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## Case Studies of Worker Cooperatives in Health

# Obran Cooperative, LCA

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**Institute for the Study of  
Employee Ownership and Profit Sharing**

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## Obran Cooperative, LCA

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**Abstract:** Obran is a cooperatively owned holding company with a related financing arm. It recently acquired a 50-person home health care business based in Los Angeles and the cooperative is under letter of intent (LOI) for a 100-person home health business serving the Bay Area. With this unique model, the cooperative's leadership seeks to create quality jobs at scale, and in the process demonstrate the viability of building a cooperatively structured, worker-centered version of a multinational corporate conglomerate.

**Topics:** Business Models, Management, Organizational Behavior, holding companies, conglomerate, cooperatives, home health care, domestic workers

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This is a working paper case study. Additional versions of this case study may appear in print.

Obran is structured as a cooperatively owned holding company with a related financing arm. In the healthcare industry, Obran recently acquired a 50-person home health care business based in Los Angeles and the cooperative is under letter of intent (LOI) for a 100-person home health business serving the Bay Area. Outside of healthcare, Obran has acquired a logistics company based in Hawaii and owns two companies that it launched: a payment and benefits platform for freelancers and a staffing firm focused on placing workers impacted by the criminal justice system. With this unique model, the cooperative's leadership seeks to create quality jobs at scale, and in the process demonstrate the viability of building a cooperatively structured, worker-centered version of a multinational corporate conglomerate.

## **Structured for Growth**

Joseph Cureton sowed the seeds of Obran Cooperative in 2016, when he co-founded Core Staffing, a Baltimore-based staffing company focused on placing formerly incarcerated individuals in employment. Core (which stands for [co]llective [re]-entry) offers staffing services in food service, warehousing, and light manufacturing to mission-aligned clients, primarily local nonprofits and foundations. In 2018, Cureton and a team of Black technologists in Baltimore launched a second enterprise, Tribeworks, a payments and employment platform designed to support freelancers of color and especially creatives.

Together, the members of Core Staffing and Tribeworks formed the founding cohort of 35 worker-owners who - in partnership with the operational staff - co-designed membership eligibility requirements and other aspects of governance design that are still in place at Obran today.<sup>1</sup>

Since then, Cureton and the Obran team have developed the cooperative into an ambitious, multi-sectoral conglomerate that owns four operating companies in three states, employing nearly 300 people and growing. Currently, the annual earnings at Obran are 90 times greater than the median revenue for a worker cooperative in the US today.<sup>2</sup> "This is just the beginning," says Cureton. "We want to be the largest worker cooperative conglomerate in the world."

To achieve this lofty goal, every aspect of Obran is designed for growth. At the center of the cooperative is Obran Shared Services, which provides infrastructure for the conglomerate, including payroll and accounting services, a fund, and a real estate holdings company. Obran leverages these shared services to support each of its portfolio industries, of which there are currently three: health care, logistics, and employment services. Each industry has its own

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<sup>1</sup> For example, the founding worker-owners set the eligibility requirements for cooperative membership. Workers are eligible to become members after 90 days of employment by purchasing a \$250 member share, which can be paid for with payroll deductions. On an ongoing basis, worker-owners are also required to contribute 1% of their payroll into their internal capital account.

<sup>2</sup> *The 2021 state of the Sector Report*. US Federation of Worker Cooperatives. (2022, April 20). Retrieved September 20, 2022, from <https://www.usworker.coop/blog/2021-state-of-the-sector-is-available-now/>

holding company (e.g. Obran Health) and a director that is responsible for the success and growth of that group.

Scale is built into the company's legal structure as well. The parent corporation is registered as a Limited Cooperative Association, a legal entity available in seven states as well as the District of Columbia<sup>3</sup>, which combines characteristics of the limited liability company (LLC) and more traditional cooperative structures<sup>4</sup>, allowing more flexibility than traditional co-ops for attracting investors while maintaining member control. For example, the board of directors at Obran currently includes five directors, one of which is chosen by investors. In a traditional cooperative, investors do not have any governance authority.

The parent company, Obran Cooperative LCA, is the only cooperative entity in the system. It is co-owned by Obran workers; both workers at the operating companies and those employed by the holding companies are eligible to become members. All of the subsidiary companies are LLCs or traditional corporations. However, the operational businesses have worker representation baked into the governance structure. As a result, workers at the operating companies vote for both the board members at the company where they work day-to-day as well as for the board of directors at the parent organization.

