Civil war. The war had just concluded led by the fascist regime that had decimated entire towns. Particularly hard hit was the Basque country. The residual effects of the war were disastrous: inflation soared, economic recovery faltered; Spain registered negative growth rates for the next decade while the per capita gross domestic product (GDP) during this period was barely averaged 40% of West European countries.

Father Arizmendi's church was attended by the working class. The working class people were poor and oppressed by unemployment, lived in overcrowded housing and suffered from an outbreak of tuberculosis. The time was characterized by a "Spirit of hopelessness," hunger and cultural unrest <sup>(8, pg 27)</sup>. Arizmendi described Mondragon as an "active and restless town with serious social tensions."

The working class were not permitted to go to the University and the main employer in town, the Union Cerrejera, excluded the working class from enrolling in the company's internal technical schools. Consequently, these rules and measures created a region where a great socio-economic gulf separated masses of workers from the small upper strata.

Father Arizmendi was a social entrepreneur to the core, which may account for him devising what seemed at the time a completely unreasonable vision to remove the inequity between classes: the Mondragon corporation was the manifestation and fulfillment of that vision.

Since workers were excluded from higher education and further on-the-job-training, Arizmendi's first action was to establish a vocational-technical charter school. The first five graduates of the school, who would later found the Mondragon corporation, spent more than twelve years with the priest before the company was founded. Under his tutelage, the school quickly expanded and played a key role in educating and indoctrinating the company founders with the ideologies that would eventually form and create the core corporate values and principles of the company. The ideologies born out of Arizmendi's vision have become the key four corporate values of the company- Cooperation (solidarity), Participation, Social Responsibility and Innovation. These values represent a concise synthesis of the ten cooperative operating principles<sup>9</sup> developed over five decades by the workers and Arizmendi. It is the practical application and strong adherence to these principles that accounts for the company's dynamic capacity to weather economic downturns while protecting and creating new jobs.

### **2.2.1 Mondragon Corporate Principles**

The key corporate values and principles are defined in more detail below:

- i. **Solidarity (principle)** - Solidarity is also known in the Mondragon corporate culture as "for the common good" or as Arizmendi would say "working for the benefit of others." Solidarity was given the highest priority in the corporation. This principle traces back to the Mondragon Corporation emerging as a grassroots outgrowth of the town. Accordingly, the "venture capital" for the first enterprise founded in 1956 was raised by the townspeople. The community raised three hundred thousand dollars to purchase a failing company for its business license. Buying the company was the only legal means for working class townspeople to gain access to owning a business license. Licenses were

restricted to the elite class of citizens. That sum of money in today's dollars would be equivalent to approximately \$3 million.

Consequently, the company has participated in nearly every realm of community development. The company established and operates over 40 cooperative housing complexes. These complexes also include grocery stores, retail stores, banks, private daycare centers, grade schools and higher education facilities.

Solidarity is applied to how the company manages its profits. Two percent of a cooperative's profits are pooled in a general solidarity fund. This fund is used to assist enterprises that experience financial difficulty. Another 10% of each enterprise's profits are invested in new products and new enterprises and another 2% of profits are invested in education which, includes product research and development and funding the University of Mondragon. Another 15-20% of profits from each enterprise are placed into MCC's reserves. These reserves are used for weathering financial losses. When reserves are exhausted, the general solidarity fund is used to keep an enterprise financially viable.

Solidarity is also applied to wages. The highest paid worker for the company, the CEO, makes only six times as much as the lowest paid worker. Minimizing the salary differential reinforces the reality that each worker is equally valued and expected to contribute and participate in the development and growth of future businesses.

- ii. **Sovereignty of Labor (principle)** - In the Mondragon Corporate Management handbook, it is written that "The Mondragon Cooperative Experience considers labor to be the principle force in the transformation of nature, of society and of human beings themselves. Consequently, the corporation will take all necessary measures to ensure that the jobs of workers are protected." The fact that jobs have not only been protected but created through several recessions, indicates the company's commitment to this principle.

Below are two "necessary measures" taken by MCC that illustrate this principle:

- a. **Worker Imposed Pay-cut:** - In 2008, worker owners at the Fagor appliance cooperative elected to forego the additional four-week's pay normally due to them over the Christmas period, and have subsequently cut their pay by eight per cent.
- b. **Worker Imposed Furlough:** - In another cooperative that year, employees and managers met to review their options. After three days of meetings, the group agreed that 20% of the workforce would leave their jobs for a year, during which time they would continue to receive 80% of their pay and training for other work. This group was chosen by lottery, and if the company was still in trouble after a year, the first group would return to work and a



second would take a year off. The solution worked and the cooperative regained profitability.

- iii. **Education (principle) - A Tradition of Entrepreneurship and Innovation** - Most corporations are seen as an economic institution that expropriates the ideas and knowledge of education for the benefit of the corporation, whereas Mondragon's founder, Arizmendi, suggested that Mondragon be an educational organization that makes use of the economy to support itself. Accordingly, within Mondragon, education provides the practical knowledge and expertise required for a person to earn a living. As previously mentioned, Mondragon has its own University. Curriculum for the University is largely driven and created by the feedback and needs of the corporation. In return the University provides innovations, new products and a highly skilled workforce for the company.

With its strong commitment to education, Mondragon fosters and therefore maximizes the creative capacities of its workers, a role typically reserved for upper management or an entrepreneur starting a new company. Workers have the resources, education and training to become entrepreneurs for starting the next business enterprise or provide input for improving efficiencies in manufacturing or product improvements.

Mondragon has its own entrepreneurial cooperative<sup>10</sup> that is dedicated to incubating the ideas of workers and giving them business training and the bank cooperative provides venture capital to start a new enterprise. Workers undergo two-to-four years additional educational training in business before launching the enterprise and a year-long feasibility study which includes marketing research and financial analysis is carried out in collaboration with University and the bank cooperative. Each year, an average of four new businesses are started. Testifying to its commitment to innovation is the fact that twenty five percent of the company's products are slated to go into production in 2011. Its commitment to innovation reflects Mondragon's commitment to job creation and stability. Every product has a limited life, but rather than cutting jobs associated with manufacturing, Mondragon uses innovation as a means of creating new jobs with a new enterprise. It also prevents layoffs by restructuring an established cooperative for producing a new product.

