Promote Ownership by Workers for Economic Recovery (POWER) Act: Research Analysis and Final Report

Prepared by

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Executive Summary

Overview

In 2022, California passed AB2849, the Promote Ownership by Workers for Economic Recovery (POWER) Act and established a Panel to conduct a study regarding the creation of an Association of Cooperative Labor Contractors (ACLC or the "association"). The study's goal is to consider how a federated worker cooperative system might "promote equitable economic development, reduce inequality, and increase access to living-wage jobs."[2] The study would examine how to:

> "(1) Advance the goals of the Future of Work Commission within the Association.
> (2) Incentivize the growth of the association and its members.
> (3) Promote tenets of democratic worker control, including, but not limited to, uniform hiring and ownership eligibility criteria, worker-owners working most hours worked, most voting ownership interest held by worker-owners, most voting power being held by worker-owners, and worker-owners exercising their vote on a one-person, one-vote basis.
> (4) Ensure that the association's members offer high-road jobs, which include, but are not limited to, jobs with the right to organize and participate in labor organizations and jobs with minimum labor standards, such as a minimum wage in excess of the otherwise applicable minimum wage, a compensation ratio between the highest and lowest paid employees, minimum health expenditures, minimum retirement expenditures, and protections for individuals who have gone through the criminal justice system."[3]

The Panel sought "experts on high-road jobs, worker cooperatives, business formation, and other topics pertinent to the association"[4] and retained Professor David I. Levine at the University of California, Berkeley, to conduct the study. Professor Levine formed a study team with skill and experience in these areas, and work began in October 2023.

This report presents our team's findings and analysis on how worker ownership can serve historically underrepresented and disadvantaged communities. It is based on our portfolio of original research. Specifically, the report presents two sets of policies designed to: 1) advance job quality, firm performance, and equitable economic development through high-road worker cooperatives in low-wage sectors throughout California, and 2) incentivize the growth of an Association of Cooperative Labor Contractors as described in the POWER Act.

The rest of this executive summary presents key findings from the study; discusses policies and interventions to consider, and outlines the report and the portfolio of supporting research.

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[2] California Legislature. Assembly Bill No. 2849, introduced February 18, 2022, section 10001(c). https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202120220AB2849.
[3] California Legislature. Assembly Bill No. 2849, section 10010(d).
[4] California Legislature. Assembly Bill No. 2849, section 10010(c).

Key Findings

We found that high-road worker ownership generally offers significant benefits for both job quality and firm performance. However, we also identified several barriers that these workplaces face in labor, capital, and product markets. Additionally we identified how umbrella groups and networks support high-road worker ownership by providing scalable shared services. We summarize key findings below.

1) Benefits of Worker Ownership

In our literature review and statistical analysis, we found solid evidence that worker cooperatives enhance job quality, increase worker satisfaction, and provide greater job stability. We also found that worker-owned businesses are resilient during economic downturns, and that the largest subset of worker-owned businesses, ESOPs (employee stock ownership plans, a form of retirement account), substantially increase employees' retirement wealth. In our case studies of worker-owned businesses in home care, bakeries, and road construction, we found evidence of enhanced worker dignity and respect, as well as increased worker voice and decision-making, particularly in worker cooperatives.

2) Barriers to High-Road Co-ops

We identified several barriers to high-road co-ops in our literature review and case studies. These barriers cumulatively hinder worker co-ops. Co-ops have high startup costs and limited access to capital, due to the relative novelty of worker ownership and limited expertise among lawyers, lenders, and business advisors. We also found co-ops produce some positive externalities that the market does not always reward, including greater employment stability that helps not just workers but also families and communities, and high levels of training that provide skills useful at many employers, such as team problem-solving skills cultivated in democratic workplaces. Informational barriers are also a problem, as most workers, potential sellers of small businesses, and customers know little about worker ownership. Employees typically have a difficult time recognizing co-ops that offer above-average job quality; potential lenders have a difficult time recognizing low default rates; and customers who value higher quality service, such as elder clients seeking longer tenure from home care worker-owners, may not easily see that co-ops often provide such quality.

3) Scalable, Cost-Effective Enablers

Networks, associations, and other supportive institutions can be important enablers of worker ownership and high-road employment. These networks provide services such as worker training, legal advice, and lending that are designed to meet the needs of worker-owned firms. These services are complex, costly, and often unavailable in markets oriented around conventional, privately owned businesses. For example, the Mondragon Corporation in the Basque region of Spain provides risk management, administration, and staffing for its member co-ops with 80,000 workers. In the US, our case study on the Courage home care co-op includes a profile of Elevate Co-op, a federation providing 18 co-ops with scalable shared services such as financial benchmarking analysis, digital marketing, and web hosting, helping reduce costs.

Policies and Interventions

Below we briefly present two sets of policies and interventions. We first list policies to promote worker ownership, high-road employment, and high-road co-ops in low-wage sectors. We then discuss policies related to a possible association of cooperative labor contractors. For more details, see Chapter 3.

1) Improving Information

Imperfect information among workers, business owners, lenders, and customers is a major barrier to worker ownership and high-road employment. We encourage the state to consider developing a **certification program to recognize high-road workplaces**, helping workers, consumers, and investors identify such workplaces. This certification might resemble existing certifications such as for B Corporations, and would be for all workplaces (not just employee owned workplaces). We also suggest exploring **expanding outreach to workers through strategic partners** such as workforce development boards and worker centers, to inform workers about the benefits of high-road co-ops.

Additional policies include **convening co-op developers to create standardized tools and templates** and **organizing finance professionals to share best practices** for underwriting cooperative loans. Finally, we suggest exploring **an AI chatbot to assist business owners** in evaluating their options for transitioning to worker ownership.

2) Leveraging Collective Efficiencies

Another major barrier for worker co-ops is the high cost of production and limited reward for the value they create, such as quality training and high loan repayment rates. We propose the state consider partnering with universities to **create high quality curriculum for high-road worker-owned workplaces** to standardize training and build skills for democratic workplaces. We also suggest **offering training grants for lenders** to incentivize them to learn about the needs of co-ops. The state can also convene experts and lenders to develop **standard loan templates for co-op**s, to streamline the loan application process and expand access to capital.

We also suggest **convening co-ops to explore scalable shared services**, such as back-office support and collective purchasing, to boost efficiency and competitiveness. The ACLC could provide back-office administrative services for any high-road co-op, covering areas from business development to human resource management.

3) Creating Appropriate Regulations and Labor Standards

We suggest modifying regulations that were poorly designed for high-road worker co-ops. We propose the state consider required governance standards (e.g., a democratically-elected board) plus a menu of optional standards on process (e.g., open book management) and outcomes (e.g., pay 125% of the legally required minimum wage, profit sharing, etc.). A co-op that meets all mandatory standards and 75% (for example) of the optional items might be classified as a “high-road co-op.”

Our general approach is to consider **giving regulatory deference to high-road co-ops**, similar to the flexibility granted to unionized workplaces. We suggest the state explore **raising the exemption cap on worker co-op buy-ins** and work with the federal Small Business Administration (SBA) for a pilot to **remove personal guarantee requirements for SBA loans**. We also suggest working with the federal government to **change certification rules to classify businesses with mostly female or minority owners as women- or minority-owned enterprises**, enabling them to win federal contracts.

Building on the broad-based policies above, we present policies below designed to promote Cooperative Labor Contractors (CLCs). For more details, see Chapter 3 and the ACLC analysis.

4) Designing Democratic, Financially Sustainable Cooperative Labor Contractors (CLCs)

In sectors where labor contractors pay low wages and violate labor laws, worker-owned Cooperative Labor Contractors (CLCs) may present a solution for high-road jobs. However, the nature of certain contract jobs – short-term, dispersed, and seasonal – poses challenges for a worker-owned staffing agency. Thus, we suggest designing CLCs around strategies that can grow the business to scale efficiently while focusing on longer term contracting arrangements.

One strategy is **prioritizing long-term contracts and “managed service” clients** for contractors over short-term gigs. Longer contracts with clients makes it possible to invest in skills for committed worker-owners and build cohesive groups that use workplace democracy to improve the business and keep management accountable to workers. We suggest **recruiting and including freelancers in a CLC**, which helps to grow the membership base (possibly as a second tier) and generates revenue for shared services and infrastructure provided by the Association of CLCs (ACLC) serving all CLCs.

5) Incentivizing the Growth of CLCs

Finally, we suggest that CLCs receive some regulatory deference in addition to the general deference for high-road co-ops described above. We suggest the state evaluate **granting a waiver from joint employer liability** and **reducing rates for workers’ compensation** initially and over time, to help CLCs lower costs and secure clients. These incentives can help CLCs, although it is not clear if these incentives are enough to substantially increase the growth of CLCs.

Report Outline

The rest of this report presents our findings and policies for consideration.

The **Introduction provides the background and motivation for this study** and its specific objectives. It discusses specific dimensions in the future of work and defines key terms and concepts for the report, including polarized jobs, fissured workplaces, high-road employment, and worker co-ops.

Chapter 1 reviews the effects of worker ownership. It begins with a primer on the history and theory of worker ownership with a specific focus on worker-owned cooperatives. Then it presents research and evidence from our literature review, statistical analysis, and other sources on outcomes for job quality, firm performance, and equitable economic development.

Chapter 2 reviews the major barriers and key enablers for high-road co-ops (HRCs), worker co-ops that provide high-road employment. It begins by describing the process of creating worker co-ops, before examining both the barriers hindering HRCs due to market and government failures and the enablers for HRCs of networks, institutions, and regulations.

Chapter 3 discusses cost-effective policies that may be able to overcome barriers and leverage enablers to promote HRCs. These policy approaches include: 1) improving information, 2) leveraging collective efficiencies, and 3) creating appropriate regulations. We also provide rough cost estimates for each policy suggestion.

Chapter 4 examines worker ownership in labor contracting. It introduces the ACLC concept, reviews the opportunities and challenges of worker-owned staffing, and highlights the barriers and enablers for such models in California. Then it presents a set of business strategies and policy interventions to incentivize the growth of an ACLC.

Chapter 5 outlines evidence gaps in the study and a learning agenda for future research. This includes deeper insight into complex staffing models, and longitudinal data collection and statistical analyses on how worker ownership affects outcomes like job satisfaction and retention, especially with underrepresented and disadvantaged groups. This agenda offers significant returns by informing and refining policies for worker ownership.

In addition to this report, we also present **a portfolio of supporting research** conducted by the research team for this study. This includes a literature review, statistical analysis, five case studies, expert interview analysis, and analysis of the ACLC. The analysis presented in the report draws on the original research presented in the portfolio.

Acknowledgments

Below is a list of study team members who conducted research and helped prepare this report.

Study team:

- David Levine – Professor, UC Berkeley – Principal Investigator, through the Institute for Business and Social Impact within the Haas School of Business
- Daniel Spitzberg – UC Berkeley – Report Editor and Researcher (expert interviews)
- Adria Scharf – Associate Director, Rutgers Institute for the Study of Employee Ownership and Profit Sharing (ISEOPS) – Researcher (ACLC) and Expert Adviser
- William Foley – PhD Student, Rutgers ISEOPS – Researcher (literature review)
- K. MacKenzie Scott – PhD Candidate, MIT Sloan School – Researcher (case studies)
- Gonçalo Costa – Postdoctoral Fellow, CUNY Graduate Center – Researcher (statistics)
- Minsun Ji – Executive Director, Rocky Mountain Employee Ownership Center – Researcher (case studies)
- Gabriella Rosario – UC Berkeley – Research Intern
- Doug Hirsch – UC Berkeley – Project Manager
- Douglas Kruse – Distinguished Professor, Rutgers University School of Management and Labor Relations and Associate Director, ISEOPS – Expert Adviser
- Ed Carberry – Associate Professor, UMass Boston – Consulting Adviser
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- Ray Rios – UC Berkeley – Administrative Adviser, Haas School of Business
- Adam Ross – UC Berkeley – Adviser, Institute for Business and Social Impact

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The Rutgers Institute for the Study of Employee Ownership and Profit Sharing ran the National ESOP Employee Survey with funding from the Employee Ownership Foundation. The Rutgers Institute also added questions on employee ownership to the General Social Survey with financial support from the Employee Ownership Foundation from 2002 to 2018, and from Google.org in 2022. We appreciate both the Rutgers Institute and these donors for providing the data we analyze. More generally, the Rutgers Institute has been a partner in every sense for the creation of this report.

Finally, we are grateful to the staff at the California Labor and Workforce Development Agency (LWDA) for their feedback, to members of the Study Panel for their guidance, and to members of the general public for their public comments.

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Introduction

This introduction presents an overview of our report on worker ownership and equitable economic development. It begins with the goals identified in the California Future of Work Commission and the study for the Promote Ownership by Workers for Economic Recovery (POWER) Act. It then summarizes the broader context, specific objectives, and study approach used to meet those goals, describing our portfolio of supporting research articles and the contents of this report. Finally, it provides definitions for key terms and concepts used throughout the report.

I. Study Goals: Worker Ownership, High-Road Employment, and Equitable Economic Development

In 2022, California passed the Promote Ownership by Workers for Economic Recovery (POWER) Act, Assembly Bill 2849. The POWER Act established a Panel "to conduct a study regarding the creation of an Association of Cooperative Labor Contractors for the purpose of facilitating the growth of democratically run high-road cooperative labor contractors."[5]

Specifically, this study would consider "how a federated worker cooperative system could advance the goals of the Future of Work Commission, particularly as they apply to historically under-resourced communities."[6] The 2021 Future of Work Commission aimed "to help create inclusive, long-term economic growth and ensure Californians share in that success," with the following specific goals:

1) "ensure the creation of sufficient numbers of jobs for everyone who wants to work, including by extending financial and technical assistance to mission-oriented businesses;
2) eliminate working poverty, including by creating supports for workers to organize in unions and worker associations as well as supporting "high-road" employment;[7]
3) create a 21st-century worker benefits model and safety net, including by developing a portable benefits platform and encouraging apprenticeship and other skill-building programs;
4) raise the standard and share of quality jobs, including by creating a California Job Quality Incubator to support the increase of high-quality jobs; and
5) futureproof California with jobs and skills to prepare for technology, climate, and other shocks, including by providing incentives to the private sector to invest in worker training."[8]

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[5] California Legislature. Assembly Bill No. 2849, introduced February 18, 2022. Ca. Lab. Code § 10010(a). https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202120220AB2849.
[6] AB 2849 (2022), Ca. Lab. Code § 10001(c).
[7] "High-road employment" refers to labor practices that go beyond the "low road," the minimum for job quality, including job security, high wages, good benefits, robust skills training, voice and decision-making, shared financial information, and business literacy training. It also refers to a broad labor organizing and policy strategy. We expand on this and other terms and concepts at the end of the introduction.
[8] AB 2849 (2022), Ca. Lab. Code § 10001(b).

The Legislature declared “that a California-focused federated worker cooperative system may advance these objectives by encouraging the expansion of democratically run high-road cooperative businesses that promote equitable economic development, reduce inequality, and increase access to living-wage jobs. Worker cooperatives have been shown to convey wealth-building and other significant benefits to workers, including autonomy from larger economic forces, more resiliency during economic downturns, lower workforce turnover, greater voice in health, safety, and other workplace issues, and more equitable pay.”[9] Accordingly, the Legislature directed that the study consider how to:

> “(1) Advance the goals of the Future of Work Commission within the [proposed] association.
> (2) Incentivize the growth of the association and its members.
> (3) Promote tenets of democratic worker control, including, but not limited to, uniform hiring and ownership eligibility criteria, worker-owners working most hours worked, most voting ownership interest held by worker-owners, most voting power being held by worker-owners, and worker-owners exercising their vote on a one-person, one-vote basis.
> (4) Ensure that the association’s members offer high-road jobs, which include, but are not limited to, jobs with the right to organize and participate in labor organizations and jobs with minimum labor standards, such as a minimum wage in excess of the otherwise applicable minimum wage, a compensation ratio between the highest and lowest paid employees, minimum health expenditures, minimum retirement expenditures, and protections for individuals who have gone through the criminal justice system.”[10]

To fulfill its mandate, the Panel retained the Institute for Business and Social Impact (IBSI) at the University of California, Berkeley, led by Professor David I. Levine, to conduct the study that is the basis for this report. In October 2023, work began on this study. In December 2023, the Panel and the California Labor & Workforce Development Agency (LWDA) provided additional feedback on the study, and in February 2024, the scope of work was updated and approved.

II. Study Context: Declining Job Quality, Expanding Labor Contracting

This section puts our study in context by describing broader trends and challenges affecting job quality. The following section describes our overall approach to this study and methodology.

By several metrics, job quality has declined over the past several decades for a large portion of the American workforce: wages adjusted for inflation have been stagnant for middle- and low-wage workers, economic mobility has decreased, pension coverage has declined, and the

[9] AB 2849 (2022), Ca. Lab. Code § 10001(c).
[10] AB 2849 (2022), Ca. Lab. Code § 10010(d).

percent with union protections has been going down.[11] At the same time, there has been substantial growth in outsourcing, use of contract workers, and other approaches that shrink the core employment of many large (and high-paying) employers.[12]

The two trends are linked, as labor contracting often corresponds with lower job quality. In many sectors, outsourcing and staffing companies adhere to the bare minimum labor standards, and sometimes fall below them. Even in higher-skilled tech jobs, contractors often receive fewer benefits, rights, and lower pay compared to permanent direct hires performing the same job.

Focusing on the challenges of labor contracting helps frame the challenges of job quality.

First, labor contracting has become a larger proportion of available jobs. The US has experienced widespread "job polarization" where middle-range jobs shrink or disappear as the small number of high-level, high-paid jobs grows and a large number of menial, low-wage jobs grows even more. This polarization between high- and low-quality jobs hollows out the middle tier of jobs. For example, manufacturing employment declined in Los Angeles, leaving the working poor with fewer opportunities for economic security, let alone economic mobility.

Second, more jobs have transformed into contract roles. Researchers have described the rise of "the fissured workplace," where companies focus on core competencies and cut costs by shifting many jobs, along with their risks and responsibilities, to other firms such as subcontractors or staffing agencies – as well as to the workers themselves.[13] For example, a major brand or organization such as a hospital or retailer will outsource some of its functions such as front desk work, back office administration, janitorial services, and so on.

Labor contractors such as staffing firms directly employ workers and supply them to client companies, government agencies, and NGOs needing labor. Often labor contractors serve manual labor sectors such as agriculture, construction, and food service. Labor contractors are increasingly found in professions including in health care and information technology as well. Labor contractors often manage employment-related responsibilities including recruitment and hiring, payroll and benefits, and compliance with tax and labor laws. By providing temporary, seasonal, and project-based workers, labor contractors help businesses maintain productivity and flexibility without the administrative burden of managing additional employees.

While this outsourcing often increases profits, it also creates a fissured workplace. Some workers get jobs with short-term contracts where price competition among labor contractors can

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[11] Mishel, Lawrence, Elise Gould, and Josh Bivens. "Wage Stagnation in Nine Charts." January 6, 2015. EPI, https://www.epi.org/publication/charting-wage-stagnation/; Katz, Lawrence F. and Alan B. Krueger. "Documenting decline in U.S. economic mobility." *Science* 356: 382-383 (2017); Gould, Elise. "State of Working America Wages 2018: Wage inequality marches on—and is even threatening data reliability." February 20, 2019. EPI, https://www.epi.org/publication/state-of-american-wages-2018/. All accessed July 27, 2024.