### **Onboarding New Industries**

While Core Staffing and Tribeworks developed organically during the cooperative's start-up phase, Obran now has a formal process for introducing new subsidiaries. For each new industry, the group lead must prepare a thesis, which makes the case for adding that line of business into the cooperative's portfolio. Key considerations include: (1) the cooperative's ability to manage companies in that industry successfully; (2) the health and growth profile of the industry; (3) the potential for Obran to transform the jobs in the industry; and (4) the relationship of the potential industry to the existing portfolio and potential synergies. Once the board has approved a new industry, the group lead may bring proposals for acquiring or launching companies in that line of business.

Obran sources new deals in multiple ways. In some cases, an Obran team member with experience and passion in a particular industry drives the cooperative to identify potential acquisition targets in that sector. In other cases, Obran's strategic partnerships lead to potential deals. For example, in 2020, Obran entered a partnership with Kaiser Permanente—one of the

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<sup>3</sup> *Limited Cooperative Association act*. Limited Cooperative Association Act - Uniform Law Commission. (n.d.). Retrieved September 20, 2022, from <https://www.uniformlaws.org/committees/community-home?CommunityKey=22f0235d-9d23-4fe0-ba9e-10f02ae0bfd0>

<sup>4</sup> Pitman, Lynn. *Limited Cooperative Association Statutes: An Update*. University of Wisconsin Center for Cooperatives. Retrieved September 20, 2022 from <https://resources.uwcc.wisc.edu/Legal/LimitedCoopAssoc.pdf>

nation's largest healthcare plans with more than 12 million members<sup>5</sup>--to identify companies within Kaiser's supply chain that were a strong fit for acquisition. The purpose of the partnership is to promote resiliency and racial equity within Kaiser's vendor network. This partnership led to the creation of Obran Logistics and the acquisition of Courier Corporation of Hawaii (CCH), a 70-employee logistics company based in Honolulu.

### **Building the Thesis for Obran Health**

Adam Rose joined the Obran team in the summer of 2020 after hearing Joseph Cureton speak on a podcast about Obran's innovative cooperative model. Bringing an MBA from Yale University, leadership experience at multiple Federally Qualified Health Centers (FQHCs), and an interest in social enterprise models that disrupt the inequities in our current system, Rose proposed home-based healthcare as a new portfolio industry for Obran, which he was prepared to lead.

In his thesis, Rose points to the deep flaws in the current healthcare system—high costs, low care quality, low patient satisfaction, and a burnt-out, underpaid workforce—as factors driving significant industry reform. Rose argues that this reform, which is largely focused on how payments can be structured to align incentives, is driving two major trends in healthcare. The first trend is a shift from inpatient to outpatient care. The second is a shift from medical care to whole-person care that integrates preventative care and social services. Both of these trends, according to Rose, support the proposition that the home-based healthcare sector, which is growing faster than any other part of the healthcare industry, is a good investment.

In addition to the market trends, the thesis argues that home-based healthcare will have a powerful social benefit, both for worker-owners and those receiving care. Mirroring the arguments made by other cooperatives in the healthcare industry,<sup>6</sup> the thesis states that Obran's opportunity is to create better care quality through better jobs. Rose also focuses on the potential for the cooperative model to “chip away at” the structural racism that affects both job quality and health outcomes for people of color.

### **Obran Health Acquisitions**

Obran Health made its first acquisition in Spring of 2022. The successful acquisition followed almost two years of pipeline building, due diligence, and one deal that failed to close at the last minute. The new portfolio company, Physicians Choice, is a home health agency based in Los Angeles with fifty workers. Founded in 1991, the company was an early adopter of managed

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<sup>5</sup> *Kaiser Permanente: Year in Review*. (2022, August 15). Retrieved September 20, 2022, from <https://about.kaiserpermanente.org/who-we-are/annual-reports/2021-annual-report/2021-the-year-in-review>

<sup>6</sup> For example, PHI is the training and advocacy organization affiliated with Cooperative Home Care Associates, the largest worker cooperative in the US. PHI's tagline is “Quality Care through Quality Jobs.” PHI's website states, “We believe that caring, committed relationships between direct care workers and their clients are at the heart of quality care. Those relationships work best when direct care workers receive high-quality training, living wages, and respect for the central role they play.”

care, and has established its reputation as a high-quality provider with its insurance clients. The selling owner of Physicians Choice was not interested in staying on long-term in her previous role. As a result, Adam Rose hired and now oversees a new lead of the company, who replaced the founding owner after a brief transition period.<sup>7</sup>

On the heels of this first acquisition, Obran is in the due diligence phase with a second home health company. This second agency, which is also based in California, has more than 100 workers, some of whom are based outside the U.S.