- iv. **Finance (principle) / the pivotal role of the Mondragon Bank** - Early on in the life of the company, Arizmendi, made a decision to create a bank that would serve as the first "secondary" or support cooperative for the company. A secondary cooperative is an enterprise that provides resources and services that support the primary producer cooperatives. Secondary cooperatives, in addition to the bank, include an internal healthcare system, the Mondragon University, a student-run producer cooperative, housing cooperative and the educational arms of the company. Prior to creating its own bank, the company was only

manufacturing stoves. It is now widely recognized that the bank has become the "heart" of the company that allows the company to leverage or pump its own profits into start-up businesses. However, when Arizmendi initially proposed the bank idea to the company's founders (his former students), they soundly dismissed the notion as another one of the priest's wild ideas. Rather than split profits as cash dividends among employees, profits were placed into employee "capital accounts" at the bank. The bank would then borrow the funds to create business loans to fund start-ups. Interest was paid back into the "capital accounts" of the employees. By doing this, the company realized the financial power to leverage money without draining cash reserves or owing money to an unaffiliated bank. When employees retired, they could withdraw those same funds from their capital account that had been used to provide loans to the company. The ability of the MCC to loan itself money and serve as a bank for the general public became the key driver that allowed the company to expand through a self-financing mechanism.

A subtle but powerful outgrowth of having a bank inside the corporation is that the bank exists to ensure the overall financial success of the MCC. This means every financial measure is taken by the bank to assist a struggling enterprise to recover and remain financially viable. If a business is struggling the bank will extend loans to the enterprise at an 8% rate. If it continues to struggle, the bank will loan funds at 0% and if further funds are needed, bank profits are poured into the struggling business. In addition, financial advisers will collaborate with the struggling business in order to identify what issues must be addressed in order to keep the enterprise afloat. An enterprise may need to switch its product line or restructure and merge with another enterprise to become once again profitable. When this happens, loans are fully repayed by the enterprise. All 264 of MCC's enterprises are monitored monthly by the entrepreneurial division which is quick to make recommendations if any difficulties emerge. The bank is one of the fastest growing in the world with over 1 million depositors and \$5 billion in assets. Therefore in addition to using the company's own profits, non-employee depositors are essentially providing the venture capital for the corporation's start-up businesses.

### **2.2.3 Circulation of Capital – *Biology Collides with Business***

Mondragon functions similarly to a biological organism or system. Biological organisms, particularly higher ordered ones such as humans consist of a group of complex systems that are tightly integrated in a coordinated effort to keep the organism alive. Biological systems are maintained or sustained by sharing a common currency known as the blood, which carries the basic elements, oxygen and nutrients required to sustain the systems. On average, a red blood cell circulates the body one hundred and seventy eight thousand times before it is

removed from circulation. In monetary terms, this number is astronomical if a red blood cell is viewed as local currency.

If a city has a strong network of small businesses, a local currency may exchange hands six to eight times between businesses. The number of times a dollar is exchanged is called the “local multiplier effect.” When the dollar leaves the community it “bleeds” out of that community. Mondragon has effectively minimized the “bleeding” effect. Figure 4 depicts the Mondragon Corporation as an organism that effectively re-circulates the local currency. Having the bank central to its corporate body, MCC can take in profits/revenues and then “reinvest” or “pump” the capital back into new local businesses or start-ups. Because the MCC has numerous enterprises embedded in the local community including most banks as well as healthcare, most of the local dollars spent go back into the corporation.

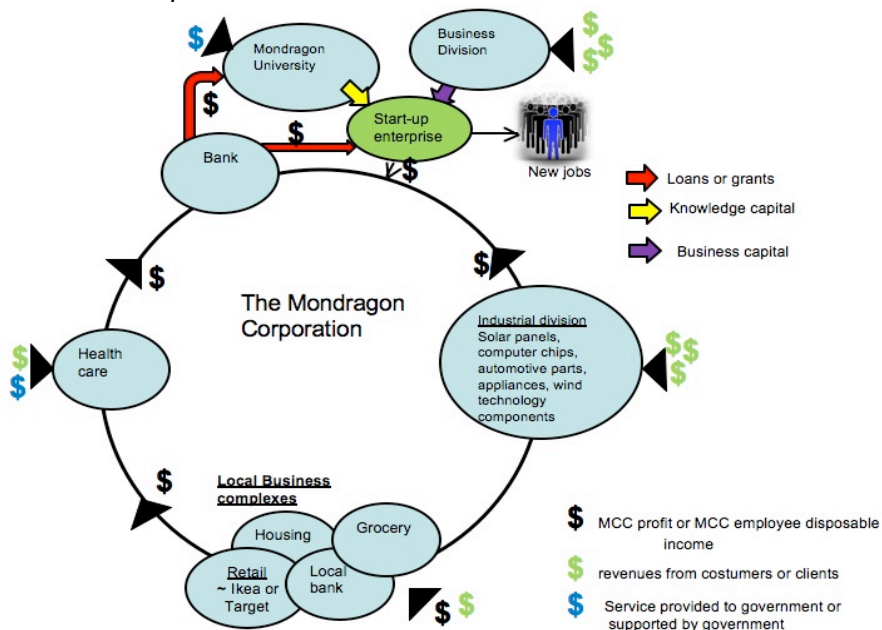


Figure 3

### 2.2.4 Product Innovation

Similar to a red blood cell, which has a life-span of approximately 120 days, many products have limited lifespans. Therefore, Mondragon must create “new products” to keep currency flowing and ultimately workers employed. New businesses and products replace old products and technologies that are entering into their final phase of their lifespan ( i.e. diminishing demand and technological relevance). The “ life” of the Mondragon Corporate body is employment for the community.

### 2.2.5 Mondragon - A model for Inner-city Economic Development

The Mondragon Corporation’s capacity to transform a poor working class community into a region that at present has the lowest unemployment rate in the world has been well documented by numerous academic institutions.<sup>8</sup>

U.S. cities suffering from the current “great recession” are taking notice of Mondragon’s five-decade tradition of steadily creating jobs, growing new businesses and remaining profitable. Cleveland, OH, is currently the pioneering U.S. city, which through a multi-organizational public/private partnership, has adopted Mondragon’s model to create stable well-paying jobs located within the core of the region’s inner-city communities. Cleveland’s efforts will be discussed in the subsequent section of this report.