[12] See, e.g., Howell, David R., and Arne L. Kalleberg. "Declining Job Quality in the United States: Explanations and Evidence." *The Russell Sage Foundation Journal of the Social Sciences* September 2019, 5(4)1–53. https://doi.org/10.7758/RSF.2019.5.4.01; David H. Autor, "Work of the Past, Work of the Future," *AEA Papers and Proceedings* 109 (2019): 1–32. https://doi.org/10.1257/pandp.20191110.

[13] Weil, David. "The Fissured Workplace: Why Work Became So Bad for So Many and What Can Be Done to Improve It." Harvard University Press, 2014.

produce a race to the bottom in wages and benefits. Other workers end up as independent contractors, with fewer legal protections. A number of studies have identified common problems such as unsafe working conditions due to inadequate supervision or training, low and irregular pay, and wage theft (e.g., failure to pay the legally mandated minimum wage or overtime).[14] These problems are particularly common in low-wage sectors that tend to employ a large proportion of historically underserved populations such as agriculture, construction, hospitality, and domestic work including home health care and cleaning. Workers often find it difficult to identify the parties legally responsible for their contract, pay, benefits, training, and supervision. Even if workers have information about employers providing low pay, poor or unsafe working conditions, or violating labor laws, they are unlikely to speak up due to fear of reprisal and the need to retain employment.

In California, the economy relies on a relatively large share of contract labor. The American Staffing Association estimates that 2,114,900 non-farm workers were employed by staffing firms in California in 2022, with a $34.6 billion annual payroll in 2021 across about 4,290 staffing agency offices.[15] California also has an average of 407,500 temporary help workers per week.

This complex, decentralized network of labor market intermediaries creates challenges in upholding minimum labor standards. For example, in the farm sector, 46% of California workers whose primary job was in agriculture in 2021 (332,996 of 724,500 workers) worked via farm labor contractors (FLCs). These contractors recruit, hire, and place migrant or seasonal workers with client companies.[16] California FLCs have a history marked by incidents of poor treatment and abuse, accounting for about half of all federal wage and hour violations detected in agriculture in California from 2005 to 2019.[17] Similar poor job quality can be found in other sectors such as allied healthcare (a broad term for administrative staff, medical coders, vocational nurses, etc.).[18]

Fissured workplaces cause problems enforcing labor regulations nationwide. The Government Accountability Office (GAO) noted that the proliferation of subcontracting and temporary staffing

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[14] See, for example, Hinkley, Sara, Annette Bernhardt, and Sarah Thomason. "Race to the Bottom: How Low-Road Subcontracting Affects Working Conditions in California's Property Services Industry." UC Berkeley Labor Center, March 8, 2016. https://laborcenter.berkeley.edu/race-to-the-bottom/; Bernhardt, Annette, Ruth Milkman, and Nik Theodore. "Broken Laws, Unprotected Workers: Violations of Employment and Labor Laws in America's Cities." Center for Urban Economic Development, 2009. https://www.nelp.org/insights-research/broken-laws-unprotected-workers-violations-of-employment-and-labor-laws-in-americas-cities/.

[15] American Staffing Association. "Staffing Firms Employed 2,114,900 Workers in California." 2023. https://d2m21dzi54s7kp.cloudfront.net/wp-content/uploads/2020/05/2023-StateFactSheets-CA.pdf?x58882, last accessed July 23, 2024.

[16] Hooker, B., Martin, P., Rutledge, Z., & Stockton, M. "California has 882,000 farmworkers to fill 413,000 jobs." *California Agriculture*, (2024) 78(1). https://doi.org/10.3733/ca.2024a0005.

[17] Costa, D., Martin, P., Rutledge, Z. "Federal Labor Standards Enforcement in Agriculture." Economic Policy Institute, (2020). https://www.epi.org/publication/federal-labor-standards-enforcement-in-agriculture-data-reveal-the-biggest-violators-and-raise-new-questions-about-how-to-improve-and-target-efforts-to-protect-farmworkers/.

[18] Hallet, N. "Wage Theft and Worker Exploitation in Health Care." *AMA Journal of Ethics*, (2022) 24(9): E890-894. https://journalofethics.ama-assn.org/article/wage-theft-and-worker-exploitation-health-care/2022-09.

arrangements has outpaced the capacity of agencies like the Department of Labor to conduct thorough inspections and enforce compliance.[19]

In short, labor contracting has come to play an increasingly significant role in the economy, supplying labor in virtually every sector. The Future of Work Commission noted these trends in its report, stating that the "availability of 'good jobs' is further threatened by practices such as subcontracting, including through multiple levels of middlemen, and misclassification of workers as independent contractors."[20]

III. Study Design: A Comprehensive Approach

This section summarizes our study designs, methodologies, and the portfolio of supporting research articles.

The study's objectives included providing in-depth insight and analysis on 1) how to maximize the social impact of democratically run high-road worker-owned companies on low-wage, low-skill workers, and 2) the business conditions and enabling factors that can support successful and sustainable democratically run high-road worker cooperatives. (We define "high-road co-op" below.)

In preparing the study, the Panel engaged with key stakeholders including representatives from organized labor, worker cooperatives, and businesses in low-wage sectors. This process helped us to assess the opportunities and challenges associated with expanding workplace democracy and high-road employment.

The research team conducted a literature review on worker ownership; a statistical analysis of two national survey datasets; several case studies in low-wage sectors including agriculture, construction, allied healthcare, home care, and retail; interviews with individuals in cooperative staffing and umbrella groups; and an analysis of the ACLC concept, including opportunities, challenges, and policy considerations.

We elaborate on these components of our study below. All of the articles summarized below are in our portfolio of supporting research.

Broad Perspective on Worker Ownership

To develop a national perspective on the characteristics and impacts of worker ownership, we conducted a literature review and a statistical analysis of survey data.

Literature review on worker ownership[21]

The literature review examines how worker ownership affects workers and firms, with a focus on low-wage and marginalized workers. Full citations are in the accompanying article.

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[19] US Government Accountability Office. "Contingent Workforce: Size, Characteristics, Earnings, and Benefits." 2015. https://www.gao.gov/products/gao-15-168r.
[20] California Future of Work Report (2021), p.20.
[21] See Foley, William and Douglas Kruse, "Literature Review on Worker Ownership," in our Portfolio of Supporting Research.

There is a large accumulation of evidence on the links between employee ownership and several important worker and firm outcomes.The mostly clearly documented benefit of worker ownership for workers relates to improved job security. This benefit shows up most clearly during recessions, when worker-owned firms are much less likely to lay off workers.

The literature review also found generally positive effects on productivity, with some evidence suggesting this improvement is due to the combination of worker ownership with increased worker training, information sharing, and empowerment to make decisions.

There is no solid comparison of wages in US cooperatives and non-cooperatives, although one survey of co-op members reported a $2 median increase in pay compared to their previous employment. In companies with employee stock ownership plans (ESOPs), a form of retirement plan, there is consistent evidence of equal or higher wages compared to non-ESOP companies.

At the same time, ESOPs clearly increase retirement wealth (for example, workers have an average of $180,292 in their ESOP accounts).

Worker-owned firms have a number of non-compensation attributes tied to high-quality employment, and that the ability of workers to exercise greater control over their jobs and the organization can improve work experiences.

These benefits extend to women and workers of color. An analysis of young workers (ages 28-34) found that women and workers of color who were employee-owners had higher average wages, wealth, and job tenure than their counterparts who were not employee-owners.[22] However, women and workers of color continue to face wage and other disparities in employee-owned firms.[23]

The review suggests that while worker ownership may improve job quality, firm performance, and other social and economic outcomes, it is not a complete solution for labor market challenges.

Statistical analysis of worker ownership[24]

Our statistical analysis examined the effects of employee ownership on worker outcomes, using two datasets of self-reported attitudes and perceptions–the General Social Survey (GSS) that covers all forms of employee ownership, and the National ESOP Employee Survey (NEES) that covers ESOP employees. Because cooperative members are a small portion of all employee-owners, the GSS results mostly reflect forms of ownership other than co-ops.

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[22] Wiefek, Nancy. “Employee Ownership & Economic Well-Being: Household Wealth, Job Stability, and Employment Quality Among Employee-Owners Age 28 to 34.” National Center for Employee Ownership, 2017.

[23] Kim, J. “Research Brief: Women in ESOPs.” *Rutgers Institute for Employee Ownership and Profit Sharing* (n.d.) and Reibstein, Sarah, and Laura Hanson Schlachter. “Inequalities in democratic worker-owned firms by gender, race and immigration status: evidence from the first national survey of the sector.” *Journal of Participation and Employee Ownership* ahead-of-print (2023).

[24] See Costa, Gonçalo Pessa and David I. Levine, “Statistical Analysis of ESOP Membership and Worker Outcomes,” in our Portfolio of Supporting Research.

We used a machine learning model that let us control for a rich set of attributes of the employee and employer. Nevertheless, our estimates are not necessarily causal if some omitted and exogenous factor affects both employee ownership and outcomes.

Controlling for many observable attributes of the worker and employer, ESOP membership is correlated with higher worker satisfaction, higher participation in decision-making, higher organizational commitment, and lower likelihood of searching for other employment. The analysis finds no evidence that these effects vary meaningfully between historically disadvantaged and non-disadvantaged workers, but because relatively few respondents were both employee owners and from disadvantaged backgrounds, precision on these tests is low.

These findings suggest that ESOP membership can enhance job quality and employee well-being on certain measures. However, given a modest sample size, these findings have limited precision, with insufficient data to draw firm conclusions about the experiences for disadvantaged workers.

Deep Analysis in Low-Wage Sectors

Case studies in home care: Courage and SplenDoor[25]

For deeper analysis on worker ownership in low-wage industries, our team conducted comparative case studies in low-wage sectors. One such industry is home care, which relies on a workforce largely made up of people of color, women, and immigrants. This report includes two case studies with analyses of management practices and worker experiences in home care firms with under 20 workers: COURAGE LLC ("Courage"), a co-op, and SplenDoor in Home Care LLC ("SplenDoor"), a sole proprietorship. Both are based in Los Angeles with similar staff and client demographics, as well as ongoing relationships with a local workers center.

Both companies in the home care study represent efforts to offer an alternative to low-road agencies and direct care arrangements. At SplenDoor, a well-intentioned CEO with significant care experience helps create W-2 employment for her fellow workers – even if not all of the workers would prioritize labor protections over cash in the short-term. As an LLC cooperative, Courage explicitly focuses on worker voice and dignity. Courage has 17 worker-owners and is working to attract sufficient clients to employ their members. At the time of our case study, only six to eight employee-owners were working in a typical week.

Both models receive public support, albeit in different ways. The proprietor of SplenDoor participated in the state education system and business administration support classes, in order to learn the skills to run a home care business. As part of a coalition of cooperatives, Courage received state grant funding. These resources enabled them to support training for members, including pay for their time, as well as to hire a cooperative developer. Given the high need for home care workers and low current wage rates, public support is a key aspect of this industry.

Across the home care industry, dispersed workplaces in client homes coupled with complex schedules makes it difficult to develop strong intra-organizational relationships. This aspect is a

[25] See Scott, K. MacKenzie, "Case Studies of Immigrant Entrepreneurship and Home Care Co-op Development," in our Portfolio of Supporting Research.

particular challenge in cooperatives, which seek to develop shared firm governance. For Courage, meetings are held virtually and at off-peak times in an effort to maximize participation. Further, Courage is working with external partners to develop an umbrella cooperative, which will help support the cooperative with administrative needs and cost-sharing opportunities. On the whole, Courage benefits from innovative partnerships with community support organizations and fellow cooperatives that are interested in how cooperatives might improve work and services in the unique setting of the home care industry.

Case studies of ownership conversions: Proof Bakery and Firebrand Artisan Breads[26]

We conducted case studies on two bakeries with under 100 workers that underwent employee ownership conversions: Proof Bakery in Los Angeles, which converted to a worker-owned co-op, and Firebrand Artisan Breads in Oakland which converted to a steward ownership model, using a perpetual purpose trust (PPT).

Despite the different legal forms that these bakery companies used for conversion, we found commonalities in these two cases. Proof Bakery increased revenues, raised wages, and improved job satisfaction among its worker-owners; Firebrand Artisan Breads also provided a higher wage to employees, maintaining its social mission of hiring marginalized populations such as the homeless and the previously incarcerated.

The main difference between these two bakeries lies in their governance structure and level of worker control. Proof Bakery's worker co-op model provided direct ownership and control to workers that led to outcomes like tripling revenues within a few years of conversion. In contrast, Firebrand's steward-ownership model does not give direct control to workers, and workers' direct input in decision-making is limited. However, the legal model of a perpetual purpose trust commits the company to continue to hire the most vulnerable populations in the community.

Both case studies show that founders play a critical role in articulating the vision for the co-op conversion. The size of a company in conversion processes also plays an important role in determining what legal model to choose. While a small business with fewer than 50 employees may flourish better with a worker cooperative model, a larger business such as Firebrand with more than 50 employees may be a better candidate to choose a different model such as a PPT. Although these models take different approaches to employee ownership, findings suggest that both Proof Bakery and Firebrand Artisan Breads enhanced job quality and business stability through their respective ownership conversion models.

Case study of a unionized 100% employee-owned firm: Pavement Recycling Solutions[27]

We also conducted an in-depth case study of Pavement Recycling Solutions, Inc. (PRS), a medium-size, 100% employee-owned, unionized construction firm. It has decades of experience with worker ownership and over 500 employees.

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[26] See Ji, Minsun, "Case Studies of Worker Ownership Conversion: Proof Bakery and Firebrand Artisan Breads," in our Portfolio of Supporting Research.
[27] See Scott, K. MacKenzie, "Case Study of a Unionized ESOP: Pavement Recycling Systems," in our Portfolio of Supporting Research.

On the whole, PRS has been resilient in the face of challenges, competitive in its market, oriented toward growth, and responsible to its longest-serving workers. At the same time, no company is perfect; PRS openly acknowledges challenges such as attracting young workers to an ESOP, educating a growing and diversifying workforce on what it means to be a worker-owner, and further strengthening its safety culture.

Focus on Worker Ownership in Labor Contracting

Case studies of worker-owned labor contractors: California Harvesters, Inc. and AlliedUP[28]

For a close look at worker ownership in the context of labor contracting, we conducted a comparative case analysis of two large worker-owned labor contractors: AlliedUP in healthcare and California Harvesters, Inc. (CHI) in agriculture. Both firms were formed within the past six years with the goal of creating better wages and working conditions for low-wage, precarious workers.

AlliedUp is the first unionized worker cooperative staffing agency for allied health professionals, such as technicians and medical support staff. CHI is a farm labor contractor in California that aims to provide high-road wages for farm workers through forming an employee-owned trust (EOT). Both case studies show innovation in creating a better employee ownership model within precarious industries. Both firms were successful in fundraising, and building strong community partnerships with various community organizations and foundations. Both firms also energized employee-owners and provided higher wages for their workers for a few years. At the same time, each has relatively few employee-owners or members.

However, CHI and AlliedUP faced similar challenges: securing market share from long-term clients, tight business margins in competitive sectors, and the lack of available labor. For example, CHI had 875 workers signed up as potential new members within their first year of operations. However, only about 250 workers remained with CHI for a second year or more of work. AlliedUP faced a similar challenge in that about 50 workers originally signed up as interested members in 2021, but only 15 full co-op members remained by 2023. In particular, the difficulty of securing a market share within these industries became a main challenge as both firms struggled to find large contractors who could provide long-term contracts to the firms. Without adequate long-term clients, they struggled to provide workers with better salaries, which resulted in shortages of labor within the firms.

The firms also struggled with building a culture of ownership. Allied health care workers often are happy to take a permanent job in one of the client firms, removing AlliedUp's ability to build a culture of long-term employment. Many agricultural workers are on visas that are also inconsistent with long-term employment.

Analysis of the Association of Cooperative Labor Contractors (ACLC)[29]

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[28] See Ji, Minsun, "Case Studies of Worker-Owned Labor Contracting in Agriculture and Healthcare: California Harvesters, Inc. and AlliedUP," in our Portfolio of Supporting Research.
[29] Scharf, Adria, "Analysis of the ACLC," in our Portfolio of Supporting Research.

The Association of Cooperative Labor Contractors (ACLC, or Association) is an umbrella group and hub for Cooperative Labor Contractor (CLCs) described in the POWER Act.

A Cooperative Labor Contractor (CLC) is a co-op that provides labor contracting services. One purpose of this study is to consider viable forms for CLC that bring worker ownership and high-road employment to labor contracting. The goal is to create CLCs that offer high quality labor to client companies and provide stable, higher quality jobs for workers.

The POWER Act calls for the study to consider how CLCs can provide high-road jobs, with elements including but not limited to “the right to organize and participate in labor organizations and jobs with minimum labor standards, such as a minimum wage in excess of the otherwise applicable minimum wage, a compensation ratio between highest and lowest paid employees, minimum health expenditures, minimum retirement expenditures, and protections for individuals who have gone through the criminal justice system.”

ACLC would provide services to start, grow, and advise CLCs including “shared administrative, managerial, and other functions and costs, leveling the playing field for worker co-ops of any size to… gain the benefits of scale.”[30,31] Additionally, the ACLC would establish CLCs in various sectors and provide them with labor policy, management assistance, and business support. A State Senate Bill in June 2022 proposed an ACLC that would be structured as a nonprofit mutual benefit corporation.

We analyzed the proposed Association of Cooperative Labor Contractors (ACLC). We examined its design, its opportunities and challenges, and potential incentives to grow its member Cooperative Labor Contractors (CLCs).

Opportunities include the association providing scalable shared services such as HR management, employer of record services, and capital access. Especially for staffing agencies, an excellent client app, website and backend app can create value for employees, clients, and the CLC. The app can help workers with tasks such as applying for the job, training, scheduling, providing employees information on each new job (e.g., the needs of a new client in home care), and so forth. The client-facing version can help clients schedule work, provide details on the skills and experience they need, and give feedback on contractors.

Challenges include CLCs assuming the costs and risks of serving as an employer for workers staffed at another company; working with thin margins while trying to secure market share; and trying to compete with low-road competitors in low-wage sectors characterized by labor violations such as poor safety and wage theft. The tension between cohesive, stable workplaces and temporary contracts presents another challenge: CLCs may struggle to leverage the competitive advantages of a participatory worker-owned business for short-term, highly mobile workforces such as healthcare workers and immigrant farmworkers.

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[30] See “The Promote Ownership by Workers for Economic Recovery Act,” N.d. https://sjud.senate.ca.gov/sites/sjud.senate.ca.gov/files/20212022_0_ab2849_05-19-2022_mia_bonta_judiciary_spc_139558.pdf.

[31] “Fact Sheet: AB 2849: Promote Ownership by Workers for Economic Recovery (POWER) Act.” Last updated March 28, 2022.

This report also presents policy approaches and business strategies that may help the ACLC improve outcomes for contract labor. In terms of policy, granting a waiver from joint employer liability to clients of CLCs could incentivize CLC use. Reducing the high initial cost of workers' compensation based on safety records and commitment to high-road labor standards is also discussed. In terms of business, long-term staffing contracts with stable clients may also prove beneficial.

Overall, our analysis suggests that the formation of an ACLC and its capitalization and implementation should be given careful consideration. Labor contracting is often associated with poor job quality and economic uncertainty for workers but the right combination of leadership, sector, client, training, and democratic workplace practices could create better wages and working conditions and provide a model for industries to follow. Future analysis ought to review success conditions to help the ACLC launch, learn, and grow.