And Rose has reason to grow Obran Health even further. To align the incentives of Obran leaders with the scale-orientation of the co-op, each holding company director is eligible to receive significant incentive-based pay for growing the value of their portfolio. For example, Adam Rose can receive up to 20% of the increase in value of Obran Health in long-term incentive pay. That is, if Obran Health goes from a \$5 million portfolio to a \$15 million portfolio over the next three years, Rose could receive up to \$2 million (20% of \$10 million).

However, hand in hand with Obran's commitment to growth is its commitment to benefiting workers. In line with that value, workers at Obran Health portfolio companies must have at least 5% of their paycheck be disposable income for Rose to receive any incentive pay. Twenty-five percent of each worker's paycheck must be disposable income for Rose to receive the full incentive. Disposable income is one of the key metrics Obran considers when determining whether its workers are making a living wage, which is a core value of the cooperative's compensation policy. However, this metric, while clear and specific, is difficult to capture in practice; Obran has yet to fully determine how best to gather the data necessary to accurately measure disposable income.

Beyond disposable income, Obran has a set of metrics it measures to calculate member benefit across four categories: (1) Member Use Value: the tangible benefits (direct goods and services) that members receive from participation in the cooperative; (2) Financial Impact: the financial or monetary benefits that members receive from participation in the cooperative; (3) Experience and Power: members' lived experience at work that is derived from the cooperative's democratic structure and culture, and defined by quantifiable group-level measures relative to the occupation or industry average; and (4) Scale: total number of workers, businesses, and stakeholders reached. Each category has specific metrics, such as days of PTO per employee, health s per employee, worker participation in governance, wage ratios, and more.

## **Obran Capital**

In each of its portfolio areas, Obran is targeting acquisitions from \$5 million to more than \$20 million. To finance these acquisitions, each deal has a unique blend of capital, including seller

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<sup>7</sup> Obran will either "acquihire" (hire existing leadership through the acquisition process) the management of a newly acquired company or recruit and hire new management. In the case of Physicians Choice, the new manager was recruited and hired from outside.

financing, senior debt, and preferred equity. Part of every deal, however, is Obran's internal capital source: Obran Acquisition Fund I. The fund, which has a target size of \$30 million, is looking to make 7-10 investments over a 10-year period, with an average investment size of \$700,000 - \$2 million. Having an internal capital source allows Obran to fund uncollateralized working capital, which is often difficult capital to access. In a typical transaction, the group holding company (for example Obran Health) takes a loan from the Acquisition Fund, and uses that capital, along with loans, to purchase a majority stake in the company being acquired.

For example, Obran Health purchased Physicians Choice with a mix of equity capital from the Obran Acquisition Fund, senior debt, and preferred equity from Capital Impact Partners, a community development finance institution with a long history of cooperative financing. Obran's internal fund, alongside mission-aligned debt and equity providers, like Capital Impact Partners, allow Obran to combine a cooperative structure with an aggressive growth model.

## **Conclusion**

Obran is an outlier in the worker cooperative community. Its unabashed focus on growth bucks against the "small is beautiful" approach embraced by many worker co-ops in the US. Through its unique holding company model and acquisition strategy, Obran has the potential to bring democratic worker ownership to the US healthcare industry (and other sectors) at an unprecedented scale. In its pursuit of becoming the largest worker cooperative in the world, Obran has adopted more conventional practices - significant incentive-based pay for executives, for example - that many worker cooperatives would not be comfortable with. The Obran leadership embraces the ways in which it varies from typical worker cooperatives, however. Existing in a hybrid space, Obran faces challenges distinct from those faced either by worker cooperatives or traditional holding companies. The innovative legal structure, impact measurement strategies, and compensation policies are just a handful of the ways that Obran is navigating these uncharted waters.