### 2.2.6 Mondragon for Memphis, TN Inner-city Communities

The Mondragon model would be effective to Memphis’ economic development efforts for the following three reasons:

- i. **Job creation.** Mondragon has weathered numerous global recessions and added new jobs in the midst of cyclic downturns. In 1986, unemployment in the Spain region hit 27% while the area where MCC is located unemployment rate hovered below 1%. During that recession, Mondragon added 500 jobs to reach an all time high employment level.<sup>8</sup>

Figure 4 shows the historical evolution of jobs in the corporation. Job creation is a key corporate value and the sole reason why the corporation was created: this defining value marks a distinct departure from conventional corporate values systems.

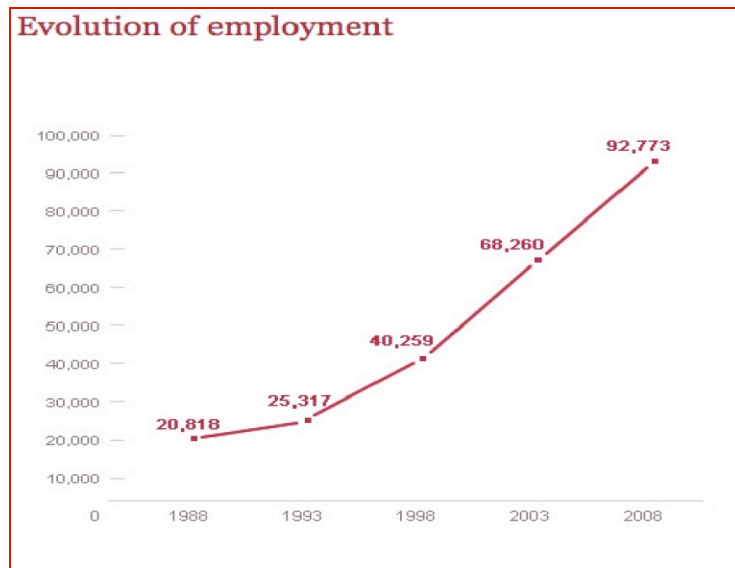


Figure 4

ii. Business incubator. The stability and creation of jobs within MCC are built and sustained by the rich entrepreneurial history and culture of the company. The entrepreneurial division of Mondragon has continued to develop an average of four new businesses each a year, each with about 400 employees. To date, spanning back to the 1956, only two of their 264 businesses have failed. Compare that to the 90% failure rate for conventional start-ups failing within the first five years in the U.S.

iii. Social entrepreneur. For the social entrepreneur, the MCC model is particularly relevant because of its founder's, Jose Maria Arizmendiarieta, personal value system strongly shaped the corporate bylaws as well as the financial and ownership structure of the company. The definitive result of his social vision was removing the classic "struggle" between labor and capital. He did this by making workers owners of all the enterprises within MCC. Consequently, during recessions, *capital is renumeralated and businesses restructured to protect jobs rather than cutting jobs to protect capital.*

The fact that Mondragon has experienced unparalleled success and exponential job growth, presents an inspiring notion that a social vision can successfully address and holistically transform a society using a for-profit private venture as the catalyst for that change. Therefore, in light of our adverse labor climate and a propensity to use government funding as an attempt to solve societal problems, the history and evolution of Mondragon, also known as the "Mondragon experience," merits our attention and analysis.

## **2.3 The Cleveland Model - *Evergreen Cooperative Group***

### **2.3.1 Background**

As recent as 2007, Cleveland, Ohio, was ranked the poorest large city in the United States. According to the 2007 Census Bureau's American Community Survey, Cleveland had a poverty rate of approximately 27%. Additionally, Cleveland has seen its population decline from 900K to less than 450K since 1950.<sup>11</sup> With many neighborhoods already suffering, the latest recession impacted the most impoverished communities in the city the hardest. Many residents within these suffering neighborhoods found it difficult to make ends meet due to few job opportunities available and a lack of necessary job skills. In order to bolster these poverty stricken communities, the city of Cleveland turned to the Mondragon Corporation model. The Evergreen Cooperative Group in collaboration with the City of Cleveland, the Cleveland Foundation, Case Western University, and others, was developed to steer these large local anchor institutions/collaborators to source goods and services locally for the purpose of creating jobs in undeserved areas.<sup>12</sup>

### **2.3.2 Cleveland Couldn't Attract New Businesses or Talented Workers**

The Cleveland Foundation observed that while numerous job training programs existed to train low-income individuals, there was no direct impact occurring on the neighborhoods to improve the quality of life for its inhabitants. While jobs were being created, there was no large scale economic benefit being created for the communities that stood to gain from these employment initiatives. Another issue was that the few people that were effectively trained and educated would leave the community once they succeeded, taking their newfound resources elsewhere and leaving behind the people that could directly benefit from their accomplishments.

At a glance, it was clear that the Greater University Circle community, was suffering. However, there were several thriving anchor institutions located in the same area despite a multi-decade economic draught that seemed to have sucked the community dry of its resources. "Anchor institutions" surrounding these Cleveland neighborhoods spent approximately \$3 billion annually on goods and services. While these "anchor institutions" such as the the Cleveland Clinic, Case Western Reserve University and University Hospitals were located adjacent to these impoverished neighborhoods, most of the money that these institutions were spending was leaving the area where the median household income is approximately \$18K.<sup>13</sup> Millions of dollars were flowing through these large organizations, but the buck stopped at the door instead of sharing the wealth with the surrounding community

A key observation was that the conditions of the surrounding community directly and adversely affected these institutions employee recruiting efforts whie also leading to declining customer patronage. The Cleveland Foundation realized that the success of the surrounding neighborhood would continue to directly affect the continued success of institutions and that the inclusion of community residents in 'sharing the wealth' would be the key to long-term business viability and increased capacity to attract employees and new companies to the area.