Chapter 1: Effects of Worker Ownership

Summary

This chapter presents evidence on how worker ownership can contribute to the 2022 California Future of Work Commission goals and broader equitable economic development. The chapter begins by reviewing the Commission goals and the focus on job quality, and then provides context for studying worker ownership by discussing "high-road employment." It then provides background on the theories related to worker ownership, describing common models and focusing on worker-owned cooperatives in particular and the benefits and risks. Then, the chapter presents findings from the literature and our study on the effects of worker ownership on job quality, with a comprehensive framework that considers firm performance.

1.1. Strategies for Improving Job Quality

A core motivation for this report is to present evidence on whether and when worker ownership can improve a range of economic outcomes for California, mainly related to job quality. This section describes the emphasis on worker voice in the goals set forth by the Future of Work Commission, and then introduces the broader concept of "high-road employment" to put this study of worker ownership in context.

1.1.1. Worker Voice in the Future of Work

The Promote Ownership by Workers for Economic Recovery (POWER) Act, AB 2849 (2022), called for a study of an Association of Cooperative Labor Contractors (ACLC).[32] Its first objective was to consider how an ACLC could advance the five interrelated goals set forth by California's 2021 Future of Work Commission, including "Eliminate working poverty," "Raise the standard and share of quality jobs," and "Futureproof California with jobs and skills" to prepare for technology, climate, and other shocks.[33]

To meet this call, our task in part is presenting evidence on how worker ownership can help workers and other stakeholders make improvements to job quality.

Job quality was a main focus in the Future of Work report, which proposed "a new Social Compact" for workers, employers, investors, and other stakeholders, presenting worker voice and power as the key to improvement. In describing the challenges, the report cited a 2019 Gallup poll that asked California workers to rank what they felt was most important for a "good job." Respondents gave much higher ratings to characteristics that are famously difficult to quantify or measure, such as "a sense of purpose" and "enjoying your day to day work," far above other characteristics that are easier to quantify and measure such as job security and

[32] California Legislature. Assembly Bill No. 2849, introduced February 18, 2022. https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202120220AB2849.
[33] California Future of Work Commission. "A New Social Compact for Work and Workers." March, 2021. https://www.labor.ca.gov/wp-content/uploads/sites/338/2021/02/ca-future-of-work-report.pdf.

stable, predictable pay. Among many potential takeaways, this poll suggests that worker voice is the starting point to defining and creating quality jobs.

Relatedly, the report presented shared principles and values for all stakeholders to pursue–not just workers but also employers, entrepreneurs, corporations, and others. After the first principle and value of “Promote equity of people and place,” the second was “Empower workers and rebalance power with employers.” The report elaborates on why this is important:

> The Commission identified worker voice and worker power as critical enablers for improved outcomes for work and workers in the state. Any initiatives should incorporate opportunities for unions and worker organizations to be involved in the design and development of these initiatives, and should identify mechanisms for workers to have a voice in identifying their own needs and opportunities in the future.[34]

Finally, to reach the goal to “eliminate working poverty… in the most vulnerable sectors and occupations, particularly in the hospitality, retail, and care sectors,” the report recommended three initiatives. In addition to raising wages in these sectors and providing “high-road employment supports” such as training, the report also recommends “supports for workers to organize in unions and worker associations.”[35]

Based on the motivation and framing from the POWER Act and Future of Work Commission, this chapter, and our study overall, reviewed evidence on the effects of worker ownership more broadly, including a range of outcomes for job quality and the role that an association may play.

1.1.2. Practices of High-Road Employment

What makes a good job? What kinds of employment models and policies help create good jobs? How do these models and policies relate to worker ownership?

In order to examine the effects of worker ownership on relevant aspects of job quality, this section introduces the concept of “high-road employment” and its role in policy. Both the POWER Act and the Future of Work report mention high-road employment. The report defines “high-road employers” as “employers who raise their wages far above the minimum wage and provide other benefits, thus incentivizing other employers to move toward becoming ‘high-road.’” High-road employment is also sometimes defined by management practices such as high levels of training and employee voice. We embrace this multidimensionality, and consider a range of practices that aspire to higher compensation, job quality, and sharing gains with workers.

As implied by the Future of Work report, “high-road employment” may be seen not just as a set of management practices, but as a strategy to change the norms of how businesses treat workers, potentially creating “win-win” benefits for businesses and communities along with workers. As such, organized labor and community groups have a stake in developing and

[34] California Future of Work Commission, 2021. p. 39.
[35] California Future of Work Commission, 2021. p. 9.

pushing for this strategy.[36] The potential "win-win" benefits are illustrated by two common practices among high-road employers: better training and higher wages. These practices often reduce turnover, increase productivity, and provide customers with higher quality goods and services at lower prices. For example, in 2001, San Francisco International Airport raised wages and provided health care for several non-managerial divisions including security screeners and cabin cleaners, leading to improved morale, higher performance, and dramatically reduced turnover – even in divisions without changes to recruitment, hiring, or training practices.[37]

Governments have also promoted high-road employment policies. For example, California's High-Road Training Program has invested over $370 million since 2014 in high-demand sectors like road construction and health care, especially for underserved populations.[38] While these efforts are well intentioned, results for wages, employment and job quality appear mixed, although better than for similar programs in other states.[39]

While individual high-road employers may decide to move to a high-skill, high-involvement workplace (typically with good outcomes for employees), government efforts for high-road employment can be part of a broad, comprehensive strategy to encourage many businesses to make changes that drive equitable economic development. From this perspective, worker ownership presents an opportunity for equitable economic development. Worker co-ops, the main form of worker ownership in our study, are businesses collectively owned and democratically controlled by the members they benefit. To the extent that worker co-ops are linked to high-road employment practices (e.g. better training, higher compensation, fewer layoffs) that lead to equal or better outcomes (e.g. less discrimination, stronger commitment to the firm, etc.) than among conventional businesses, worker ownership ought to play a role in high-road employment strategies and related policies.

The following section introduces worker ownership, and the section after that presents evidence from our study and other sources on the effects of worker ownership on job quality. Later

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[36] Rogers, Joel. "What Does 'High Road' Mean?" 1990. Center on Wisconsin Strategy. https://cows.org/wp-content/uploads/sites/1368/2020/05/1990-What-does-22high-road22-mean.pdf. Two White House policy briefs on high-road employment mention the role of unions and pro-labor legislation such as the PRO Act as key enablers, but otherwise focus on the role of employers. Boushey, Heather and Kevin Rinz, "Blocking the Low Road and Paving the High Road: Management Practices to Improve Productivity." April 6, 2022. https://whitehouse.gov/cea/written-materials/2022/04/06/blocking-the-low-road-and-paving-the-high-road-management-practices-to-improve-productivity/; Perez, Thomas E. and Jeffrey Zients. "Profit and Purpose: The High Road is the Smart Road." February 26, 2016. https://obamawhitehouse.archives.gov/blog/2016/02/26/profit-and-purpose-high-road-smart-road.

[37] Reich, Michael, Peter Halland, and Ken Jacobs. "Living Wage Policies at the San Francisco Airport: Impacts on Workers and Businesses. *Industrial Relations* January 2005 44(1): 106-138. https://onlinelibrary.wiley.com/doi/abs/10.1111/j.0019-8676.2004.00375.x.

[38] California Workforce Development Board. "High Road Training Partnerships. N.d. https://cwdb.ca.gov/initiatives/high-road-training-partnerships/; UC Berkeley Labor Center. "High-Road Training Partnerships." Nd. https://laborcenter.berkeley.edu/labor-management-partnerships/high-road-training-partnerships/

[39] Echelman, Adam. "California's High Road worker training programs offer a step up. Are they working?" San Francisco Chronicle. February 19, 2024. https://www.sfchronicle.com/bayarea/article/high-road-workforce-program-18674357.php.

chapters return to the opportunity for high-road co-ops to be part of a coordinated effort to improve worker voice and power in the context of labor contracting.

1.2. Background on Worker Ownership

This section provides background on worker ownership, including common models and specific considerations for financial return and workplace democracy.

1.2.1. Definitions and Models

Worker Ownership

Worker ownership is a broad term for workers sharing in ownership of their company, sometimes also called “employee ownership.” Worker ownership takes multiple forms in the US. Worker-owned businesses vary along dimensions such as the: 1) proportion of the company owned by the workers; 2) the proportion of the workforce who are owners; 3) worker governance rights; and 4) degree to which the legal purpose of the company is to benefit workers.

This report focuses on worker-owned cooperative businesses, or “worker co-ops” for short, businesses owned and governed by their worker members, in which each member has an equal share and an equal vote on governance decisions. These co-ops are designed to be worker-centric organizations.

However, because worker co-ops represent a small fraction of US businesses with an estimated 1,000 in existence with a median size of between 6 and 8 workers, we also review studies and our own research on employee stock ownership plans (ESOPs) and employee-owned trusts (EOTs). For context, in 2023 close to one-fifth of US workers held some form of economic stake in their employer, including more than 10 million employees covered by ESOPs, about 1 million members of ESOPs that own all of most of their company stock, between 13,000 and 60,000 workers in an Employee-owned trust (EOT), and around 10,000 worker-owners in about 1,000 worker co-ops.[40] We do not cover other forms of broad-based employee share ownership that rarely involve majority ownership such as Employee Stock Purchase Plans, 401(k) plans, stock options, and other equity compensation plans.

Worker Cooperative

A worker-owned cooperative (or co-op) is a business collectively owned and democratically controlled by its members. Its main characteristics include workplace democracy (worker voice and decision-making rights in a one-member, one-vote model) and equitable distribution of wealth (revenue allocated among members based on labor performed).

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[40] Blasi, Joseph and Douglas Kruse. “What We Know from Recent Research.” Aspen Ownership Ideas Forum. June 2023. https://www.aspeninstitute.org/wp-content/uploads/2023/08/Employee-Ownership-and-ESOPs-%E2%80%94-What-We-Know-from-Recent-Research.pdf

Worker co-ops are the main form of worker ownership in our study. California Law (AB 816, 2015) provides that "[a] worker cooperative has the purpose of creating and maintaining sustainable jobs and generating wealth in order to improve the quality of life of its worker-members, dignify human work, allow workers' democratic self-management, and promote community and local development." A worker co-op or "employment cooperative" is further defined as a corporation "that includes a class of worker-members who are natural persons whose patronage consists of labor contributed to or other work performed for the corporation," within which "at least 51 percent of the workers shall be worker-members or candidates."

As noted above, The POWER Act calls for the study to consider elements of democratic worker control in worker co-ops, including but not limited to "uniform hiring and ownership eligibility criteria, worker-owners working most hours worked, most voting interest being held by worker-owners, most voting power being held by worker-owners, and worker-owners exercising their vote on a one-person, one-vote basis."

An LLC (limited liability corporation) co-op is a form of incorporating a co-op, based largely on an operating agreement, which acts as the co-op's "constitution" to define governance rights, etc. Compared to a traditional co-op, the LLC form has several advantages and disadvantages for taxes, liability, and other considerations.[41]

Employee Stock Ownership Plans (ESOPs)

- Description: Federally regulated retirement plan, designed to hold employer stock. Sometimes used to create 100% employee-owned companies
- Democracy: Limited voting rights are built in for plan participants, such as voting on major corporate decisions like sale of the company or major acquisitions. Companies with ESOPs can choose to include a degree of democratic worker control, and a small share of ESOP companies have done so.
- Financial return: Workers receive a retirement account, called an ESOP account, that can increase in value with annual contributions from the employer, sometimes dividends, and change in the share price. Shares are valued annually.

Employee Ownership Trusts (EOT)

An employee-owned trust (EOT) is a business structure in which a company is held in trust for the benefit of its employees. Based on existing trust law, the non-charitable perpetual purpose trust creates a vehicle that can lock a mission and structure into a business, analogous to a land trust, but not structured as a nonprofit. Unlike direct share ownership by employees, an EOT places the company's shares into a trust, which is managed by trustees who are legally required to act in the best interests of all employees (perhaps along with other named beneficiaries of the trust). The trust may be designed with or without worker control, democracy, or any other

[41] The Sustainable Economies Law Center. "How To: Choose an Entity for your Cooperative." 2019. https://clinical.aals.org/wp-content/uploads/sites/3/2021/05/43390912-12.pdf. Sexton, Sarah. "Limited Liability Companies as Worker Cooperatives." 2009. https://institute.coop/resources/limited-liability-companies-worker-cooperatives.

feature. The trust model helps in maintaining continuity and preserving the company's mission and values across generations of employees. Employees do not directly own the company, but trustees can give workers bonuses or other benefits based on the performance of the company.

1.2.2. Theoretical Framework

To frame our evidence on worker ownership, including the tension of financial sustainability and worker democracy, we present a simple theoretical framework.

Our framework derives from economic theory and has implications for firm performance overall, mainly in terms of productivity, as well as for job quality and employment. This framework also helps contextualize later chapters on the barriers and enablers for high-road worker-owned cooperatives and worker-owned labor contractors.

Employment and compensation

1. Employment: Profitable worker-owned firms may have lower employment than in conventional firms due to concerns about diluting profits per worker and share value. Current members have a disincentive to hire more worker-owners, as current members may prefer to keep the membership base smaller to maximize their individual share value.[42]
2. Market Price Buy-in: The number of workers hired in a worker-owned firm may be equivalent to the number in a conventional firm if new members pay the market price to buy their ownership share. Theoretically, a new hire's share payment will exactly reward current members for their potential reduction in profits per worker.[43]
3. Financial Risk: Worker-owners may not be financially well diversified, with an inefficiently high share of their wealth tied up in their employer. Worker ownership lowers diversification of financial wealth. In addition, if the firm fails, worker-owners lose both their job and their investment. However, financial risk may be reduced by higher job security, higher compensation, and increased training.

Firm Performance

1. Commitment to the employer and effort: Productivity may be higher in small co-ops, as each worker-owner has a direct incentive to work hard to raise profits.[44] This commitment works best when coupled with training, information sharing, and empowerment.

2. Free-Rider Problem: Productivity can diminish if some worker-owners contribute less than their peers but enjoy equal return, which is known as the "free rider" problem.[45]

[42] The theoretical economics literature has postulated that this could incentivize worker-owners to respond "perversely" to increases in demand for the firm's output by decreasing employment (Bonin et al, 1993), although empirical research does not support this prediction (Pencavel, 2001).
[43] Bonin et al, 1993.
[44] Bonin et al, 1993.
[45] Pencavel, 2001.

3. Cohesive Teams and Workplace: Worker-owned firms can maintain high productivity if there are norms to encourage good behavior such as high effort and sanctioning of free riders.[46] These norms are more likely to arise and be enforced if workers are cohesive. Cohesiveness, in turn, often arises through repeated interactions, as when employees work in close proximity over a long period of time.

4. Time Horizon Problem: Productivity can also decline if long-term worker-owners who expect to exit or dissolve the co-op decide to invest less in the firm relative to new members, which may occur if the investments are not reflected in higher value of their shares when they leave. This is known as a “time horizon problem.”

1.3. Worker Ownership and Job Quality

This section presents evidence on the effects of worker ownership on job quality across a variety of aspects from our literature review, statistical analysis, and case studies on several firms in low-wage sectors with and without worker ownership.

Overall, we find strong evidence of positive effects on job security, including fewer layoffs in economic downturns. We also find greater opportunities for worker voice and decision-making in worker-owned firms, due to formal governance rights as well as culture. Our evidence on wages in co-ops is limited and inconsistent, with findings of both higher and lower wages among co-op members compared to workers in other firms. Where lower wages occur, some evidence suggests this reflects the effects of worker voice to stabilize employment during hard times–worker-owners may collectively decide to reduce hours or pay to accommodate other job duties in a given week or to help the firm make it through an economic crisis.

To organize our evidence and findings on job quality, we use the Aspen Institute “Good Jobs” framework that includes three dimensions: 1) economic stability; 2) equity, respect, and voice; and 3) economic mobility.[47] This fits our purpose because it reflects a wide range of worker experiences within a given firm, as well as beyond; for example, it includes factors related to worker voice such as participatory management to change the workplace, as well as factors related to mobility such as career advancement. For each section, we begin by presenting evidence from case studies on specific firms, and then include more from our literature review and statistical analysis.

1.3.1. Economic Stability

The job quality dimension of economic stability is more than just steady wages. Jobs should provide “Stable, family-sustaining pay; Sufficient, accessible, and broadly available benefits; Fair, reliable scheduling practices; Safe, healthy, accessible working conditions.”[48] Taken together, this means workers have “confidence that they can meet their basic needs – for

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[46] Ben-Ner, Avener and Derek C. Jones. “Employee Participation, Ownership, and Productivity: A Theoretical Framework.” *Industrial Relations*, October 1995 34(4): 532-554.
[47] The Aspen Institute. “Good Jobs Champions Group – Statement on Good Jobs.” Oct 14, 2022. https://www.aspeninstitute.org/programs/good-jobs-champions-group/.
[48] Aspen Institute, 2022.

healthy food, a safe place to live, healthcare, and other essentials – for themselves and their families now and in the future." Below we present evidence on job security and wages.

Job Security

Overall, we found evidence that workers experience higher levels of job security in worker co-ops and other firms with employee ownership. This includes evidence on layoffs as well as stable employment in general.

In our case study on Proof Bakery, a co-op conversion, employees became worker-owners and saw a number of improvements. However, compared to the case study on an employee-owned trust conversion at Firebrand Artisan Breads, Proof workers had a direct role in decisions that helped these improvements manifest, such as wages and tipping policies. Overall, Proof Bakery workers saw potential for long-term planning to grow their income, learn management skills, and build overall capacity as owners. As one interviewee from Proof told us:

> "For me, not having a sense of economic security has always been a problem and I lived under lots of stress, moving from job to job at a café. But, with Proof Bakery, I feel less stressful, and I am happier."

Similarly, our statistical analysis of employee ownership found evidence that ESOP members reported being more committed to their firms and less inclined to search for a new job. While findings from the General Social Survey (GSS) did not indicate a statistically significant difference in likelihood of searching for a new job, the National ESOP Employee Survey (NEES) found that ESOP membership was associated with a 1.1 lower score in searching for a new job on a 1-to-10 scale, and a 1.7 higher score on commitment to the employer.

Our literature review found evidence of increased job security across worker co-ops, based on a large number of case studies and limited statistical data. One study using data from all publicly traded companies in the US from 1999 to 2011 found that large employee-owned firms were less likely to lay off workers than conventional firms during the two recessions in this period.[49] Most recently, a survey of 142 worker cooperatives during the initial months of the COVID-19 pandemic found that only 12% of co-ops had laid off workers, and around 60% kept the same number of workers employed, opting to reduce hours instead.[50] However, this survey lacked a comparison group of conventional firms for the results. Two studies in 1992 and 1995 of worker ownership and conventional firms in the plywood industry found that employment was less likely to decrease during recessions among the co-ops.[51]

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[49] Kurtulus, Fidan Ana, and Douglas L. Kruse. How did employee ownership firms weather the last two recessions?: Employee ownership, employment stability, and firm survival: 1999-2011. WE Upjohn Institute, 2017.

[50] Manklang, Mo, Zen Trenholm, and Olga Prushinskaya. "Worker Co-ops: Weathering the Storm of COVID-19." 2020, Democracy at Work Institute and the U.S. Federation of Worker Cooperatives. https://institute.coop/resources/worker-co-ops-weathering-storm-covid-19.

[51] Craig, Ben and John Pencavel. "The behavior of worker cooperatives: The plywood companies of the Pacific Northwest." *The American Economic Review* (1992): 1083-1105; Ben Craig, John Pencavel, Henry Farber, and Alan Krueger. "Participation and productivity: a comparison of worker cooperatives and conventional firms in the plywood industry." *Brookings papers on economic activity. Microeconomics* (1995): 121-174.