### **2.3.3 Building Community Wealth**

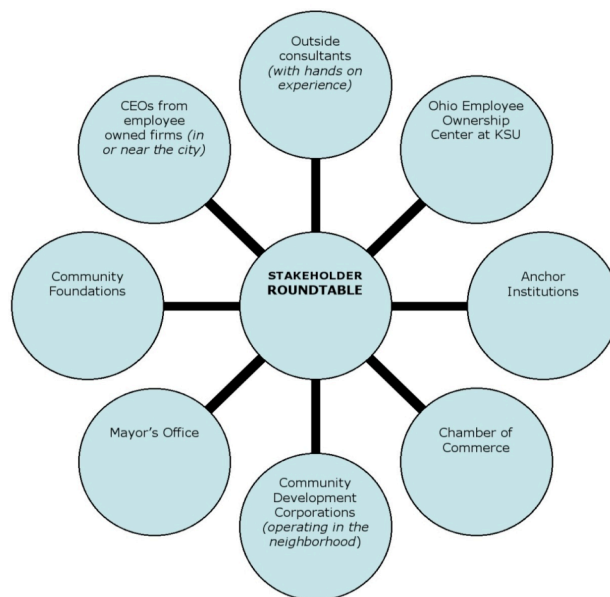
Building community wealth would involve providing disadvantaged individuals with opportunities that would otherwise be unavailable to them. For the residents of Cleveland's Greater University Circle community, this meant being granted the opportunity to participate in the creation of wealth within their community in addition to being able to access this wealth. The notion of employee ownership fully embodies the concept of asset building that has the scale and impact to revitalize an entire community.

Cicero Wilson, CEO of Mid-Bronx Desperados Corporation once stated that *"You must build assets. You must develop long term leadership and you need assets to do that. Without it [sic], 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.*

### **2.3.4 The Stakeholders - Connecting Efforts of Multiple Organizations**

To launch this initiative, the Cleveland Foundation sponsored a community wealth building roundtable discussion for community leaders to discuss capitalist strategies for creating economic stability and financial assets for the working poor. By bringing people and organizations together who were working on various aspects of wealth-building, including job training organizations, economic development, housing development, business development, and human services development, the Foundation brought awareness to the efforts of others working in silos on the same problem. (See Figure 5)



**Figure 5**

### **2.3.5 Cleveland's Plan**

Out of the roundtable and six months of interviews grew both a strategy and awareness of business. Using the analogy of a stool (Figure 6 ) needing at least three legs to support its weight, the three legs of the strategy were 1) local purchasing by the anchor institutions, 2) getting local residents into owning the enterprises that employed them, and 3) taking advantage of emerging business opportunities to produce in a more energy efficient, green economy.

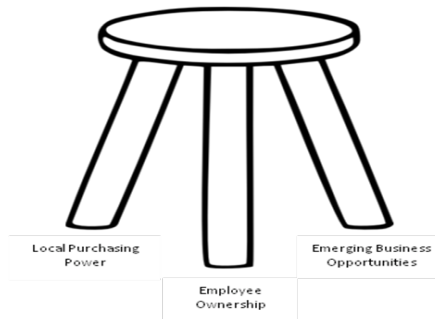


Figure 6

Recognizing the interdependencies of wealth and ownership, The Cleveland Foundation developed the Evergreen Cooperative Corporation. Part of its vision was long-term employment and sustainable business ownership for the the Greater University Circle community. The Foundation desired that residents build wealth for themselves and revitalize the community. A strategy to accomplish these ideals was developed during roundtables as described below.

### 2.3.6 Cleveland’s Strategy

#### i. **Brainstormed Market Opportunities**

*“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.”*

One of the 120 leaders interviewed, William Montague, Executive Director of the Cleveland Veterans Administration Medical Center, pointed out that the VA would have a future need for laundry services since their current laundry vendor planned to close its operations soon.

#### ii. **Conducted a Feasibility Study**

The Ohio Employee Ownership Center (OEOC) conducted a feasibility study for the Evergreen Laundry which 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.’

#### iii. **Identify Potential Customers**



Jim Anderson, a former CEO with employee ownership and large scale industrial process experience, was tasked with the challenge of launching and leading the initial start up phase of the laundry. He began by working with a business consultant to develop a realistic picture of a potential customer base in the surrounding areas of the Greater University Circle community.

**iv. Layout Organizational and Management Structure**

Cooperatives usually start with a few workers pooling their work and personal funds to build an enterprise, but in the case of the Evergreen Laundry it was started from above. The Evergreen Laundry is led by a Facility Manager, a Maintenance Specialist, and a Leader of Operations who together trains the other employees in running the laundry. As a legal entity, the Laundry is still considered a worker-owned cooperative since it hires employees from the neighborhoods who will then become members after meeting the probationary period and applying to join. The membership fee is paid through a wage check off.

**v. Obtain Financing**

**a. Financing Evergreen Cooperative Laundry**

<b>Senior Debt:</b>	
First Merit (local commercial bank)	\$ 750,000
Shorebank	750,000
City of Cleveland	1,500,000
<b>“Equity” (sub-debt through Evergreen Coop Development Fund)</b>	
New Market Tax Credits	1,500,000
Cleveland Foundation	750,000
<b>Working capital:</b>	
City of Cleveland	200,000
Common Wealth Revolving Loan Fund	<u>250,000</u>
<b>Total</b>	<b><u>\$ 5,700,000.00</u></b>

**vi. Develop Effective Training**

The workforce training for the Evergreen Laundry cooperative employees was developed to address the special needs of the community.

Training includes:

- Basic Work Entry Training
- Environmental Sustainability Practices/Procedures Training

- Equipment and Operations Training
- Employee-Ownership Training
- Family/Life Management Training

### **2.3.7 Cleveland’s Model - Organizational Structure and Operations (*Mirrors Mondragon*)**

To meet goals of the organization and create sustainable jobs, an investment in the community’s residents, as well as a method to invest in the newly created jobs themselves were required. The organizational structure and operations of the Evergreen group draws heavily on the experience of the Mondragon Cooperative Corporation. All of the businesses within the Evergreen Cooperative Group are 100% owned by the workers. When a business is started within the cooperative group, workers are hired and trained to perform the daily tasks of the business. Workers learn the technical skills required to perform jobs, as well as learn administration and managerial skills which teaches them how to run a business.

While the workers earn a living wage and have health benefits, they also return 10% of the profits to a fund in order to finance future worker cooperatives as well as increase their ownership stake in the company. As much as \$65K will be accumulated within a seven year period and credited to their own “ownership account”.<sup>11, 13</sup> Similar to the Mondragon model, the money from this fund serves as seed money to create future enterprises within the Evergreen Cooperative Group for further job creation.