The statistical evidence for increased job security among ESOPs is much more readily available. First a 2021 study found that during the COVID-19 pandemic, majority ESOP firms (where workers own a majority of the company, typically 100%) laid off on average 14.7% fewer workers in the first six months of the pandemic compared to conventional firms in the same industry.[52] The study also found that ESOP firms preserved a greater number of non-managerial jobs – cutting only 2% on average, compared to 6.9% cuts in non-ESOP firms.

A 2017 study found that among all publicly traded companies within the US from 1999 to 2011, companies with ESOPs were less likely to lay off workers than conventional firms during the two recessions in this period.[53]

Employee-owned firms also had higher productivity, but their relative advantage declined in recessions, which may be due to retaining workers who receive training or otherwise invest in activities that bolster long-term, but not short-term, productivity.

Wages

Our evidence on wages in worker co-ops is limited and inconsistent. At the same time, compensation is higher on average for members of ESOPs. To help frame this evidence, it is important to note that average wages are not necessarily the main measure of job quality, particularly in a co-op. For example, co-op workers may decide to shore up job security and cope with difficult economic or public health conditions by temporarily reducing wages and hours. An evaluation of compensation should also consider access to benefits.

Our case studies on several worker-owned firms offer close-up views of compensation. In our case studies on home care businesses, an LLC co-op Courage pays $20 per hour plus overtime pay compared to a sole proprietorship SplenDoor that pays $22 per hour with limited overtime, meaning net pay is roughly equivalent. As we discuss below, the Courage pay was the result of a collective decision to raise prices for clients in order to increase caregiver pay to $20 and accommodate overtime.

Similarly, in our case study of the worker co-op conversion Proof Bakery, workers voted to change the tip policy to evenly distribute tips to all workers. Combined with higher revenues following the conversion, average hourly wages increased $3.50 (from $23.33 to $26.83, by 15%), as of April 2023. Even as counter workers lost some tips to even distribution, workers reported that this helped them realize the power of a co-op; one worker-owner said, “I am happier that we are making more income for everyone. That makes me feel good to be here.”

In our literature review, we found little evidence on wages in worker co-ops in the US. The one recent data source – a 2017 survey of 835 worker co-op members (out of approximately 10,000 members of US worker co-ops) – found that co-op members reported a median gain of $2 more

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[52] Blasi, Joseph, Douglas Kruse, and Dan Weltmann. “The response of majority employee-owned firms during the pandemic compared to other firms.” *Journal of Participation and Employee Ownership* 4, no. 2 (2021): 92-101. The data collection for this analysis was funded by the Employee Ownership Foundation.
[53] Kurtulus, Fidan Ana, and Douglas L. Kruse. “How did employee ownership firms weather the last two recessions?: Employee ownership, employment stability, and firm survival: 1999-2011.” WE Upjohn Institute, 2017.
https://upjohn.org/research-highlights/how-did-employee-ownership-firms-weather-last-two-recessions.

per hour in their cooperative job than in previous employment, but mean and median wages remained lower in co-ops ($17.74 and $13.76 respectively) than in the overall economy ($26.32 and $17.02).[54] This comparison, however, did not adjust for industry and demographic characteristics; the lower wages in co-ops partly reflect their concentration in low-wage sectors, and may also reflect higher concentrations of people of color and others who experience lower earnings in general. As in the overall economy, co-op members of color have a lower mean wage ($14.75) than among white people ($22.63), based in part on differences in sector and occupation.

Studies of worker co-ops outside the US found that wages in cooperatives were slightly lower in Italy, and higher in Uruguay, compared to otherwise-similar conventional firms.[55] Reflecting worker decisions to ensure job security, one study found Italian co-ops invest wage savings into the firm.[56]

By contrast, evidence suggests that firms with ESOPs pay wages equal to or higher than market and industry averages. While a 1996 study found similar pay levels between publicly traded ESOPs and conventional firms,[57] a 2010 study using data from the General Social Survey (GSS) and the National Bureau of Economic Research (NBER) survey of 40,000 workers found that employee-owners, and ESOP participants in particular, reported higher wages than otherwise-similar non-owners, controlling for occupation and demographic characteristics.[58] Also, a 2017 study using National Longitudinal Survey of Youth (NLSY) data following respondents over several decades found that workers with an ownership stake had 33% higher median wages, or $40,000 vs. $30,000, when controlling for other predictors of wages such as race, gender, education, and marital status.[59] Finally, contrary to the concern that employee ownership may substitute for wages, cross-sectional comparisons found higher wages in ESOP than in non-ESOP firms and that ownership plans were an additional benefit for workers.[60]

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[54] Schlachter, Laura Hanson, and Olga Prushinskaya. “How economic democracy impacts workers, firms, and communities.” 2021. The Democracy at Work Institute.
[55] Pencavel, J., Pistaferri, L., & Schivardi, F. (2006). Wages, employment, and capital in capitalist and worker-owned firms. *ILR Review*, *60*(1), 23-44; Burdin, G., & Dean, A. (2009). New evidence on wages and employment in worker cooperatives compared with capitalist firms. *Journal of comparative economics*, *37*(4), 517-533.
[56] Navarra, Cecilia. “Employment stabilization inside firms: An empirical investigation of worker cooperatives.” *Annals of Public and Cooperative Economics* 87, no. 4 (2016): 563-585.
[57] Blasi, Joseph, Michael Conte, and Douglas Kruse. “Employee stock ownership and corporate performance among public companies.” *IRL Review* 50, no. 1 (1996): 60-79.
[58] Freeman, Richard B., Joseph R. Blasi, and Douglas L. Kruse. “Introduction.” In *Shared Capitalism at Work: Employee Ownership, Profit and Gain Sharing, and Broad-based Stock Options*, pp. 1-37. University of Chicago Press, 2010.
[59] Wiefek, Nancy. “Employee Ownership & Economic Well-Being: Household Wealth, Job Stability, and Employment Quality Among Employee-Owners Age 28 to 34.” 2017. National Center for Employee Ownership. https://ownershipeconomy.org/wp-content/uploads/2017/05/employee_ownership_and_economic_wellbeing_2017.pdf
[60] Kardas, Peter, Adria L. Scharf, and Jim Keogh. “Wealth and income consequences of employee ownership: A comparative study from Washington State.” Washington State Community, Trade and Economic Development, 1998; Adria L. Scharf and Christopher Mackin. “Census of Massachusetts companies with employee stock ownership plans (ESOPs).” *Boston: Commonwealth Corporation*.

The empirical findings on job security and wage help address the concerns about worker financial risk noted above. While financial risk is an important concern for all workers, the existing evidence indicates that ESOP benefits typically are in addition to standard pay and benefits, and that worker ownership is associated with increased job security. Both forces reduce employee-owner's financial risk.[61]

Safety

A handful of studies have investigated how worker ownership impacts workplace health and safety. Three of the earliest studies on this topic report conflicting findings, with one finding no differences in injury rates while two found that worker-owned firms had higher levels of workplace injury and accidents; the authors of the latter two studies attributed these higher injury rates to the transparent management practices in cooperatives and the underreporting of injuries in conventional firms.[62]

More recently, several studies have found some evidence to suggest that broad-based employee-owned firms may be safer than conventional ones. A 2008 study using the NBER survey found that employee-owners are more likely to state that workplace safety is a high priority for managers.[63] More recently a study combining 2016–2019 data from the Department of Labor and the Occupational Safety and Health Administration found lower injury and illness rates among ESOP companies, and further that the adoption of ESOPs was followed by declines in injury and illness rates.[64] During the pandemic, employee-owned firms were also more likely to implement health protections, such as personal protective equipment, social distancing, and enhanced cleaning services.[65]

1.3.2. Equity, Respect, and Voice

The job quality dimension of equity, respect, and voice includes a range of measures. Key criteria include: 1) "Organizational and management culture, policies, and practices that are transparent and enable accountability; support a sense of belonging and purpose, advance diversity, equity, inclusion, and accessibility; and address discrimination" and 2) "Ability to

[61] Kruse, D., Blasi, J., Weltmann, D., Kang, S., Kim, J. O., & Castellano, W. (2022). "Do employee share owners face too much financial risk?" *ILR Review*, *75*(3), 716-740.
[62] Rhodes, S.R., and R.M. Steers. 1981. "Conventional vs. Worker-Owned Organizations," Human Relations, Vol. 24, pp. 1013-1035. Grunberg, L., Moore, S. and Greenberg, E., 1996. The relationship of employee ownership and participation to workplace safety. Economic and Industrial Democracy, 17(2), pp.221-241. Rooney, Patrick. "Employee Ownership and Worker Participation: Effects on Health and Safety," Economic Letters, Vol. 39, pp. 323-328.
[63] Kruse, Douglas, Richard Freeman, and Joseph Blasi. "Do workers gain by sharing? Employee outcomes under employee ownership, profit sharing, and broad-based stock options." No. w14233. National Bureau of Economic Research, 2008.
[64] Palis, Austin, Employee Stock Ownership Plans and Workplace Safety. *Senior Thesis, Rutgers Economics Department.* 2022.
[65] Blasi, Joseph, Douglas Kruse, and Dan Weltmann. "The response of majority employee-owned firms during the pandemic compared to other firms." *Journal of Participation and Employee Ownership* 4, no. 2 (2021): 92-101.

improve the workplace, such as through collective action or participatory management practices."[66]

Dignity, Respect, and Non-Discrimination

Worker ownership is associated with enhanced worker dignity and can reduce discrimination, but maintaining these conditions can be challenging.[67]

In our case study of Courage, the home care co-op, member-owners and administrators explicitly spoke to "worker dignity" as a priority. This is a key component of job quality for frontline home care workers, which is a historically marginalized occupation in the field of health and medicine. This priority contributed to opportunities for growth and strong communication across the cooperative. For example, Courage sent member-owners to a cooperative conference near Washington, DC, in order to network and share lessons learned with other home care co-ops from around the country. And, relative to other places they have worked, multiple member-owners reported a higher level of communication and coordination from the cooperative developer and member-administrator.

In our case study of California Harvesters, Inc. (CHI), we found this worker-owned farm labor contractor that has prioritized treating workers with respect by enforcing a culture of courteous communication and positive reinforcement. This priority is reflected in testimonials. One worker stated, "I like working here because workers are treated well. They treat you like a human. At other places, they'll talk to you like you're less than human, yell at you, and offend you." Another stated, "Here, I see a change. Women are respected, and they pay attention [to workers]." And, "This is the first company that cares about us."

CHI has placed around 1,500 workers but faces challenges such as the lack of labor, lack of clients, and thin margins (about 4–5% a year on $20 million in revenue), although the manager Merrill Dibble states that "the biggest success, despite all troubles, was to be able to provide workers with better wages and good working conditions."

The literature review found worker-owners tended to have more pride and fulfillment at work. One detailed study of two co-ops and an employee-owned business in taxi driving and packaging, two low-wage sectors, found that ownership was a source of pride for workers. Ownership also improved the workplace culture, particularly because workers perceived their ability to affect working conditions, both in individual tasks and collective governance.[68] A range of studies in home care and caregiving found that the ability to have control over their workplace

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[66] Aspen Institute, 2022.
[67] Jenkins, Sarah, and Wil Chivers. "Can cooperatives/employee-owned businesses improve 'bad' jobs? Evaluating job quality in three low-paid sectors." *British Journal of Industrial Relations* 60, no. 3 (2022): 511-535.Meyers, Joan SM, and Steven Peter Vallas. "Diversity regimes in worker cooperatives: Workplace inequality under conditions of worker control." *The Sociological Quarterly* 57, no. 1 (2016): 98-128. Sobering, Katherine. "Producing and reducing gender inequality in a worker-recovered cooperative." *The Sociological Quarterly* 57, no. 1 (2016): 129-151.
[68] Jenkins, Sarah and Wil Chivers. "Can cooperatives/employee-owned businesses improve 'bad' jobs? Evaluating job quality in three low-paid sectors." *British Journal of Industrial Relations* 60, no. 3 (2022): 511-535.

in worker co-ops led to personal fulfillment;[69] that co-ops can help to build trust and closer bonds between workers and clients;[70] and that these closer social relations are especially important for worker-owners from minority groups who face discrimination and abuse in conventional firms.[71]

Improving job quality is especially important for historically underrepresented and underserved communities.[72] In terms of race and gender , worker-owned firms exhibit notable diversity but replicate some disparities seen in conventional firms.

Analysis of a 2021 survey found that around 30% of co-op workers are people of color.[73] In ESOPs, black workers are slightly overrepresented, while Latino workers and women are underrepresented.[74]

As in traditional firms, women in ESOPs are often in lower-paid support roles, while men dominate higher-status professional and managerial positions. Black and Hispanic/Latina workers in co-ops participate less in decision-making, earn lower wages, and possess less wealth in capital accounts compared to white workers. Women and non-white workers in ESOPs have lower ESOP account balances and are less involved in governance than white men. Similarly, a 2010 study found that women and non-white workers in employee-owned firms are less likely to hold power or managerial roles.[75] However, a 2016 study found that co-op participatory structures can empower marginalized groups, with decentralized decision-making helping to reduce occupational segregation and enabling workers to contest discriminatory practices.[76]

Worker ownership can reduce employment instability and buffer against systematic discrimination, as workers of color will be less likely to face discriminatory hiring practices in the labor market. A 2017 analysis of National Longitudinal Survey of Youth (NLSY) data found that median job tenure was 4.5 years for people of color in employee-owned firms, compared to 3.3

[69] Berry, Daphne and Myrtle P. Bell. “Worker cooperatives: Alternative governance for caring and precarious work.” *Equality, Diversity and Inclusion: An International Journal* 37, no. 4 (2018): 376-391.
[70] Majee, Wilson and Ann Hoyt. “Building community trust through cooperatives: A case study of a worker-owned homecare cooperative.” *Journal of Community Practice* 17, no. 4 (2009): 444-463.
[71] Ji, Minsun, Camille Kerr, Sanjay Pinto, Adria Scharf, and Adrienne Eaton. “Just Health: Case Studies of Worker Cooperatives in Health and Care Sectors.” CLEO, January 5, 2024. https://cleo.rutgers.edu/articles/just-health-case-studies-of-worker-cooperatives-in-health-and-care-sectors/.
[72] Research and advocacy groups who see economic development opportunities for the disadvantaged in advancing job quality, include the Aspen Institute (https://aspeninstitute.org/), the Good Jobs Initiative (https://dol.gov/general/good-jobs), the National Employment Law Project (https://nelp.org), the National Domestic Workers Alliance (https://domesticworkers.org/), PolicyLink (https://policylink.org/, and the Restaurant Opportunities Center (https://rocunited.org/).
[73] Reibstein, Sarah and Laura Hanson Schlachter. “Inequalities in democratic worker-owned firms by gender, race and immigration status: evidence from the first national survey of the sector.” *Journal of Participation and Employee Ownership* 21 April 2023. 6(1): 6-30.
[74] Kim, J. “Research Brief: Women in ESOPs.” Rutgers Institute for Employee Ownership and Profit Sharing.
[75] Carberry, Edward J. “Who benefits from shared capitalism? The social stratification of wealth and power in companies with employee ownership.” In *Shared capitalism at work: Employee ownership, profit and gain sharing, and broad-based stock options*,” pp. 317-349. University of Chicago Press, 2010.
[76] Meyers, Joan and Steven Peter Vallas. “Diversity regimes in worker cooperatives: Workplace inequality under conditions of worker control.” *The Sociological Quarterly* (2016) 57(1): 98-128.

years among other workers.[77] This greater stability reduces the negative effects of unemployment on the economy, government, communities, and the families of affected workers.

Worker Voice and Decision-Making

Worker voice and decision-making leads to many positive outcomes for worker-owned firms, provided that workers have skills and systems to leverage collective input without raising costs more than productivity.

For example, in our case study of Pavement Recycling Systems, Inc., a 100% employee-owned ESOP and unionized road construction company, employees had a high level of autonomy. In a firm with over 500 employees, multiple equipment operators shared in interviews that they make the decisions about how to organize their day-to-day work on their own. More than once, employees explicitly associated that autonomy with respect for their work and their expertise. Although strategic decision-making for the firm remains primarily in the hands of executives and a fairly management-driven decision structure overall, one manager said that his boss encouraged him to "look to the [PRS] Values Statement" when facing a difficult choice, empowering him with a tool to evaluate different options and make a decision.

Our case studies of Courage and SplenDoor show how worker decision-making can provide benefits. In worker-owned Courage, decisions are largely guided to a vote on suggestions and options presented by their co-op development partner. Workers weighed in on decisions about pricing, pay, and membership requirements for good standing. As mentioned earlier, the co-op decided to raise prices in order to increase caregiver pay. As a new co-op, however, integrating governance and business "takes practice." Co-op developer Railyn Aguado-Fuala'au said:

> "I think we're all so used to a certain way of working, of living, you know, in our world that like, when an alternative is presented, it's like, 'Oh, I didn't know this was possible. I didn't know that we could do it this way.' Right?... It takes practice."

By contrast, in owner-run SplenDoor, one contentious decision about employment classification was made by the CEO Terry Villasenor. While many caregivers voiced their preference for independent contractor status in part because it allows more tax write-offs, Villasenor remained firm in hiring workers as employees because of what she learned through her work with the state and the Pilipino Workers' Center about the value of labor law compliance and greater worker protections.

More generally, workers at SplenDoor provide input on decisions informally. The owner communicates with her staff at an annual strategy session and at occasional meetings. These meetings are primarily for top-down communications, such as to address issues like workers calling in sick at the last minute (requiring coverage by another care worker). One worker expressed frustration that other workers might treat the CEO as a "friend" rather than a "boss," but also shared her preference that the CEO be receptive to worker voices.

Our literature review found that owning one's workplace and being able to participate in strategic organizational decision-making has a positive effect on perceptions of job quality and especially

[77] Wiefek, 2017.

job satisfaction, especially for workers in low-wage sectors who have few other ways to improve their work experiences.[78] Studies have examined job satisfaction in different ways, by comparing: employee-owners and non-owners (with controls for job and demographic characteristics), employee-owners before and after employee ownership adoption, and employee-owners with different ownership levels. Some studies found higher satisfaction for worker-owners and others found no overall difference.

Several studies found that perceived participation or influence in decisions was a key factor in predicting higher satisfaction among employee-owners. For example, a 2010 study found higher satisfaction among employee-owners and profit sharers only when their firms also engage in high-performance work policies, defined as participation in decisions, training, job security, and freedom from close supervision.[79] A study of employee ownership and profit sharing among union members found that the positive links to employee attitudes and behaviors were just as strong among union members as among non-union members, and “overall, the relationship between unions and financial participation appears to be complementary rather than oppositional.”[80]

Finally, our statistical analysis of two datasets found that members of ESOPs reported higher participation in firm decision-making. On a 1-to-10 agree-disagree scale, ESOP members gave a 1.5 higher response for “I take part in decision-making” compared to members of conventional firms in the General Social Survey, and a 1.2 higher score in the National ESOP Employee Survey conducted by the Rutgers Institute for the Study of Employee Ownership and Profit Sharing with support from the Employee Ownership Foundation.