The group is committed to the one-worker, one-vote on business matters such as planning, research, and funding of additional companies. Also, in order to make sure that the profits earned are spent appropriately the ratio between the high and low salaries are limited so that the CEO earns no more than five times the lowest earning worker within the group.<sup>14</sup>

### **2.3.8 The Evergreen Cooperative Group**

Currently there are three companies, all of which aim to be environmentally sustainable that make up the Evergreen Cooperative Group: Evergreen Cooperative Laundry, Ohio Solar Cooperative, and Green City Growers.

#### **i. Evergreen Cooperative Group**

The first worker owned co-op which opened in October 2009 as a part of the Evergreen Cooperative Group was the Evergreen Cooperative Laundry. This flagship of the Cleveland effort was created to take advantage of the expanding demand for laundry services from the healthcare industry, which accounts for 16% of Cleveland’s GDP. The Evergreen Cooperative Group cleans approximately 12 million pounds of bed linens and towels from hospitals and nursing homes each year.<sup>11, 13</sup>

Additionally, the company is the greenest commercial scale-laundry in Northeast

Ohio. It accomplished this feat by constructing its business to LEED silver certification standards, and using energy-efficient washers and dryers, as well as processes to reuse waste heat and water.<sup>13, 15</sup> Within 18 months, the Evergreen Cooperative Laundry is expected to begin turning a profit.<sup>13</sup>

## ii. Ohio Solar Cooperative

The second Evergreen Cooperative Group company is the Ohio Solar Cooperative. The Ohio Solar Cooperative offers weatherization services to make residential and commercial structures more energy efficient. The company also installs rooftop solar panels on institutional, governmental, and commercial businesses. Within a few years, the Ohio Solar Cooperative and its workers will own and reap the income from working on some of the largest solar panel installation projects in the Midwest. During this time, the Ohio Solar Cooperative expects to have 100 employee-owners working to achieve Ohio's mandated solar requirements. By becoming a leader in Cleveland's weatherization program, the Ohio Solar Cooperative ensures year-round employment.

## iii. Green City Growers

Green City Growers is the third company within the Evergreen Cooperative Group. This yet to be launched company will farm local food in a year-round hypoponic greenhouse on 10 acres of land in the midst of urban Cleveland. The 230K square-foot greenhouse, which is larger than the average Wal-Mart superstore, will be producing more than three-million heads of fresh lettuce and nearly a million pounds of basil and other herbs a year. By the time the Green City Growers is up and running, it is projected to become the largest urban food-producing greenhouse in the country.

## 2.4 Benefit Corporation (B-Corp) Model

### 2.4.1 What is a B-Corp?

Benefit Corporations are a new type of corporation, which uses the power of business to solve social and environmental problems. First launched in 2006 by the non-profit organization B-Lab (Jay Coen Gilbert, Bart Houlahan, and Andrew Kasoy), there are currently over 300 B-Corporations in the U.S. Together these companies are seeking change. The "B" stands for Benefit and that's just what these companies seek to do. By institutionalizing stakeholder interest, the business world becomes responsible for its actions and how those actions best *benefit* their communities, the environment, and society at large.

B-Corporations allow entities to generate value that is not directly measured on the balance sheet and are accountable for things that the leaders of the company know or believe are important.

- David Clark, Advisor, Orchard Advisors, TN B-Corp

#### **2.4.2 The B-Corp "Declaration of Interdependence"**

*"We envision a new sector of the economy which harnesses the power of private enterprise to create public benefit. This sector is comprised of a new type of corporation, the B Corporation, which is purpose-driven and created benefit for all stakeholders, not just shareholders. As Members of this emerging sector and as entrepreneurs and investors in B Corporations, we hold these truths to be self-evident."*

*That we must be the change we seek in the world. That all business ought to be conducted as if people and place mattered. That, through their products, practices, and profits, businesses should aspire to do no harm and benefit all. To do so requires that we act with the understanding that we are each dependent upon another and thus responsible for each other and future generations.*

#### **2.4.3 How to Form a Benefit Corporation?**

There are two essential steps to becoming a B-Corp:

1. Pass the B-Impact Assessment
2. Write (or rewrite) your business's [articles of incorporation](#) to make it clear to investors that the business's managers are required to also consider the interests of societal [stakeholders](#): such as employees, communities, and the environment.<sup>16</sup>

#### **2.4.4 B-Corp Specifications for Tennessee**

Currently in Tennessee, B Corporation is a certification offered by B Lab of Pennsylvania, designating a business as socially responsible. The process for obtaining this certification is the same in all 50 states however, at this time (June, 2010) Vermont and Maryland are the only two states with official legislation, recognizing B Corporations as legal entities.

#### **2.4.5 Examples of Tennessee B-Corporations**

##### **i. Medium Inc.**

Medium Inc. is an integrated design firm committed to achieving excellence in graphic design and software technology. As an integrated design firm, Medium specializes in the related disciplines of branding and identity, graphic design, information architecture, website production, and software development. Project managers and in-house experts in these disciplines collaborate through a well-defined, focused process to produce high-quality results.

For additional information on Medium Inc. go to:

- <http://thisismedium.com>
- <http://www.bcorporation.net/medium>

## ii. **Orchard Advisors**

Orchard Advisors offers strategic support for organizations and leaders to help them incorporate best growth practices and align their values and actions. They offer a range of services and tools designed to help its customers plan and execute strategically. From an entrepreneur looking for an advisor, to strategic planning teambuilding and mentoring, they provide the people and knowledge to make it happen. Whether its a new or a long-established company, they claim to help bring profits, people and planet into the proper balance as the company grows and prospers.

For additional information about Orchard Advisors, go to:

- <http://www.orchardadvisors.com>
- <http://www.bcorporation.net/orchardadvisors>

## iii. **Watershed Capital**

With the clear objective of advancing a sustainable economy, Watershed Capital advises companies committed to financial, environmental, and social returns - the triple bottom line. Watershed Capital brings over 70 years of experience financing, advising, acquiring, growing, and operating small to medium-sized businesses. Delivering a 360° perspective of a company, Watershed Capital provides advisory and implementation services which integrate strategic, financial, operational, and market considerations.