1.3.3. Economic Mobility

The job quality dimension of “economic mobility” includes 1) “Clear and equitable hiring and advancement pathways,” 2) “Accessible, paid training and development opportunities,” and 3) “Wealth-building opportunities.”[81]

Training and Development

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[78] Jenkins, Sarah, and Wil Chivers. “Can cooperatives/employee-owned businesses improve ‘bad’ jobs? Evaluating job quality in three low-paid sectors.” *British Journal of Industrial Relations* 60, no. 3 (2022): 511-535.
[79] See the review of studies in Kruse, Douglas L., and Joseph R. Blasi, “Employee ownership, employee attitudes, and firm performance,” National Bureau of Economic Research working paper 5277.1995; see also Kruse, D., Freeman, R., & Blasi, J. (2010), “Do workers gain by sharing? Employee outcomes under employee ownership, profit sharing, and broad-based stock options,” in *Shared capitalism at work: Employee ownership, profit and gain sharing, and broad-based stock options* (pp. 257-290). University of Chicago Press.
[80] McCarthy et al.“Solidarity and Sharing: Unions and Shared Capitalism,” in Ed Carberry, ed., *Employee Ownership and Shared Capitalism: New Directions in Research* Ithaca, NY: Cornell University Press, 2011, p. 50.
[81] The Aspen Institute. “Good Jobs Champions Group – Statement on Good Jobs.” Oct 14, 2022. https://www.aspeninstitute.org/programs/good-jobs-champions-group/.

Our study found that firms with worker ownership tend to invest more in training and development internally, and with partner organizations where the benefits of a skilled workforce feed into firm performance along with income and wealth for its worker-owners.

The case study on PRS, the unionized road construction ESOP, explains how training is key to worker advancement and firm success. Throughout the firm, PRS provides opportunities for workers and managers to attend external training and development programs, which enhances their skills and prepares them for higher-level positions. As one worker said, “The company has always encouraged us to improve our skills through various training programs, and many of us have moved up the ranks because of this support.” In this sector, training and overall safety is paramount in retaining workers as well as qualifying for and delivering on contracts.

In our case study on the allied healthcare staffing co-op AlliedUP, training is also essential in recruiting and placing a skilled workforce for clients. Organizers at the SEIU-UHW labor union and other partners who launched AlliedUP saw the nonprofit program Futuro Health as a “training-to-placement” pipeline. However, the actual number of Futuro graduates was lower than expected, and many of these graduates chose other placement options besides AlliedUP. A report on allied healthcare staff training suggested that for labor market intermediaries and brokers like AlliedUP, a highly-trained workforce requires carefully matching supply and demand on specific types of skills as well as specific geographies.

In our literature review, several studies underscore the importance of accessible and paid training opportunities in worker-owned firms. Several studies suggest worker co-ops and ESOPs invest more in employee training compared to traditional firms.

One large-scale survey done in 2017 discussed training in worker co-ops. Of 835 respondents, 79% reported their co-op offered formal training relevant to their job.[82] 54% received training specific to and necessary for co-op business and governance skills, and felt that this training had a positive impact on their ability to participate in organizational decision-making. However, this study had no comparison group of employees at conventional firms. An analysis using the General Social Survey and National Bureau of Economic Research data found that employee owners were more likely than non-owners to receive training, both before and after controlling for other personal demographic and job characteristics.[83]

Wealth-Building Opportunities

Our research found that worker-owned firms, primarily ESOP firms, enable workers to build substantial wealth and overall financial security. Most firms with worker ownership include some form of profit-sharing.

Our case study on PRS found that ESOP compensation is relatively high; after 20 years of employment, current retirees receive at least $1 million. The distribution somewhat favors union employees, because their share of ownership is proportional to a higher negotiated wage. Relative to conventional firms, PRS has broader wealth-sharing in the compensation structure

[82] Schlachter and Prushinskaya, 2021.
[83] Kruse, Freeman, and Blasi, 2010.

due to its high-performing ESOP and reportedly reduced executive compensation. At the same time, headwinds for the company include concerns about leadership succession and buy-in of younger employees whom managers perceive as less oriented to building retirement wealth, which may affect long-term wealth-building opportunities.

In our case study of the worker ownership conversions at Proof Bakery, the workers gained wealth along with the founder and prior owner. One business valuation put the value of Proof Bakery at $1.7 million, but the owner sold it for $1.4 million to make the transition easier for workers.[84] The owner also financed a loan so that employees buy the business over 5 years.

In the first year of the transition, 11 worker-owners bought a share of $2,500 either as a lump sum or deducted from their paychecks. Returns came quickly. For example, Proof's Lead Baker kitchen manager received a $19,000 patronage distribution in 2023,[85] which has dramatically improved hiser life. As the Lead Baker manager said:

> "I've definitely been able to move to a better apartment for my family in a nicer area, which I've always wanted to do… I just needed to save more money, and this allowed me to do that."

While this level of profit sharing is unusually high, our literature review found consistent evidence of higher wealth in employee-owned firms. Data from the US Department of Labor found that workers in ESOPs have an average of $180,292 in accounts,[86] and according to GSS data, workers employed in ESOP firms for 10 years or longer have an average of $315,000.[87] Analysis of NLSY data (among workers aged 28 to 34) found that median household wealth was 92% higher among ESOP employees than among non-ESOP employees, or $28,500 vs. $14,831.[88] A recent study of all forms of employee ownership found that employee ownership appears to generally add to, rather than substitute for, both pension and overall wealth. In addition, going against concerns about excessive financial risk for employee owners, they express higher risk tolerance and financial knowledge, and greater understanding of the value of diversification.[89]

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[84] Hawkins, Nick. "This founder sold her business for $1.4 Million, but she didn't sell out." *Inc*. Oct 21, 2023.
https://inc.com/nick-hawkins/this-founder-sold-her-business-for-14-million-but-she-didnt-sell-out.html.
[85] This kitchen manager's $19,000 patronage distribution was higher than average. Data provided by Proof's finance manager shows that the average distribution per worker owner was $16,868 in 2023..
[86] Blasi, Joseph, and Douglas Kruse. Employee Ownership and ESOPs: What we know from recent research, June 2023.
https://cleo.rutgers.edu/wp-content/uploads/2024/01/What-We-Know-From-Recent-Research_-Joseph-Blasi-and-Douglas-Kruse-Rutgers-Aspen-DC-conference-June-13-14-2023.pdf.
[87] Blasi, Joseph, and Douglas Kruse. "Employee Ownership and ESOPs: What We Know from Recent Research." (2024).
https://aspeninstitute.org/publications/employee-ownership-and-esops-what-we-know-from-recent-research-3/.
[88] Wiefek, 2017.
[89] Kruse et al, 2022.

1.4. Worker Ownership and Firm Performance

This section reviews the effects on firm performance – specifically, the firm outcomes of productivity, profitability and growth, and longevity.

Overall, we find solid evidence that worker ownership leads to higher productivity, and even stronger evidence that it increases firm survival. However, profitability and growth may sometimes be limited as worker-owners focus on creating and sustaining quality jobs.

1.4.1. Productivity

Overall, we found strong evidence indicating that worker-owned firms can achieve higher productivity. This increase is mainly due to increased employee motivation and commitment.

Our case study of California Harvesters, Inc. (CHI) highlights how a farm labor contractor that offers safer and overall better working conditions, as well as robust benefits, training, and career advancement, can deliver greater productivity. In 2018, CHI reported a 52% increase in worker productivity after one year of work, although it's not clear how they calculated these figures.[90] Having a large number of dependable and increasingly productive workers helps CHI be a reliable partner to its clients, but competition in labor contracting in general, and especially in agriculture, creates a difficult market for worker-owned firms.

One study of the US Northwest plywood industry over the period 1968 to 1986 found productivity among cooperatives was between 6 to 14% higher than among conventional firms, after using detailed controls.[91] A more recent study compared productivity among French worker cooperatives and conventional firms between 2005 and 2015 in knowledge-intensive industries, and similarly found that co-ops are more productive.[92] Finally, a study using data from all French firms during 1987 to 2004 found that cooperatives are generally as productive as conventional firms, and more productive in some industries, as the result of organizing production differently. In co-ops, greater access to knowledge of the firm leads to more efficient use of technology that increases firm outputs.[93]

Studies of all forms of employee ownership find that it is generally linked to higher productivity. One meta-analysis of 102 studies of employee ownership with data on 56,984 firms combined productivity, profitability, and growth measures as "efficiency" measures and found an overall

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[90] It's unclear how this very large productivity increase was measured. These numbers are reported here in "California Harvesters: An Employee Benefit Company." 2018. http://sjvpartnership.org/wp-content/uploads/2019/09/CHI-Summary-Deck-1.pdf, accessed May 7, 2024.
[91] Craig, Ben, John Pencavel, Henry Farber, and Alan Krueger. "Participation and productivity: a comparison of worker cooperatives and conventional firms in the plywood industry." *Brookings papers on economic activity. Microeconomics* 1995 (1995): 121-174.
[92] Young-Hyman, Trevor, Nathalie Magne, and Douglas Kruse. "A real utopia under what conditions? The economic and social benefits of workplace democracy in knowledge-intensive industries." *Organization Science* 34, no. 4 (2023): 1353-1382.
[93] Fakhfakh, Fathi, Virginie Pérotin, and Mónica Gago. "Productivity, capital, and labor in labor-managed and conventional firms: An investigation on French data." *ILR Review* 65, no. 4 (2012): 847-879.

positive effect of employee ownership on the combined outcomes.[94] This improvement included an overall small but statistically significant effect of employee ownership in predicting firm performance in both cross-sectional and pre/post comparisons, and in both publicly traded and closely held firms. Their point estimate suggests that "a firm with $1 million in profits could realize an increase of $40,000" with worker ownership [95] There is, however, a lot of dispersion around the average positive effect, and the effects may differ by type of employee ownership and performance outcome.

Several studies point to important contextual factors that affect productivity. The study using data from all publicly traded companies in the US from 1999 to 2011 found that employee-owned firms had higher productivity. The productivity advantage of worker ownership declined in recessions, which may be due to employee ownership firms retaining workers who receive training or otherwise invest in activities that bolster long-term, but not short-term, productivity.[96] Another study using US Census data compared productivity pre- and post-ESOP adoption from 1982 to 2000 among publicly-traded firms. It found higher productivity increases among small firms (in the lowest quarter of firm size) that adopted ESOPs holding 5% or less of total shares, relative to comparable non-ESOP firms. This result is only suggestive, as they did not find improved relative productivity for other firm sizes.[97]

1.4.2. Profitability and Growth

We found limited evidence on the relationship of worker ownership to profitability. Similarly, we found a small empirical literature on the correlation between employee ownership and growth, which can include a firm's scale of operations, financial value, market reach, and other factors.

Our case studies of firms that have worker ownership models besides co-ops – namely, ESOPs and EOTs – are particularly oriented towards profit and growth.

For example, our case study on PRS presented a company that maintained high profitability and growth in a challenging product market; PRS has yet to have a year with negative profit. The firm is 100% employee-owned and has included unionized members from its founding, and although the ESOP adoption and structure came from the firm's initial financial backers and entrepreneurial executives, former CEO Rick Gove shared that the company chose to put the tax savings into employee compensation.

Similarly, in our case study on Firebrand Artisan Breads, the bakery made plans for long-term growth immediately after converting to an EOT in 2022. Firebrand secured financing of $9.5 million, $2.5 million of which was raised from 90 investors, for a 44,000 square foot facility to operate 24 hours a day and deliver to over 450 local wholesale customers (including Google

[94] O'Boyle, Ernest H., Pankaj C. Patel, and Erik Gonzalez‐Mulé. "Employee ownership and firm performance: a meta‐analysis." *Human Resource Management Journal* 26, no. 4 (2016): 425-448
[95] O'Boyle et al, 2016
[96] Kurtulus, Fidan Ana, and Douglas L. Kruse. How did employee ownership firms weather the last two recessions?: Employee ownership, employment stability, and firm survival: 1999-2011. WE Upjohn Institute, 2017.
[97] Kim, E. Han, and Paige Ouimet. "Broad‐based employee stock ownership: Motives and outcomes." *The Journal of Finance* 69, no. 3 (2014): 1273-1319.

cafeterias and Whole Food Markets). The largest investor was the Libra Foundation, which supports jobs for previously incarcerated people. Firebrand took on substantial debt to finance this expansion and as a result was not profitable in 2023; in early 2024 the CEO said "within a couple of months, we will be profitable again."[98]

Our case study of California Harvesters, Inc. (CHI) described a farm labor contractor with an EOT that has brought on a large number of workers quickly, but has been slow to grow and stabilize the business. CHI signed up 250 workers within a month of launch in 2018, and 875 by the end of the year. CHI reports a 45% annual retention rate, much higher than the industry average, but as mentioned above, it's not clear how CHI calculates these figures.[99] Overall, competition in labor contracting in general and especially in agriculture remains a difficult market for worker-owned firms, which makes growing the business difficult.

A 2015 study compared growth between 622 retail worker co-ops in the Basque region to non-cooperative retail firms from 2006–2008 and found that co-op sales grew 2.4% faster annually on average compared to conventional firms.[100] These findings may be due in part to institutional complementarities that exist as the co-ops surveyed were members of Mondragon, the largest cooperative in the world. No studies exist that examine cooperatives' growth tendencies in the US. Shifting to growth in capital, a 2012 longitudinal study of French worker co-ops compared investment habits compared to conventional firms. It reported that co-ops generally invest at similar rates as conventional firms.[101]

Our literature review found no studies of profitability among worker co-ops. Our case studies on worker co-ops offer several perspectives on these businesses in terms of their goals, models, successes, and struggles.

Our literature review found one study suggesting that employee-owned firms are slightly more profitable on average. A study that looked at firm performance from 1980 to 1990 found an increase in profitability and stock price among firms that adopted broad-based employee ownership plans compared to other firms, after controlling for industry and business differences.[102]

1.4.3. Firm survival

Overall, we found the strongest evidence on performance with regard to firm survival.

Almost all of the firms in our case studies are relatively new, less than six or seven years old, which limits our ability to present evidence on firm survival. However, all of the firms have

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[98] Kruetz, M. Personal Communication. February 27, 2024.

[99] It's unclear how this very large productivity increase was measured. These numbers are reported here in "California Harvesters: An Employee Benefit Company." 2018. http://sjvpartnership.org/wp-content/uploads/2019/09/CHI-Summary-Deck-1.pdf, accessed May 7, 2024.

[100] Arando, Saioa, Monica Gago, Derek C. Jones, and Takao Kato. "Efficiency in employee-owned enterprises: An econometric case study of Mondragon." ILR Review 68, no. 2 (2015): 398-425.

[101] Fakhfakh, Fathi, Virginie Pérotin, and Mónica Gago. "Productivity, capital, and labor in labor-managed and conventional firms: An investigation on French data." ILR Review 65, no. 4 (2012): 847-879.

[102] Blasi, Joseph, Michael Conte, and Douglas Kruse. "Employee stock ownership and corporate performance among public companies." *ILR Review* 50, no. 1 (1996): 60-79.

strategies for sustaining themselves. For example, the allied healthcare staffing co-op AlliedUp benefits from tens of millions of dollars in funding and a similarly well-resourced training partner, but despite placing around 3,000 workers with client companies and only around 15 of them signing up to become member-owners, the firm has managed to attract new leadership and form a majority-worker board of directors.

In our literature review, we found that worker-owned firms have equal or greater survival rates than conventional firms.[103] Studies attribute these higher survival rates to increased worker willingness to adapt to demand shocks, greater worker input for product or process innovations, and higher average productivity.

For worker co-ops, an analysis of several studies across different countries found greater longevity.[104] A 2014 study using population data from all firms in Uruguay from 1997 to 2007 found that co-op are 29% less likely to fail than conventional firms.[105] Studies of worker co-ops in the UK and France also found higher survival rates compared to conventional firms.[106]

The United States lacks a comprehensive data set for a national comparison of co-op longevity. However, many qualitative studies suggest that cooperatives are more able to thrive when they are embedded within networks of support, both private and state-based training, education, and development programs. For example, a 2022 study of five homecare co-ops in Washington state found that a networked approach to building co-ops – providing mutual support and approaching business development cohesively – led to greater success for these co-ops.[107] Similarly, a 2022 study compared how cooperative worker-owners discussed their experiences in forming and running worker cooperatives in a region with state-based institutional support (Quebec) and one without such support (Toronto), and found support substantially increased the co-op's success.[108] Similarly, another 2022 study found empirical evidence that a co-op's ability to grow is more likely in regions where states play an active role in the economy and encourage firm-to-firm collaboration.[109] A 2016 meta-analysis also points to the importance of institutional support in comparing US-based studies to European-based studies.[110]

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[103] See Foley, William and Douglas Kruse, "Literature Review on Worker Ownership," in our Portfolio of Supporting Research.

[104] Olsen, Erik K. "The relative survival of worker cooperatives and barriers to their creation." In *Sharing ownership, profits, and decision-making in the 21st century*, vol. 14, pp. 83-107. Emerald Group Publishing Limited, 2013.

[105] Burdín, Gabriel. "Are worker-managed firms more likely to fail than conventional enterprises? Evidence from Uruguay." *ILR Review* 67, no. 1 (2014): 202-238.

[106] Thomas, Alan, and Chris Cornforth. "The survival and growth of worker co-operatives: A comparison with small businesses." *International small business Journal* 8, no. 1 (1989): 34-50. Pérotin, Virginie. "Early cooperative survival: The liability of adolescence." In *Employee Participation, Firm Performance and Survival*, pp. 67-86. Emerald Group Publishing Limited, 2004.

[107] Scharf, Adria, *Five Home Care Cooperatives in Washington State,* Rutgers Institute for the Study of Employee Ownership and Profit Sharing, 2022.

[108] Spicer, Jason, and Michelle Zhong. "Multiple entrepreneurial ecosystems? Worker cooperative development in Toronto and Montréal." *Environment and Planning A: Economy and Space* 54, no. 4 (2022): 611-633.

[109] Spicer, Jason. "Cooperative enterprise at scale: comparative capitalisms and the political economy of ownership." *Socio-Economic Review* 20, no. 3 (2022): 1173-1209.

[110] O'Boyle, Ernest H., Pankaj C. Patel, and Erik Gonzalez-Mulé. "Employee ownership and firm performance: a meta-analysis." *Human Resource Management Journal* 26, no. 4 (2016): 425-448

Chapter 2: Barriers and Enablers for High-Road Co-ops

Summary

The bulk of the evidence reviewed in the prior chapter points toward higher job quality and firm performance in worker-owned firms. Why then do we not see more of these firms in our current economy? This chapter explores this question by discussing barriers and enablers to worker ownership. We first describe the process of creating worker co-ops, which are often preferred by workers but can be more complex, labor-intensive, and expensive to start (or convert) and grow than a conventional business. Then, we introduce a framework for analyzing market failures and regulatory barriers hindering high-road co-ops (HRCs). The majority of this chapter describes barriers to HRCs (imperfect information, unfavorable economies of scale, undervalued social benefits, and unhelpful regulations and missing institutions) and enablers (productive networks, supportive institutions, and appropriate regulations).

2.1. Creating Worker Ownership

This section describes the process of starting or converting, and growing, a worker-owned business, to inform our review of barriers and enablers.

As described in Chapter 1, worker ownership is associated with many positive outcomes for job quality, firm performance, and value to society. Given this wide range of desired outcomes, why don't we see many more worker-owned businesses?