For more information about Watershed Capital, go to:

- <http://www.watershedcapital.net>
- <http://www.bcorporation.net/watershed>

## 3. **Opportunities for Memphis**

### 3.1 **Large Community Support**

The Mondragon townspeople recognized their community was suffering and were willing to rally around the unconventional efforts of a priest who realized that lack of jobs and economic opportunity was a core cause for many of the societal issues in the area. The founding of the charter school and the first Mondragon enterprise was a major community

endeavor. Likewise, the Cleveland Foundation recognized the level of "community buy-in" required to launch the Mondragon experience and responded by assembling its own public/private collaborative effort that brought a diverse group of stakeholders to the discussion table. Mayor AC Wharton has also encouraged organizations, particularly nonprofits to do the same by combining their efforts, perhaps using a similar connected interdependent mechanism. While many may wonder what this model looks like, the Mondragon Corporation and the Cleveland effort provide a picture of what that may look like. Mondragon has essentially housed all the enterprises/resources under a single corporate roof which has allowed the company to coordinate all their 264 enterprises to achieve a single overarching goal of providing jobs for its community.

Similar to Cleveland, the key for Memphis is to launch a comprehensive effort that coordinates the support and resources of multiple nonprofit organizations, foundations, schools, colleges, churches, government agencies and private companies with the goal of incubating new businesses within inner-city communities as well as at large.

### **3.2 Removal of Cost Barriers**

A movement that is occurring among technology-based start-ups is the the concept of crowdsourcing. The internet has allowed entrepreneurs to collectively draw on the expertise of many individuals using the internet as the collaborative medium to create new businesses focused on digital technologies. The movement has significantly cut costs of all parties involved as the various skills required are "sourced" to the appropriate collaborator. This movement is not new and is extensively used by numerous institutions particularly research institutions that draw on the knowledge and expertise of five or ten research labs collaborating on a research project. The MCC uses this same crowdsourcing or "shared-resources" to virtually remove all the cost barriers that typically plague entrepreneurs efforts to launch a business. Figure 7 compares Mondragon start-up costs to conventional start-up costs (A versus B). Since a Mondragon start-up is housed inside an entity with dedicated "start-up" resources, the business enjoys access to technologies and resources reserved for larger corporation thus facilitating rapid new product development, as well as its production and distribution. The capital "burn-rate" is minimal since most resources are in place thus requiring minimal start-up funds.

The lesson for Memphis is that entrepreneurs, particularly in manufacturing, face a barrage of start-up costs or barriers ( see Figure 7B) that are increasingly harder to overcome without facing bankruptcy or being forced to use a cheaper overseas workforce. In order to promote entrepreneurship in our city these barriers must be removed or reduced. Following the Mondragon model, profits from successful Memphis start-ups would be used to reinvest in the new start-ups or create additional supporting business incubator services. Figure 7A shows how the MCC takes a 360 degree approach to incubating businesses as compared to the conventional start-up business. Also shown in Figure 7C is a possible business incubator hybrid-model for creating Memphis businesses. In this model, as with the Cleveland approach, initial businesses would focus on providing goods and services to

'anchor institutions' to ensure a steady revenue stream and allow the business to scale-up to a known demand from that institution.