Currently, worker co-ops make up around 0.01% of small business employment in the US and around 0.003% of all small businesses. A 2021 report estimated there are around 1,000 worker co-ops employing 10,000 people nationwide; nearly all of these co-ops employ between five and 50 people, with a few employing 50 to 500, and one (Cooperative Home Care Associates, in New York) employing around 1600.[111] By comparison, in 2023 the US Small Business Administration reported over 33 million firms that employ fewer than 500 employees, with a total of around 61.7 million employees or nearly half (46.4%) of private sector employment.[112] There were 10.7 million ESOP participants in 2021, with about 1 million employees in companies that are majority employee-owned.[113]

From the perspective of textbook economic theory, the absence of worker co-ops in well-functioning markets indicates either that there are inefficiencies in worker owned firms (e.g., free rider or coordination problems, time spent meetings, etc.) or that workers are uninterested

[111] Democracy at Work Institute. "2021 Worker Cooperative State of the Sector Report." 2021. https://democracy.institute.coop/2021-worker-cooperative-state-sector-report.
[112] US Small Business Administration. "Frequently Asked Questions About Small Business 2023." March 3, 2023. https://advocacy.sba.gov/2023/03/07/frequently-asked-questions-about-small-business-2023/.
[113] Blasi, Joseph and Douglas Kruse. "What We Know from Recent Research." Aspen Ownership Ideas Forum. June 2023.

in joining co-ops. Neither of these conditions appear to be true, as co-ops tend to perform as well or better than conventional firms (as reviewed in Chapter 1), and evidence suggests that a large proportion of workers prefer what co-ops offer when they become aware of the options.[114]

2.1.1. The Co-op Lifecycle

Bringing people together to form a business with shared ownership is often complex and difficult. Reviewing this process helps provide a basis for evaluating barriers and enablers.

To illustrate the co-op development lifecycle, we use a 2008 article by Michael Cook.[115] Cook describes how members of a co-op first justify its purpose and design its model, then tinker and grow the business over time until they make a choice on its future: exit the business, spawn a new entity, reinvent the co-op, or maintain the status quo. Figure 1 identifies five phases: justification, organizational design, growth and maturity, "recognition and introspection," and reinvention. The rise and fall shows the co-op's "health," measured by firm performance, member-owner satisfaction, and realization of the co-op's vision.

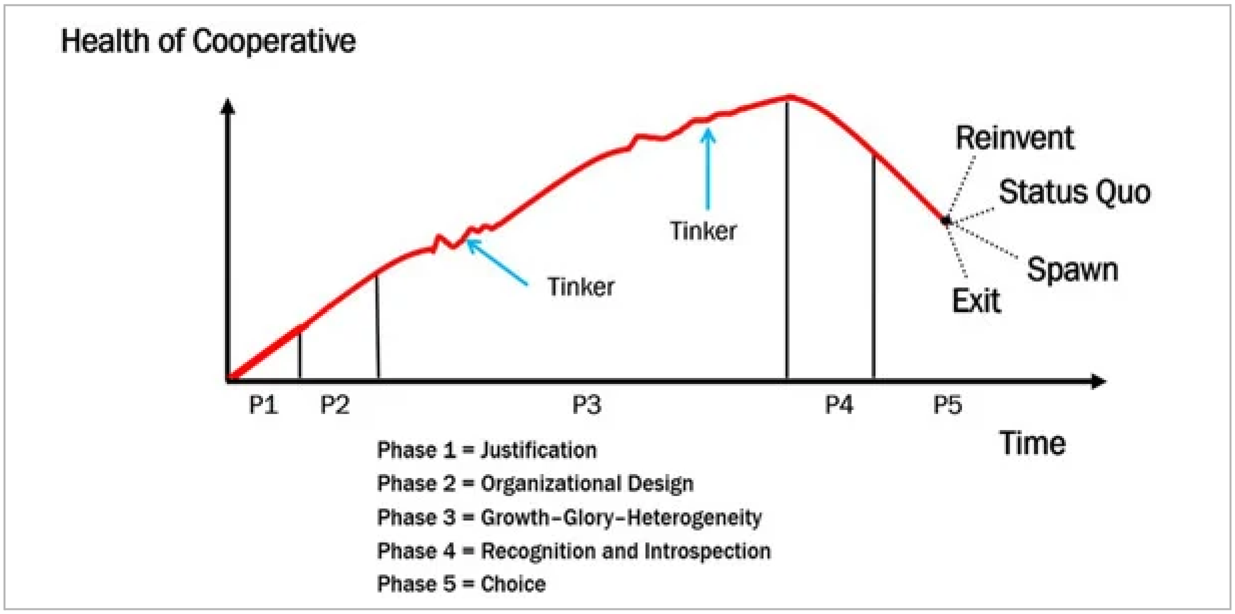

Fig. 1: The cooperative organizational development model from Cook (2008)

With this high-level perspective, we can discuss the specific phases of co-op development. Although the US cooperative movement is limited in size, it has a cottage industry of co-op developers that describe several distinct efforts:

- Starting a new co-op
- Converting an existing business into a co-op (or other employee-owned model)
- Growing or scaling a co-op

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114 Dow, Gregory K. *Governing the Firm*. 2010. https://www.cambridge.org/core/books/governing-the-firm/EBDB30B708EF0A88AB94466ACA666B74.
115 Cook, Michael L. "A Life Cycle Explanation of Cooperative Longevity." *Sustainability* 10(5). 2018. https://doi.org/10.3390/su10051586.

2.1.2. Starting a Co-op

In starting a new worker-owned co-op, members bring a product or service to market and develop shared ownership and control of the business. Compared to starting a conventional business, this co-op development process presents three challenges:

1) **Greater complexity**, due to legal and financial aspects of shared ownership and recruiting and organizing a group of workers to buy shares.
2) **Higher demands on the founding team** working full time with limited support or resources compared to what's available for conventional businesses.
3) **Higher costs**, due to the need for specialized legal services, training to participate in making decisions and running a business and managing finances, and more.

The process of starting a worker co-op is an inherently collaborative effort. The following is a simplified set of steps highlighting the differences with a conventional business:

- **Awareness**: Before starting a co-op, a group of workers needs sufficient information about the model and its requirements.
- **Member recruitment**: Bringing together a group of worker-owners involves a combination of shared vision and values, organizing, and securing commitments to a democratic business, which are often unfamiliar to many people.
- **Feasibility study**: Starting a co-op requires an assessment of what's possible; this assessment involves market research and financial projections, as well as an evaluation of the skills and readiness of potential worker-owners.
- **Model development**: Developing a co-op also requires aligning purpose with both the business model (customers, marketing, sales, operations) and the ownership model (governance structure, member roles, and worker voice and decision-making).
- **Legal formation**: Incorporating a co-op involves choosing an appropriate business structure (such as a co-op corporation or an LLC co-op) and drafting bylaws and operational rules.
- **Fundraising**: Worker co-ops typically secure funding to start through a combination of member investments, grants, and loans. Given challenges in accessing conventional financing (detailed below), co-ops often engage specialized lenders, community development financial institutions (CDFIs), and donation-based or equity crowdfunding.
- **Launching operations**: Although this item is last, the process is not linear or sequential; many co-ops start by testing or piloting their offering before or as part of the feasibility study, building and learning and adjusting over time to increase the co-op's chances of survival, sustainability, and growth.

As a result of these challenges, the process of starting a co-op can take longer and cost more than starting a conventional business. However, once launched, studies suggest that the cooperatives are 29% less likely to fail than conventional firms.[116]

[116] Burdín, Gabriel. "Are worker-managed firms more likely to fail than conventional enterprises? Evidence from Uruguay." *ILR Review* (2014), 67(1), 202-238.

In our case studies of AlliedUP and California Harvesters, Inc., the founding teams and their partner organizations were engaged in multi-million dollar startup efforts. Both were relatively new business models facing intense competition. However, after several years, they are building capacity to survive; AlliedUP has a worker-majority board, which may yield more incentives for member-owners, and California Harvesters has new contracts which may lead to more revenue to pay off debts, and greater stability.

2.1.3. Converting a Business into a Co-op

In recent years, approximately 50% of new co-ops are the result of an ownership conversion.[117] In this process, the business owner(s) sell their share to workers. This often involves three challenges:

1) **Owner vision**: the business owner or owners need to develop a vision for an unfamiliar model, and communicate it to investors, workers, and other stakeholders.
2) **Succession planning**: people with established leadership roles need to "let go" and enable and support new co-op membership in developing new leadership capabilities.
3) **Scoped technical assistance**: Co-op developers need to limit their role carefully in order to help members build skills and capacity to run and grow their business.

Similar to starting a co-op, this multi-stage process is also complex, labor-intensive, and costly. The following is a general overview of the steps involved:

- **Awareness of worker ownership.** First, a business owner seeking to sell or close a business has to know that converting to a co-op, ESOP, or some other form of employee ownership is an option. This awareness is not pervasive. Business owners also need to engage workers as potential buyers to evaluate whether the conversion process is feasible and desirable.
- **Initial consultation with a specialist.** The business owner typically has an initial consultation to see if a co-op is a realistic option as buyer of the business. This consultation typically requires a specialist in worker ownership, as most lawyers, business advisors, and business brokers are not well trained in selling to current employees. This consultation examines if the business is an appropriate scale, has qualified employees to take over management tasks, and so on.
- **Business and financial analysis.** Ownership conversion analysis is often complex, especially for ESOPs, as the tax benefits of selling depend on the corporate structure of the business, how the business owner invests proceeds from the sale, etc. Owners face additional hurdles working with business advisors to evaluate the tax implications of various models and the valuation for sale. Owners may lack access to low-cost, personalized guidance to assess their options and guide them through the complex process.
- **Legal agreements and financing.** Preparing a business for sale involves drafting legal documents and lining up financing. Working with law and finance professionals to

[117] Capital Impact Partners. "Report Identifies Industries Ripe for Small Business Succession To Support Job Retention, Economic Opportunities for Women and Communities of Color." September 11, 2018. https://www.capitalimpact.org/blog/worker-co-op-conversion-potent-tool-economic-empowerment/.

arrange a deal is crucial to make the sale feasible and desirable for all stakeholders. However, the small number of lawyers with experience in co-ops means they can be costly, and converting to a co-op or ESOP usually requires a loan from a bank, the seller, or both.

- **Building democratic skills and systems.** Creating a democratic co-op or ESOP requires additional steps of training employees in both governance- and business-related skills. This makes it possible for workers to integrate new governance systems and processes into day-to-day operations in beneficial, efficient ways. Consultants with specific experience developing workplace democracy are generally necessary to help train the workers to run the business with self-management skills, which range from how to run a meeting to reading a financial statement.

While having a stable business boosts chances of success for the worker-owners (compared to a startup), the average timeline for co-op conversions is 12 to 18 months.[118] The costs involved in starting or converting to a co-op can add up to tens of thousands of dollars in labor time and consulting. Establishing an ESOP is even more costly, often hundreds of thousands of dollars. Each ESOP requires an initial market valuation and a new valuation at least annually thereafter.

In our case studies of Proof Bakery and Firebrand Artisan Breads, two California bakeries that underwent transitions to become a worker co-op and an employee ownership trust (EOT) respectively, founder vision was especially important in ensuring the business sustained itself, and sustained quality jobs for workers. In Proof Bakery, a significant number of workers were hesitant about the potential change, but they eventually came to share the vision after realizing the material benefits and quickly developing the skills to help run the business. By contrast, the Firebrand workers were not major decision-makers in the relatively short conversion process. This was partly because the founder and CEO continued to play an active role in the business, and partly because the purpose written into the EOT enshrined employee benefit (that the company was legally required to serve a specific population) rather than worker voice and decision making (involving employees in governance duties).

2.2. Analyzing Barriers and Enablers

This section describes our analytic framework to identify the barriers and enablers for high-road co-ops and other democratic, majority worker-owned businesses. First, in order to identify areas where market failures and regulatory barriers constrain the growth and sustainability of high-road co-ops, we focus on the following barriers:

- **Imperfect information:** Workers and business owners often lack information about the benefits of worker co-ops, which prevents many from considering worker ownership as a viable option.
- **Unfavorable economies of scale:** Worker co-ops often struggle to achieve economies of scale, which can limit their competitiveness and growth potential.

[118] The Sustainable Economies Law Center. “Legal Guide to Cooperative Conversions.” 2016. https://www.co-oplaw.org/knowledge-base/legal-guide-cooperative-conversions/.

- **Positive externalities:** Some outcomes generated by cooperatives, such as reducing layoffs during a recession, have broader benefits outside the firm and are not appropriately rewarded by the market.
- **Regulatory barriers:** Certain regulations create unnecessary hurdles, ranging from US Small Business Administration (SBA) lending requirements that assume a single owner to certification of minority- and women-owned business enterprises (MWBEs) that exclude co-ops with majority female or minority ownership.
- **Missing institutions:** The lack of supportive institutions and infrastructure, such as specialized financial services or educational programs, further slows the growth of worker cooperatives.

We categorize these barriers within labor markets, capital markets, and product markets.

2.3. Barriers to Worker Ownership

This section outlines four major barriers to worker ownership in general and high-road co-ops in particular: imperfect information, unfavorable economies of scale, undervalued social benefits, unhelpful regulations, and missing institutions.

These barriers hinder worker ownership in a cumulative way: without quality information, people cannot make effective decisions on how to start (or convert) and grow a worker co-op; without efficiencies and benefits reflected in production, worker co-ops face large risks with little reward and limited recognition; and without the right laws or norms, any worker co-ops that survive in the market lack support beyond what they can do to sustain themselves.

Table 2.1 outlines barriers in labor, capital, and product markets within each of these four broad areas.

Table 2.1: Overview of barriers for high-road co-ops

Area	**Description**	**Barriers**		
		Labor markets	*Capital markets*	*Product markets*
Market failures				
Imperfect information	Inability to make informed and effective decisions	Lack of familiarity with co-op benefits Lack of recognized skills for democratic workplaces	Lack of familiarity with co-op finance requirements Lack of awareness about converting to worker ownership	Lack of recognition for high-road co-ops
Unfavorable economies of scale	High cost of production due to smaller size	Fewer opportunities for worker-owners in small firms	Limited worker capital for businesses Lack of advising for worker co-ops	Limited competitiveness in favor of labor practices
Undervalued social benefits	Unrecognized benefits relative to social value	Undervalued benefits of better working conditions Undervalued externalities of job security		Undervalued externalities of job security
Regulatory barriers				
Regulatory barriers	Regulations are largely designed for capitalist enterprises and often fit poorly with high-road coops.	Regulatory efforts overlook democratic safeguards	Cap on co-op share value limits worker buy-in SBA personal guarantee requirement limits access to loans Conventional lending practices exclude co-ops	Federal rules for minority or women ownership exclude some co-ops with majority minority or women owners

2.3.1. Imperfect Information

The lack of knowledge and experience with worker-owned businesses, and in particular with high-road co-ops, is a widespread barrier to their development and growth.

Labor markets

Lack of familiarity with co-op benefits

Most workers are unfamiliar with co-ops and of job quality in high-road co-ops. Several studies have shown the decline or absence of discussion of cooperatives in a range of contexts, from schooling and textbooks to popular culture.[119] This means workers currently lack consistent quality information about how cooperatives affect wages, working conditions that affect worker health and well-being, and rights for decision-making and worker voice.

As a result, the majority of workers are not aware of their options and may not seek out or find employment with a co-op. Similarly, this makes it difficult for co-ops to attract and recruit workers. However, where local knowledge about these firms does exist, it can be motivating; workers in our case study on the road construction company Pavement Recycling Systems, Inc. (PRS), a 100% employee-owned and unionized ESOP, reported receiving several requests per week from people they knew personally asking if the firm was hiring. As mentioned previously, studies show that a large proportion of workers prefer what co-ops offer when they get information about the alternatives.[120]

Lack of recognized skills for democratic workplaces

It is currently difficult to assess excellence in democratic workplaces such as worker co-ops, largely because the skills and systems are currently more tacit knowledge local to specific businesses than they are formal or widespread.[121] What's more, our case studies of several worker-owned firms all describe how workers gain skills and experience for running a democratic, worker-owned business through on-the-job training. To the extent that these skills help boost worker outcomes and firm performance, and workers take these skills with them to benefit other firms, these skills can be undervalued in labor markets.

Capital markets

Lack of familiarity with co-op finance requirements

The majority of lenders, auditors, and accountants lack the specialized knowledge required to underwrite or assess loans for cooperatives. Many traditional banks are unfamiliar with co-op governance and financial structures, leading to difficulties in assessing creditworthiness, and lenders may hesitate to offer loans without a clear understanding of how profits (surplus) and decision-making are shared among members. Similarly, many accountants do not understand how to audit co-op and worker-owned business financials, which include member equity accounts and patronage dividends. This lack of awareness makes lenders and others

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[119] Kalmi, Panu. "The disappearance of cooperatives from economics textbooks." *Cambridge Journal of Economics* February 2007, 31(4):625-647. https://researchgate.net/publication/5208640_The_disappearance_of_cooperatives_from_economics_textbooks; Roderick Hill. "The Case of the Missing Organizations: Co-Operatives and the Textbooks." *The Journal of Economic Education*, Summer 2000, 31(3):281–295.
[120] Dow, Gregory K.. *Governing the Firm*. 2010. https://www.cambridge.org/core/books/governing-the-firm/EBDB30B708EF0A88AB94466ACA666B74.
[121] Pease, Katherine. "It's Time for Impact Investors to Rethink Risk. January 2, 2017. https://socapglobal.com/2017/01/its-time-for-impact-investors-to-rethink-risk/

understandably wary of lending to co-ops. At the same time, several established co-op funds have over 98% repayment rates.[122]

Lack of awareness about converting to worker ownership

Many business owners looking to sell their businesses (for example, when reaching retirement) lack access to information on various forms of worker ownership. There are very few opportunities to learn about various models such as worker co-ops, ESOPs, or EOTs.

Product Markets

Lack of recognition for high-road co-ops

The concept of a “high-road co-op” is relatively new. More broadly, there is no widespread way customers, employees, and regulators can distinguish companies where all employees have the skills, authority, and incentives to solve problems for customers.[123] This problem is amplified in co-ops, as most consumers are unfamiliar with worker co-ops and often do not see the quality difference that workers provide until they become clients. For example, in our case study of the home care co-op Courage, longer tenure and lower turnover means that elderly clients receive higher quality services. But this advantage is not visible to potential clients in the market for home care services.

2.3.2. Unfavorable Economies of Scale

The barrier of unfavorable economies of scale occurs because many co-ops face difficulty in growing to the most efficient size.

Labor markets

Fewer opportunities as worker-owners

Although workers in co-ops often benefit from job security and stability, they face limited opportunities for financial gain when they develop advanced skills, such as moving up to management positions in large conventional firms.[124] The turnover from workers exiting their roles for higher compensation creates a problem for co-ops seeking to retain employee-owners. One study of worker co-ops in Uruguay found that retention is particularly challenging for high-performing, high-skilled workers, and suggests that this stems from flat wage structures within co-ops.[125] Importantly, however, co-ops do not inherently need flat wages across all workers; member-owners can democratically decide to reward certain high-skill, high-value roles in the firm to retain these workers and ensure overall financial sustainability for the firm.

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[122] Josephy, Micha. “Are Cooperatives Really So Difficult to Finance?” November 28, 2018. https://medium.com/fifty-by-fifty/are-cooperatives-really-so-difficult-to-finance-3adec81c70a8.
[123] Levine, D. I. Reinventing the Workplace: How Business and Employees Can Both Win Washington, DC: The Brookings Institution, 1995.
[124] Buchko, Aaron A. “The effects of employee ownership on employee attitudes: An integrated causal model and path analysis.” *Journal of Management Studies* 30, no. 4 (1993): 633-657.
[125] Burdín, Gabriel. “Are worker-managed firms more likely to fail than conventional enterprises? Evidence from Uruguay.” *ILR Review* 67, no. 1 (2014): 202-238.