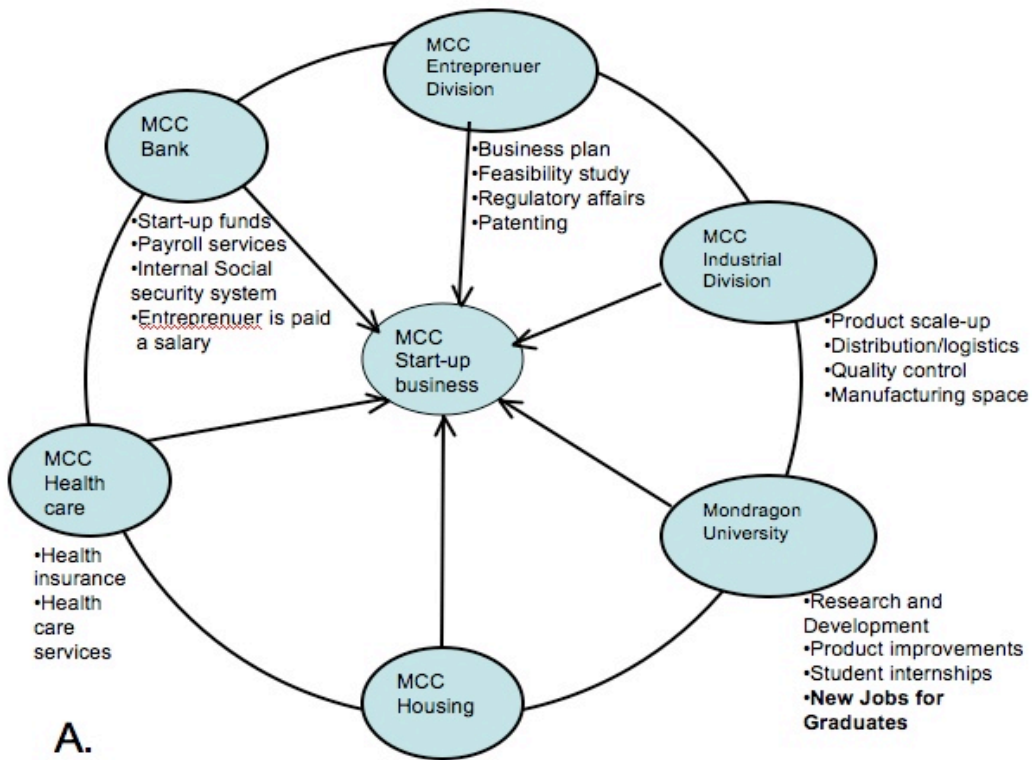


Figure 7A

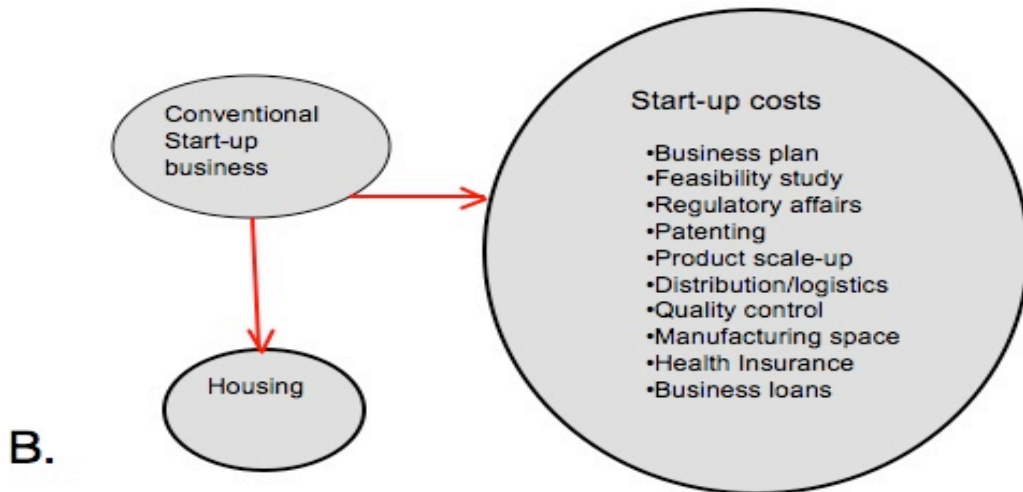


Figure 7B

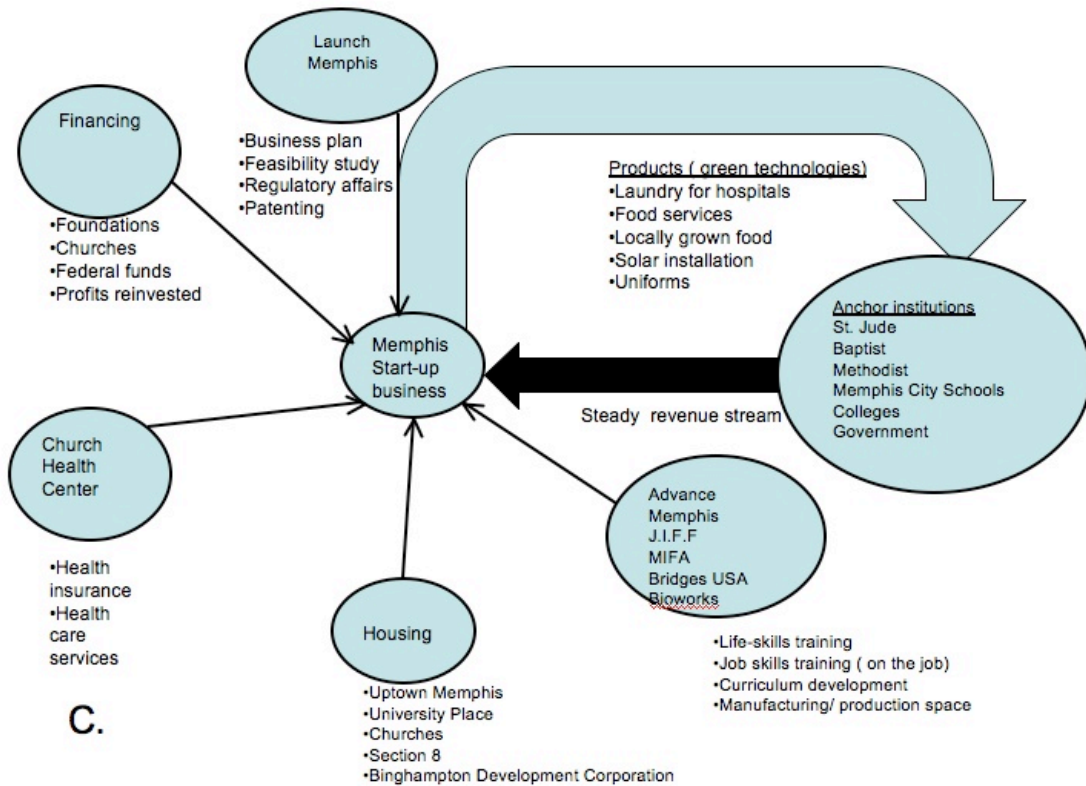


Figure 7C

Figure 7. Black arrows pointing toward the start-up indicate costs are removed or minimized for the start-up or are recaptured by the parent company (A and C models). Red arrows pointing away from the startup (B) indicate start-up costs are lost to other businesses that provide the products or services needed for the business to operate.

### 3.3 Training for Alternative Business Models: Specific to Not-For-Profit Organizations

Memphis not-for-profit businesses, serving as support entities for new start-up businesses would work closely with start-ups to create the training curriculum for new businesses. Job training is reserved for students that will be directly funneled into a business. If the job doesn't exist, then the training program is put on hold or retooled for training students for another emerging business. By coordinating nonprofits efforts, a loose informal "nonprofit college" is assembled where one nonprofit such as Launch Memphis may focus on business plan training and accounting where as nonprofits such as Advance Memphis would focus on bringing in low-skilled long-term unemployed laborers into the job-training pipeline. As workers become more educated and experienced, the skills they are trained on as well where they are trained will change. This is what Mondragon has achieved but with a higher level of integration between supporting services.



### **3.4 Relational Networking - The Memphis Edge**

Memphis is a city characterized by a strong community and a healthy relational network. Memphis is known for its vast number of nonprofits, many of which are working towards addressing poverty issues in the city. The community served by MCC succeeded because these same attributes were in place in the Mondragon community. Cooperatives are numerous throughout the world yet no single cooperative, save the MCC, has expanded beyond itself and succeeded in creating multiple cooperative businesses. Self-financing has been a major barrier; however, in the case of the MCC, the culture was a strong factor for the company's ability to massively scale-up its operations. While profit and competitive goods are a top priority, the strong relational network formed during Arizmendi's 12 mentoring years with the company founders placed human capital at a premium within the company--a subtle point lost in MCC's corporate reports.

Memphis finds itself in a similar position where there is strong sense of pride and desire among its citizens to see the city flourish. This desire has unified to form a relational network of citizens that would be sufficiently committed to see a movement unfold similar to what occurred in Mondragon. Currently, the job creation component is missing from nonprofit and church efforts. One of the major goals of this report is to generate interest in initiating a roundtable discussion for building a 360° incubator model in Memphis that provides jobs for inner city residents while catalyzing start-up efforts both in low income communities and greater Memphis. The Memphis culture provides a distinct advantage for this possibility.

### **3.5 Recommendations for Memphis – Leveraging Alternative Models for What's Next?**

There are several goals that can be achieved in the "short-term".