Capital markets

Limited worker capital for businesses

The majority of US workers lack sufficient personal wealth to finance a new business[126]. Unfortunately, start-up costs are often greater than average for co-op businesses due to higher costs of training, and democratic governance systems.[127]

Many worker co-ops make business ownership more accessible by enabling members to buy their share through deductions from their paycheck. Unfortunately, this strategy only permits modest buy-ins and requires that the co-op have funding to lend to new hires.

Lack of advising for worker co-ops

Most business advisors lack knowledge and experience regarding high-road employment and worker ownership. A cottage industry of co-op developers exists, but its small size leads to high fees for legal services, financial advice, and other areas. For example, according to capital-raising consultant Daniel Fireside, there are only a dozen or so California lawyers who specialize in working with worker-owned businesses raising private capital.[128] This small pool of advisors makes it difficult for business owners and workers to access quality, affordable advising.

Product markets

Limited competitiveness in favor of labor practices

Due to their commitment to fair labor practices and worker well-being, worker co-ops often struggle to access markets in industries driven by "race to the bottom" dynamics, such as agriculture. Similarly, when workers decide to compete for clients and customers in these markets on the same terms as other firms that minimize wages and sometimes do not meet legal minimum standards on pay, safety, etc., workers are less motivated to remain with the co-op.

2.3.3. Undervalued Social Benefits

Many firm decisions have impacts outside the firm – called "externalities" by economists. To the extent that externalities have positive impacts outside the firm, they will be undervalued in firm decisions from a broader societal view.

Labor and markets

Undervalued benefits of better working conditions

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[126] https://www.census.gov/content/dam/Census/library/publications/2023/demo/p70br-183.pdf
Briana Sullivan, Donald Hays, and Neil Bennett. "The Wealth of Households: 2021" US Census, P70BR-183. 2023.
[127] Schlachter, Laura Hanson, and Olga Prushinskaya. "How economic democracy impacts workers, firms, and communities." 2021. The Democracy at Work Institute.
[128] Daniel Fireside, personal communication. May 28, 2024.

High-road employers and worker-owned businesses, both co-ops and ESOPs, are associated with a range of benefits that are often unrecognized or undervalued. These include better working conditions, and greater worker dignity and respect. To the extent society values both adherence to legal workplace standards and employee dignity, worker-owned firms have positive effects on the broader society.

Labor and product markets

Undervalued externalities of job security

On average, worker-owned firms engage in fewer layoffs than similar conventional firms. While this labor hoarding is often beneficial for workers who may decide to, for example, temporarily reduce wages, there are effects beyond workers themselves. A 2015 study estimated that from 2002 to 2010, the stabilizing effect of ESOP employment saved the federal government $6 billion on average annually.[129] Greater stability also helps prevent the scarring effects of unemployment on worker's health and future employment outcomes.[130] At the macroeconomic scale, this lack of layoffs stabilizes income and increases purchasing power for the economy, preventing even deeper recessions.[131] However, this positive externality of job security in worker co-ops is not valued in the market.

2.3.4. Regulatory barriers

Regulatory efforts overlook democratic safeguards

Most regulations for worker rights and protections are based on the assumption that firm management will follow minimum labor standards and mistreat workers where possible. However, in democratic worker-owned co-ops, employee-led governance provides a layer of protection against management misbehavior.[132]

Some regulatory violations may still occur in co-ops, as documented among employer-created (somewhat sham) "co-ops" in Colombia.[133] However, this fact should be weighed against the fact that the current regulatory regime also has persistent violations of employees' rights. Thus, it is plausible that a (plausibly low) rate of misbehavior by managers in some high-road democratic co-ops will leave almost all workers substantially better off than if they worked in a traditional workplace. We discuss specific examples of regulatory deference below.

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[129] Rosen, Corey. "The impact of employee ownership and ESOPs on layoffs and the costs of unemployment to the federal government." National Center for Employee Ownership, 2015. https://nceo.org/assets/pdf/articles/Employee-Ownership-and-Unemployment-2015.pdf.
[130] Gangl, Markus. "Scar effects of unemployment: An assessment of institutional complementarities." American Sociological Review 71, no. 6 (2006): 986-1013; Jennie E Brand. "The far-reaching impact of job loss and unemployment." Annual Review of Sociology 41 (2015): 359-375.
[131] Levine, D. I., & Parkin, R. J. (1994). Work organization, employment security, and macroeconomic stability. Journal of Economic Behavior & Organization, 24(3), 251-271.
[132] Dow, Gregory K. *The Labor-Managed Firm: Theoretical Foundations.* Cambridge University Press. 2018. https://cambridge.org/core/books/labormanaged-firm/A0EEAAFD62C1412C4E7616FB491889A2.
[133] See, e.g., Global Labor Justice. "Worker Cooperatives in Colombia: The Reality Behind the Rhetoric." December 3, 2010. https://laborrights.org/blog/201012/worker-cooperatives-colombia-reality-behind-rhetoric.

Capital markets

Cap on co-op share value limits worker buy-in

California law requires workers buying an ownership share for over $1000 to register their investment with the state - a complex and costly procedure. As a result, workers face high costs in purchasing meaningful equity in their business, even if all members democratically decide to do so and have access to personal wealth.

Personal guarantee requirement limits access to loans

The federal 2018 Main Street Employee Ownership Act promoted Small Business Administration (SBA) lending to worker-owned firms.[134] Unfortunately, the act did not eliminate the requirement of a personal guarantee for these loans. This requirement is impractical for co-ops because no single member-owner can sign such a guarantee. According to the National Cooperative Business Association (NCBA), this requirement is a significant barrier for co-ops trying to access capital.[135]

Conventional lending practices exclude co-ops

Most financial capital on the market is suited to conventional, for-profit businesses, with some grants and philanthropic sources suited for nonprofits. Because worker co-ops exist in a legal area between for-profit and nonprofit entities, the existing incentives and criteria for capital providers in those sectors do not match. This outcome is partly because of the complex requirements of lending to worker-owned businesses, which involves multiple owners and different financial management than conventional firms.

Worker cooperatives face regulatory barriers when raising capital due to federal and state securities laws, such as the Securities Act of 1933 and the California Corporate Securities Law of 1968. These laws require significant disclosure and compliance efforts, which can be burdensome for small co-ops. Exemptions like Regulation D (which exempts some investments from many federal regulations) and the intrastate offering exemption (which exempts some within-state investors from federal regulations) exist. Unfortunately, they come with limitations and complexities that still make it difficult for most smaller co-ops to raise outside funds.[136]

These regulations exist to reduce fraudulent enterprises from cheating outside investors. These concerns may be less relevant for high-road coops, which tend to have relatively higher repayment rates, stable returns on investment, and overall trustworthiness (see Chapter 1).

Product markets

MWBE certification rules exclude some co-ops

[134] Incorporated into National Defense Authorization Act, https://www.congress.gov/115/bills/hr5515/BILLS-115hr5515enr.pdf, starting page 262.
[135] Kahn, Karen. "Cooperative Industry Requests Congressional Hearing on SBA Loans." September 19, 2019. https://fiftybyfifty.org/2019/09/cooperative-industry-requests-congressional-hearing-on-sba-loans/
[136] U.S. Securities and Exchange Commission. (2021). The Laws That Govern the Securities Industry. https://www.sec.gov/answers/about-lawsshtml.html; California Department of Financial Protection and Innovation. (2023). Securities Regulation. https://dfpi.ca.gov/securities-regulation/.

Certification as a minority- or women-owned business enterprise (MWBE) makes a firm eligible for preferences when selling products or services to the federal government under many federal procurement programs. Current federal eligibility requirements, however, often exclude worker co-ops and ESOPs, even if employee-owners from these groups make up a majority of the owners and own a majority of the company.[137] In a few cases, firms have elected not to become employee-owned due to concern over losing their MWBE status.[138]

2.4. Enablers of Worker Ownership

This section outlines two key enablers of worker ownership in general and high-road co-ops in particular: productive networks and ecosystems, and supporting institutions and appropriate regulations. Table 2.2 presents enablers in labor, capital, and product markets, within each of these two broad areas.

Table 2.2: Enablers for high-road co-ops

Area	**Description**	**Barriers**		
		Labor markets	*Capital markets*	*Product markets*
Market intervention				
Productive Networks and Ecosystems	Services and resources that enhance group efficiencies and advantages	Reputation benefits Common training	Specialized lenders Referrals to Advisors	Back-office services Lending employees
Government intervention				
Supporting Institutions and Appropriate Regulations	Legal, financial, and educational frameworks to facilitate new and growing businesses	Cooperative management curriculum	Aligning lender expectations Appropriate financing models	High willingness to pay

2.4.1. Productive Networks and Ecosystems

Productive networks and ecosystems help enable worker co-ops by providing services and resources that enhance sales or lower costs. Many of these services, from worker training to

[137] Price, Tonya and Lydia Edwards. "Employee-Owned Firms Should be Eligible for Minority Certification." November 8, 2019. https://www.fiftybyfifty.org/2019/11/employee-owned-firms-should-be-eligible-for-minority-certification/

[138] Keeling, Michael. "Government Contracting Preferences Pose Barrier to Scaling Employee Ownership." August 13, 2019. https://www.fiftybyfifty.org/2019/08/government-contracting-preferences-pose-barrier-to-scaling-employee-ownership/.

legal advice, are complex, costly, or not available in markets oriented around privately-owned businesses.

These networks also facilitate mutualism among entities, fostering an ecosystem within an alternative economic framework often referred to as the “solidarity economy” where worker co-ops and a variety of partner organizations produce, learn, and grow. For instance, the Mondragon Corporation in the Basque region of Spain provides risk management and capital access, as well as branding and other services for its member cooperatives. In the United State, smaller networks play a similar role. For example,the Arizmendi Association offers standardized training, shared administrative services, and pooled capital and collective purchasing for its member co-ops.

Labor markets

Reputation benefits

Networks can help build and maintain a positive reputation for worker co-ops, making them more attractive to potential employees. Networks can also facilitate recruitment by pooling resources for outreach, screening, onboarding, and more. This process is similar to how labor unions run hiring halls.

Common training

Shared training programs develop necessary skills among worker-owners, lowering costs. Shared training makes it possible for individuals with extensive experience in co-op training to train others. In our case study of Courage, a worker center that helped incubate the home care co-op also provided its workers with valuable experience in organizing and group problem solving.

Capital markets

Specialized lenders

Co-ops commonly leverage networks to access lenders with specialized knowledge and experience. For example, Seed Commons is a national network of local funds that work together to assess applicants and provide financing for co-ops, often structuring repayments based on the cooperative’s ability to pay.[139]

Referrals to advisors

Networks help co-ops access advisors and technical assistance providers. A number of nonprofits have built networks to pool expertise in business, law, finance, and organizational

[139] Seed Commons. “Non-Extractive Finance.” N.d. https://seedcommons.org/about-seed-commons/seed-commons-approach-to-non-extractive-finance/.

development.[140] In contrast to worker co-op networks, the advice available for ESOPs is relatively abundant, largely owing to the fact that ESOPs tend to be larger companies than coops, so can afford more advisory services.

Product markets

Back-office services

Umbrella groups offer shared services and capacity such as back-office administrative support, HR management, legal counsel, IT, and collective purchasing. These services help reduce overhead costs and increase operational efficiency, enabling small co-op staff to focus on their core competencies. Examples of these groups include Elevate Co-op, a national federation for home care co-ops, and Namasté Solar, a vertically integrated supply chain that links several related businesses in Colorado.

Lending employees

In downturns, networks can help co-ops lend employees from one business to another. This works by matching co-ops experiencing temporary slowdowns with those in need of additional labor, preserving employment while addressing demand across the network. With 80,000 members, the Mondragon Corporation facilitates this lending arrangement to avoid unemployment among its worker-owners.

2.4.2. Supporting Institutions and Appropriate Regulations

Supporting institutions and appropriate regulations enable worker co-ops by providing legal, financial, and educational frameworks that help new businesses go beyond surviving in a niche market, to competing and growing to scale. Many of these public goods, from training materials to loan templates, are complex, costly, or generally not provided by institutions or regulations designed to support conventional businesses.

Labor markets

Cooperative management curriculum

A mix of co-op developers, labor advocacy organizations, schools, vocational programs, community-based organizations, industry associations and other educational and training institutions support worker self-management. Examples include some worker centers, "union co-op" initiatives, and worker self-directed enterprise peer learning groups.[141]

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[140] For example, the Democracy at Work Institute (DAWI) runs a Co-op Clinic with peer advisors for democratic business (see https://usworker.coop/clinic/); the National Center for Employee Ownership (NCEO) hosts a service provider directory (see https://nceo.org/service-provider-directory), and the Cooperative Professionals Guild (CPG) is a membership-based nonprofit dedicated to educating and connecting professionals to better serve cooperatives (see https://coopguild.wildapricot.org/About).

[141] See, e.g., Haas, Gilda. "How the City of Angels Can Become a City of Worker-Owners." December 13, 2023. Nonprofit Quarterly. https://nonprofitquarterly.org/how-the-city-of-angels-can-become-a-city-of-worker-owners/; the US Federation of Worker Co-ops "Union Co-ops Council" https://usworker.coop/unioncoopstemp/; and the

Capital markets

Specialist lenders

Financing worker co-ops involves relatively complex approaches, including extensive relationship building and complex due diligence. A number of community development finance institutions (CDFIs) have rich local information and strong relationships with people forming worker co-ops, enabling them to help businesses start and grow.[142] At the same time, this means CDFI overhead is often higher and the capital they offer is more expensive compared to lenders oriented toward conventional small businesses.

Appropriate financing models

In addition to lending, new cooperative-friendly investment vehicles are emerging. These often fall under "non-extractive financing," a set of norms and practices that ensure capital providers empower businesses and keep wealth in the firm or community, often using different metrics of success and structuring repayments patiently over time or based on revenues, seasonal or business cycle conditions, and other factors.

One established model is the Direct Public Offering (DPO), which several co-ops and some nonprofits have used to engage community investors.[143] In other models, stakeholders can buy non-voting preferred shares and earn a return without threatening the internal democracy of the co-op. For example, in Oakland, staff and clients at a dog daycare raised nearly $3 million in preferred shares to save the business from closing and transition it into a co-op co-owned by workers and consumers.[144]

Another model involves pooling capital from a variety of philanthropic and profit-seeking sources, creating a source of capital that is risk-tolerant, low-cost, and sometimes forgivable if the business falls short of revenue targets. By having the philanthropic funding take the first losses, other capital providers are more likely to be repaid. The Quality Jobs Fund is currently reviewing the $100 million it allocated through implementation partners to worker-owned and other conventional businesses, and its director Noah Bernstein is considering ways of building on success by engaging matching funds from public sources.

Product markets

High willingness to pay

Sustainable Economies Law Center's "Nonprofit Democracy Network" https://theselc.org/nonprofit_democracy_network.

[142] Scheyder, Kristen. "Measuring CDFI Impact: A Conversation on the Need for Independent Research." February 26, 2024. https://citigroup.com/global/foundation/news/perspective/2024/measuring-cdfi-impact-a-conversation-on-the-need-for-independent-research.

[143] Project Equity. "The Original Community Investment: A Guide to Worker Coop Conversion Investments." Project Equity, June 2023. https://project-equity.org/wp-content/uploads/2023/06/The-Original-Community-Investment_A-Guide-to-Worker-Coop-Conversion-Investments_Project-Equity.pdf.

[144] Bee, Vanessa A. "A Quiet Workplace Revolution in the Shadow of Silicon Valley." June 3, 2020. https://newrepublic.com/article/157386/quiet-workplace-revolution-shadow-silicon-valley.

Worker co-ops gain from networks that help spread information about their goods and services. This is partly because co-ops often lack the same sales and marketing capacity as conventional businesses with financial backing to take on a large market, as in the case of the cleaning services co-op Up & Go in New York compared to its venture-backed competitors. This is also partly because they commit to fair labor practices and patient but slower business development, as in our case study on Courage home care, where co-op members and developers sought a small niche community of clients willing to pay a premium for quality.

Chapter 3: Policies to Promote High-Road Co-ops

Summary

This chapter introduces a set of policies to explore for promoting high-road co-ops (HRCs). It first outlines our methodology for developing targeted, scalable, and cost-effective policies to address the major barriers in starting, converting, and growing worker-owned businesses. Then, it details policy approaches in three areas: 1) improving information and labor standards, 2) leveraging collective efficiencies, and 3) creating appropriate regulations.

3.1. Principles

This section introduces our methodology to develop policies aimed at growing high-road co-ops and other democratic, majority worker-owned businesses with better labor practices.

1) First, we evaluated the barriers and enablers for worker ownership as described in Chapter 2, specifically targeting areas where government and market failures constrain the growth and sustainability of high-road co-ops. These barriers include imperfect information, unfavorable economies of scale, undervalued social benefits, unhelpful regulations, and missing institutions.
2) Then, we developed policies that prioritize scalability and cost-effectiveness. Having a large and financially sustainable impact requires policies that can be implemented on a large scale without prohibitive costs. For example, paying a fixed cost for the creation and distribution of public goods, such as training materials for democratic workplaces, often offers a high return on investment compared to continuous subsidies.
3) Finally, to realize the potential scale and cost-effectiveness of co-ops, we prioritize creating effective, equitable markets more than developing new government programs. This approach assumes that valuable business opportunities will attract private sector players and advisors who can provide services to help start, convert, and grow cooperative businesses.

3.2. Approaches

This section outlines three complementary sets of policy approaches to remove barriers to high-road co-ops: improving information and labor standards, leveraging collective efficiencies, and creating appropriate regulations. We present policies for improving labor, capital, and product markets. We also include very approximate indicators of cost for each policy approach:

- $ is relatively low
- $$ is medium cost
- $$$ is relatively high cost

Given the uncertainties of how each policy is implemented, we do not give dollar figures; the “$” indicators just show likely relative magnitudes.

Table 3.1 presents targeted policies in each area, their goal, and specific approaches.

Table 3.1: Overview of policies to promote high-road co-ops

Area to Target	**Policy Goal**	**Approaches**		
		Labor markets	*Capital markets*	*Product markets*
Market failures				
Imperfect information	**1. Improving information on benefits**	certify high-road workplaces ($$) expand outreach to workers ($$)	convene co-op developers to create tools and templates ($) convene co-op finance professions to share best practices ($) develop tools and templates for ownership conversions ($$) pilot an ai chatbot for business owners ($) certify high-road co-op advisors ($)	certify high-road co-ops ($$) promote worker ownership ($)
Unfavorable economies of scale and externalities	**2. Leveraging collective efficiencies**	create and share curriculum for co-ops ($$) create training on general skills for high-road workplaces ($$$)	create standard co-op loan templates ($$) offer training grants for lenders ($$)	convene co-ops to explore scalable shared services ($)
regulatory barriers				
Unhelpful regulations	**3. Creating appropriate regulations**	give deference to high-road co-ops ($$) recognize democratic workplace skills in hiring ($$)	raise cap on worker co-op buy-in ($) remove sba personal loan guarantee ($) provide securities exemptions for co-ops ($)	change rules for certifying minority or female ownership for co-ops ($)

3.2.1. Improving Information on Benefits

To address the market failure of imperfect information regarding high-road employment and worker ownership, this set of policy approaches aims to improve information and establish labor standards to build high-road employee-owned businesses.

Labor markets

Certify High-Road Workplaces ($$)[145]

There is no widely-recognized way of distinguishing a high-road employer or demonstrating their value to potential workers, consumers, investors, or regulators. Developing a certification program to recognize and promote high-road workplaces could help workers and consumers avoid low-road workplaces and identify high-road employers that maintain high labor standards. Certification could also help businesses attract workers, consumers, and investors. This certification should be for all high-road employers, not just those that are worker owned.