- i.** B-Corporations – Create tax breaks and financial incentives currently available in other states for Benefit Corporations could adopted in Tennessee including official recognition by the State of Tennessee as a legal entity.
  - Create an electronic“form letter” that proposes Tennessee to enact and pass Benefit Corporation Legislation that is easily forwarded on to the appropriate members of the TN senate and representatives.
- ii.** Presentation - Given sufficient interest in these models, organize a forum to present the report to community leaders, politicians and entrepreneurs.
- iii.** Cleveland Feasibility Study- Obtaining the full Cleveland feasibility study would be a key initial step in understanding how to best adapt the Mondragon model to a U.S. city.
- iv.** Site visits - Visit Mondragon Cooperative Corporation and other alternative business model entities.

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# Appendix 1

## **Mondragon Cooperative Structure:**

**Members** - Members of the cooperative are the workers of the corporation. Workers are also owners of the company and each worker is given one vote or one share of company stock. Shares are only available to Mondragon members which can be sold to a new member upon retirement.

**General Assembly** - This consists of all the members and holds the final say in key issues. Decisions are made collectively through voting by the members who vote on the issue. Participation by all members is mandatory. The assembly meets twice a year or can convene by request by the governing council, social council or one-third of the members petitioning.

**Governing Council** - The council makes the policies for the Mondragon Cooperative. The councilmembers are also members of the company. They are elected or voted in by members of the corporation. The governing councilmembers are elected every two years for four year terms.

**Manager** - The manager is the equivalent of the CEO of a conventional corporation. While the manager does have voice in policy decision-making, he/she does not have a vote. The manager is integral to day to day operating functions and is consulted by the governing council for replacing key department heads but does have the authority to make key personnel changes--this role is reserved for the governing council. Unlike a private company, where there are rarely pre-established terms for the CEO, a manager must be re-appointed by the governing council pending review of his/her performance.

**Audit Committee** - The audit committee performs internal audits and operates independently of the management council These committee members are also elected by company members.

**Management Council** - This consists of the manager and department heads. This council was created to formalize the decision making process so that decisions are made collectively and thus include all divisions of the cooperative rather than leaving decisions to a single person or CEO.

**Social Council** - The social council are elected members representing each department. This council meets once a month and was formed to encourage participation and representation of all workers--especially lower paid workers. Members of the governing council and management council were obligated to consult with members of the social council. If any potential impasse occurs, the social council has a right to call a strike or call a general assembly meeting where the conflict can be resolved by cooperative wide vote.

# Appendix 2

## Mondragons Ten Corporate Principles

1. **Education**
2. **Sovereignty of Labor**
3. **Instrumental and Subordinate Nature of Capital** -The MCC recognizes both the necessity for capital in business expansion and development and therefore acknowledges the need to properly remunerate the contribution of private capital but that this must not be placed above the rights and the rewards of labor.
4. **Democratic Organization** - In order to realize worker ownership, workplace democracy is essential. For this reason immense thought has gone into the structuring of the MCC cooperative governance model. But to do this effectively is challenging. The cooperative model of governance is structured in the following way: The General Assembly is the supreme democratic body where all members convene once a year to elect the Governing Council. Members are required to attend the General Assembly. The penalty for not attending is they lose next years vote.
5. **Open Admission Cooperative** - Members are free to enter or to leave as long as they are willing to abide by the basic cooperative rules. Membership cost \$14K which can be paid through taking 10% of the workers salary until it's paid off.
6. **Participatory Management Democracy** - Must be brought beyond the assemblies where people are given their limited votes but must be practiced in management. Information should be transparent and accessible to all members giving them opportunities to participate in decision making at the level of management. All management selected by voting-based elections. Elections occur every two years.
7. **Wage Solidarity** - On average the ratio of lowest to highest salaries rarely exceeds 1:4.5. In rare circumstances (with the head manager of MCC) the ratio might be 1:7.
8. **Inter-cooperation** - Cooperatives must be flexible and willing to have their workers transferred to other cooperatives if the need arise. There is also in general tremendous mutual support between and within cooperatives, not just for worker solidarity but also for better business efficiency. Workers within a single production are organized into manufacturing groups of approximately 10 people who are all trained to perform each task within their own assembly group.

9. **Social Transformation** - Work should be especially geared toward transforming and uplifting Basque society and culture including helping to disseminate the cooperative values and organization.
10. **Universality** - “The Mondragon Cooperative Experience, as an expression of its universal vocation, declares its solidarity with all those who work for economic democracy in the sphere of the “Social Economy”, echoing the objectives of Peace, Justice and Development of the International Cooperative   Movement.” (Mondragon Management Model, p.19).

## **Updates**

### Mondragon Cooperative Corporation

- October 27, 2009- Steelworkers Form Collaboration with MONDRAGON, the World’s Largest Worker-Owned Cooperative, Oct. 27, 2009

Link:[http://www.usw.org/media\\_center/news\\_articles?id=0439](http://www.usw.org/media_center/news_articles?id=0439)

### Evergreen Cooperatives

### B-Corporations

- May 19, 2010 - Vermont passes Benefit Corporation legislation.
- April 14, 2010 – The following states currently have the B-Corp legislation under consideration: Colorado, New York, North Carolina, Oregon, Pennsylvania, and Washington.
- April 13, 2010 - Maryland signed the nation's first Benefit Corporation legislation.

## **Additional Resources**

### **B-Corporation**

### **Videos of B-Corp businesses**

Comet Skateboards – Example of B-Corp benefiting their community.

<http://www.youtube.com/watch?v=YaSQsyuVGqg>

Ice Stone – Example of B-Corp **benefiting their environment**.

<http://www.youtube.com/watch?v=PqRfO2CS8Z8>

Greystone Bakery – Example of B-Corp **helping to solve issues of poverty**

<http://www.yotube.com/watch?v=sLYlPhBshYs>

<http://www.youtube.com/watch?v=2WLzV7JfVSc>

## **Websites and Blogs**

### **B-Corporation**

<http://www.bcorporation.net> - Official B-Corp site

<http://www.thechangeweseek.com> - Blog hosted by members of the B-Corp Community

<http://www.justmeans.com> - Business community network interested in social and environmental innovation.

<http://www.csrwire.com> - News, reports, events, and information on corporate social responsibility and sustainability.

<http://www.bcorporation.net/become> - Step-by-step guide to becoming a “B”

## Appendix 3

### Leadership Academy – S10 CAP Team

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