An example of such a certification is Investors in People (IIP) in the United Kingdom, an accreditation for businesses that are committed to managing, developing, and supporting their staff. IIP began as a government certification and is now an independent company. Another example is the European Foundation for Quality Management (EFQM) in the European Union, a framework endorsed by the European Commission that helps organizations develop a culture of improvement and innovation. In the US, the nonprofit B Lab developed the B Corporation certification which addresses a mixed set of criteria, adding several in 2022 for more inclusive workplaces.[146] Finally, the national Certified Employee Owned organization is used in employee ownership advocacy and development efforts alike.[147]

One input to such a certification could be compiling existing data on regulatory violations and positive recognition for employers. Violation data come from the California Division of Occupational Safety and Health (Cal-OSHA), the US Department of Labor Wage and Hour Division, and other regulators, but currently only some of this information is available and is divided among many regulator websites. Also the name of an employer does not always correspond to a specific address for the entity legally responsible for wages or working conditions.

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[145] Policies relating to all high-road workplaces are beyond the scope of this panel. We include these proposals here because these policies support all high-road workplaces, including those owned by workers.

[146] While the B Corporation certification is, several standards for governance, transparency, and workplace democracy overlap with concerns in this report. However, the initial questionnaire is entirely self-reported by companies, followed by minimal verification. More importantly, B Corp scoring does not seem to consider employee ownership or more robust possibilities for workplace democracy. For details on working conditions, see B Corp. “Behind the B: Reasons Why Employees Appreciate Working at a B Corp.” March 10, 2022. https://usca.bcorporation.net/zbtcz03z22/bcm-behind-the-b-reasons-why-employees-appreciate-about-working-at-a-b-corp/, and B Lab. “Defining the Scope of and Completing the Workers Impact Area.” February 8, 2024. https://kb.bimpactassessment.net/support/solutions/articles/43000574698-defining-the-scope-of-and-completing-the-workers-impact-area.

[147] Certified EO | Leverage Your Employee Ownership Advantage

Expand Outreach to Workers ($$)

Workers currently lack quality, consistent information about wages, working conditions, and opportunities for worker voice. Expanding outreach efforts to inform workers about the benefits of high-road co-ops could encourage workers to seek quality jobs in high-road workplaces and other worker-owned businesses.

The state's Employee Ownership hub (described below) could engage a number of strategic partners in this approach, including those with existing outreach efforts such as the California Workforce Development Boards (WDBs), community college career programs, job training programs, and career counseling schools and alumni networks. Another set of options includes union hiring halls and guilds in various trades, the entertainment industry, and other industries with high union density. Worker centers and similar organizations that have established relationships within communities are especially capable of doing outreach and engaging 'excluded workers', individuals who face barriers to employment but are nevertheless qualified.

Expanded outreach programs have proven effective in regional contexts, such as the Mondragon Corporation's community outreach that promotes worker co-ops in the Basque region of Spain, and the Sustainable Economies Law Center co-op legal clinics which provide free advice to aspiring small business owners in the San Francisco Bay Area.[148]

Capital markets

Convene Co-op Developers to Create Tools and Templates ($)

Currently, only a small number of co-op developers and related professionals exist, each with a somewhat unique offering. This thin market makes it difficult for business owners and workers to learn about their options, assess quality, and get high-quality business advice. Convening a group of co-op advisors to formalize templates and tools could lead to the development of a high quality curriculum for sellers and for potential worker-owners on starting or converting a cooperative. This curriculum could include templates for a variety of common documents such as ownership models, bylaws and operating agreements, and member recruitment.

GO-Biz can then help Small Business Development Centers (SBDCs) and other players incorporate co-op-specific tools and templates into their offerings, especially with support from cooperative education organizations (e.g. universities and colleges, trade schools, business associations).

Convene Co-op Finance Professions to Share Best Practices ($)

The majority of finance and related professionals such as lenders, auditors, and accountants lack the specialized knowledge required to provide loans for cooperatives. The state's Employee Ownership hub (described below) could organize meetings with finance professionals to share their due diligence practices, underwriting processes, and more can help standardize and disseminate these practices more broadly to unfamiliar peers.

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[148] The Sustainable Economies Law Center. "Resilient Communities Legal Cafe. Direct legal advice and consultations for the sharing economy." N.d. https://www.theselc.org/cafe.

For example, the credit union sector has various programs that foster knowledge sharing within their sector, as do other co-op professionals in farming and agriculture, electricity, and purchasing. However, few co-op professional associations are dedicated to sharing practices broadly and recruiting new peers.

Develop Tools and Templates for Ownership Conversions ($$)

While a large number of business owners are looking to sell or close their businesses, few are familiar with worker ownership and only a very small number of advisors who might assist them have sufficient knowledge to guide them through the complex process. A range of nonprofits and consultancies that provide such services, such as Project Equity and the ICA Group, have highlighted the need for tailored resources to support ownership conversions. In fact, Project Equity, the ICA Group, and other groups are already working to expand access to capital through special-purpose funds to help finance ownership conversions.[149]

Creating and distributing tools and templates to aid businesses in converting to worker ownership can streamline the conversion process for business owners selling their business, potential worker and community buyers, business advisors, and funders who help finance conversions. The Ownership Model Canvas is one example of a tool that any group of people starting or converting a business can use to develop their ideas before approaching an attorney to discuss writing up papers for incorporation, saving several months of dialogue and upwards of $10,000 in legal service fees.[150]

Pilot an AI Chatbot for Business Owners ($)

Many business owners looking to sell or close their businesses lack access to information on various forms of worker ownership, and have limited access to personalized guidance from a relatively small number of specialized advisors. Piloting an AI chatbot trained to help business owners evaluate their options could help a large number of business owners to consider transitioning their businesses to worker ownership, as well as choose among more familiar options such as selling to a family member, current management, or an outsider.

One version of the chatbot could help an owner determine what options, such as sales to a new owner, sales to existing employees, or shutting down, are likely to be feasible. This screening tool would correspond to the relatively brief consultation many co-op and ESOP developers do for free. By having the state provide and publicize the tool, it can reach far more retiring business owners than any employee ownership advisor can reach.

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[149] See, e.g., the Employee Ownership Catalyst Fund (https://project-equity.org/impact/capital/employee-ownership-catalyst-fund/) and the Fund for Jobs Worth Owning (https://jobsworthowning.org/).

[150] See Spitzberg, Danny. "Introducing the Ownership Model Canvas: A new tool to re-align business success with ownership." Start.coop, 2021. https://medium.com/start-coop/introducing-the-ownership-model-canvas-62244cb36a55; Brodsky, Greg. "How To Use the Ownership Model Canvas v1.1." Start.coop, 2022. https://medium.com/start-coop/how-to-use-the-ownership-model-canvas-v1-1-eaac7f9e5b0f.

The chatbot can also help the business owner understand the variations of worker ownership and which may fit the needs of both the owner and future worker-owners: co-op conversion, ESOPs for S- and C-Corps, Employee Ownership Trust, etc.

A second version of the chatbot could provide an initial financial analysis. This basic spreadsheet is crucial for business owners deciding which options are appealing. A simple spreadsheet can illustrate the tax advantages of selling to an ESOP – at least in some cases.

A more elaborate chatbot would also draft legal documents. Lawyers could then build on this draft. At least one state bar has suggested that lawyers can use generative AI as part of their practice provided they uphold ethical guidelines.[151] For the foreseeable future, lawyer review will be important given the inconsistency of AI chatbots.[152]

AI such as ChatGPT and its peers are widely touted. At the same time, they are also prone to hallucinations (providing convincing but false replies).[153] Training a large language model such as ChatGPT or Gemini on templates, federal and California-specific laws and regulations, and example interviews, spreadsheets and contracts should permit high-quality advising without hallucinations. For example, the chatbot generating legal documents should be trained on materials from conversions that led to positive outcomes for the seller, lenders, and new employee-owners. Even with such quality inputs, the system will require extensive testing before deployment and oversight from worker co-op developers and labor advocacy groups. This approach benefits from the approaches above that convene knowledgeable, experienced professionals and develop tools and templates.

Certify High-Road Co-op Advisors ($)

As noted earlier, most business advisors and consultants lack knowledge of or experience with high-road employment, worker ownership, and models combining both. California could establish a certification program to ensure that advisors are well-equipped to guide businesses in starting or converting and growing a high-road co-op. Similar specialized programs, like the UK Community Shares initiative to transition local businesses to local ownership, offer both training and certifications for advisors and consultants while growing a market for their services. In a range of occupations, from accounting to architecture, independent third-party certification leads to high quality, reliable services with oversight.

In California, it is not clear who would host such a certification.The Department of Consumer Affairs hosts most certifications, from manicurists to medical doctors, but, as the name suggests, these occupations are consumer services, not business services. GO-Biz may be a natural home for this certification given its roster of business advisors, but it has less familiarity

[151] Ambrogi, Bob. “Florida Bar Ethics Opinion OKs Lawyers’ Use Of Generative AI, But With Cautions.” January 25, 2024. https://www.lawnext.com/2024/01/florida-bar-ethics-opinion-oks-lawyers-use-of-generative-ai-but-with-cautions.html, accessed June 17, 2024.
[152] For example, see Frost Brown Todd LLP. “AI Chatbots, Hallucinations, and Legal Risks.” April 15, 2024. https://frostbrowntodd.com/ai-chatbots-hallucinations-and-legal-risks/, accessed June 17, 2024.
[153] Michael Townsen Hicks et al. “ChatGPT is Bullshit.” *Ethics and Information Technology* 26 (2024): 38. https://doi.org/10.1007/s10676-024-09775-5.

with certifying occupations. GO-Biz advisors may be an early adopter of this certification program, helping to standardize and improve the quality of advice before the market grows. Additionally, union staff with skills in business development, especially those actively involved in promoting unionized cooperatives with higher labor standards, may be able to help develop and implement the certification and promote it to businesses.[154]

Product markets

Certify High-Road Co-ops ($$)

There is no widely recognized way of distinguishing a "high-road co-op" or demonstrating its value to potential workers, consumers, investors, or regulators. Creating a certification could help market these businesses. It could also include quality data collection from independent third parties. We discuss criteria for such a certification in the next chapter.

This certification might be similar to other certifications such as those for B Corporations, which focus on social and environmental performance, the Made in SF initiative, which features ethical goods produced in San Francisco, and the Certified Employee Owned certification for employee-owned companies.

Promote Worker Ownership ($)

As noted above, many stakeholders have limited knowledge regarding worker co-ops. A small number of nonprofits and associations currently attempt to bridge this gap with efforts ranging from education, training, and outreach to business advice, legal resources, and data collection and analysis for advocacy.

California could promote worker co-ops through an Employee Ownership (EO) Hub, established by Senate Bill 1407, within GO-Biz.[155] The proposed EO Hub's mandate is:

- "Working with state agencies to enhance opportunities and reduce barriers to employee ownership;
- Partnering with diverse stakeholders to educate business owners and employees about the benefits of employee ownership;
- Providing referrals to legal, financial, and technical employee ownership resources and services;
- Developing recommendations on how state-run capital programs can be used to support employee ownership transitions and employee-owned companies; and
- Reporting to the legislature."

The EO Hub could facilitate a public outreach campaign highlighting the benefits of worker-owned cooperatives and democratic, 100% worker-owned ESOPs.

[154] Lurie, Rebecca and Bernadette King Fitzsimons. "A Union Toolkit for Cooperative Solutions." 2021. https://cleo.rutgers.edu/articles/a-union-toolkit-for-cooperative-solutions/.
[155] California State Legislature. "SB-1407 California Employee Ownership Act." https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202120220SB1407.

For example, there are multiple ways the EO Hub could help workers and business owners evaluate whether a transition to some model of employee ownership is advisable. For example, the state mails tax forms to small business owners each year and could include a paragraph on worker ownership as an exit strategy, with links to more online resources. The state could target this communication to firms whose owners are likely to be nearing retirement age. Similarly, the EO Hub could liaise with banks and other financial institutions to conduct outreach to business account holders who may be nearing retirement or otherwise interested in selling or closing their business.

More broadly, the EO Hub could help coordinate (and sometimes host) the various policy approaches in this chapter. While the EO Hub has yet to secure funding through appropriations as of June, 2024, and any new requirements would require additional funding, its list of mandates overlaps substantially with efforts including certifying advisors, helping develop tools and templates, and supporting capital programs for starting and converting employee-owned businesses. This list is similar to the missions of over a dozen state-based employee ownership centers nationwide.[156]

3.2.2. Leveraging Collective Efficiencies

To address the market failures of unfavorable economies of scale and undervalued social benefits, this set of policy approaches aims to leverage collective efficiencies that can benefit high-road businesses, especially employee-owned businesses.

Labor markets

Create and Share Curriculum for Co-ops ($$)

Employee-owned firms require specific skills such as understanding shared governance, rules on buying in and cashing out shares, etc. In many cases, each co-op develops its own training materials, increasing costs.

It would be useful to have a standard curriculum available in multiple languages. The curriculum could be integrated into a range of potential strategic partners, including schools (e.g., community colleges), vocational programs (e.g. unions and high-road training programs), community organizations (e.g. workers centers and worker advocacy groups), extension programs, and workplaces and industry associations. It may be worth evaluating the feasibility of establishing a dedicated trade school to host this education.

For instance, the Mondragon conglomerate of co-op businesses in Spain has programs teaching co-op skills in their in-house university. Similarly, the credit union sector has several apex bodies and credit union service organizations (CUSOs) that run leadership training programs for staff, executives and even interns.

Create Training on General Skills for High-road Workplaces ($$$)

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[156] State Employee Ownership Centers. https://cleo.rutgers.edu/state-employee-ownership-centers/, accessed July 26, 2024.

Skills for high-road workplaces such as reading a financial statement, developing proposals, and managing and governing collective enterprises are rarely taught in schools or on the job, and are mostly learned in the small number of worker co-ops and other high-road employers.

Creating curriculum for democratic workplaces could standardize both training and expectations, helping workers build skills and helping firms build capacity to realize the benefits of worker ownership. This curriculum could focus on skills that are valuable for any high-road workplace, such as working together in a diverse group to spot and solve problems, running a meeting where all voices are heard, and budgeting.

The list of potential strategic partners for this training goes beyond the list for co-op curriculum described above, and beyond workforce development and labor advocacy groups; the list would likely be evaluated and expanded as part of state educational policy and broader public engagement, including civic associations.

Capital markets

Create Standard Co-op Loan Templates ($$)

While co-ops repay loans at higher rates than conventional businesses, they often lack access to loans because lenders are unfamiliar with the complex requirements of lending to worker-owned businesses. Developing standard loan templates and examples of loan documents tailored for cooperatives can help expand the capital market and streamline the loan application process, making it more accessible to lenders and borrowers. This process may include expanding lending evaluation metrics for co-op to recognize their specific leadership skills and experience, worker-owner commitment, and operations and governance systems, as previously suggested by Marjorie Kelly and co-authors.[157] Guidance from CoBank and the National Cooperative Bank (NCB) may prove useful, as well as from Community Development Financial Institutions (CDFIs) that conduct intense due diligence and provide loans that are appropriate for co-ops.[158]

Offer Training Grants for Lenders ($$)

Lenders may be less willing or unable to process loan applications for worker cooperatives due to the relative complexity and higher costs involved. Providing subsidies to a certain number or type of lenders for an initial batch of loans, sometimes called a training grant, could incentivize lenders to engage with cooperatives. Similar subsidies have been offered in the UK under the Community Investment Tax Relief (CITR) program.

Product markets

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[157] Kelly, Marjorie, Violeta Duncan, and Steve Dubb. 2016. “Strategies for Financing the Inclusive Economy: Financing cooperatives as a tool to create jobs and build community wealth.” https://institute.coop/sites/default/files/resources/Democracy%20Collaborative%20-%20Financing%20Cooperatives.pdf.

[158] Scheyder, Kristen. “Measuring CDFI Impact: A Conversation on the Need for Independent Research.” February 26, 2024. https://www.citigroup.com/global/foundation/news/perspective/2024/measuring-cdfi-impact-a-conversation-on-the-need-for-independent-research.

State procurement

The state's EO Hub described above could search for overlap between state procurement and worker-owned businesses, or where a state need is not well served by the existing market, such as in health care or solar power. It could then disseminate these opportunities to worker-owned businesses. Where the state has a reliable supplier whose owner is approaching retirement, the EO Hub might encourage the owner to consider conversion to worker ownership. Project Equity currently runs a similar review process.[159]

Convene stakeholders to explore scalable shared services ($)

California co-ops lack a dedicated entity to identify opportunities, reduce barriers, and promote activity that might benefit a large number of employee-owned businesses. Without such an entity providing these kinds of shared services, co-ops face several market barriers accessing opportunities, such as economies of scale in collective purchasing, developing training materials, and back-office services such as payroll processing.

The EO Hub, other state agencies, or the association described in Chapter 4 could convene a number of co-ops to identify common goals, needs, and pain-points, and develop scalable, shared services. Examples of these services range from back-office HR and administrative support, to forming purchasing associations to boost collective buying power, as suggested by co-op scholar Keith Taylor.[160]

3.2.3. Creating Appropriate Policies and Regulations

This set of policy approaches aims to address areas of law or regulation that create barriers for high-road co-ops and employee-owned businesses.

Labor markets

Workers Compensation rates

As noted in Chapter 1, it is not clear if worker-owned firms have lower injury rates. But there are good theoretical and suggestive empirical reasons to suspect they do. The state should consider studying this issue. If, in fact, worker ownership predicts lower workers compensation costs, the state should consider lowering initial workers' compensation rates for worker-owned firms.

Workers compensation carve-out

Workers' compensation was designed to be a low-cost, no-fault means of assisting injured workers. However, it has not worked out that way, with long delays, inconsistent health care quality, and very high transaction costs.[161]

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[159] Hilary Abell, personal communication. April 15, 2024.
[160] Keith Taylor, personal communication. April 29, 2024.
[161] Boden, L. I., and Ruser, J. W. (2003). "Workers' Compensation "Reforms," Injury Rates, and Claiming Behavior in California." *The Review of Economics and Statistics*, 85(2), 336-352. https://www.jstor.org/stable/3211581.

Thus, California allows unions to collectively bargain for a “carve-out” – a system with a custom-designed dispute resolution procedure, a specific list of medical providers, and other tailored provisions.[162] The logic is that if the union agrees to such a system, the alternative system will almost always be at least as beneficial for workers as the regular system.

Of course, unions do not always perfectly represent their members’ interests, and both union leadership and members can sometimes be mistaken about what best serves their interests. Nevertheless, if safeguards are in place (e.g., rules for democratic union elections, reporting requirements for carve-outs, etc.), giving worker-led organizations this flexibility makes sense.

The same logic suggests that democratic cooperatives should have the ability to create a carve-out to workers’ compensation. As with unions, co-op boards are elected democratically by members. As with unions, the co-op balances the search for profits with the interests of its current worker-owners. Thus, as with unions, if a democratic co-op or a federation of such co-ops approves an alternative workers compensation system, it is likely to be at least as good for workers as the regular system. The next section gives standards for “high road” co-ops that may be most deserving of regulatory deference.

Giving some regulatory deference to democratic co-ops ($)

This logic can be applied more broadly. Collective bargaining agreements can modify some overtime rules, rest time provisions, dispute resolution procedures, etc.[163] Again, the logic is that if the union agreed, the alternative rules probably benefit most workers.

And, as with unions, if a democratic co-op or a federation of such co-ops approves an alternative rule, it is likely to be at least as good for workers as the standard regulation. We know that high-road employers and worker-owned co-ops and ESOPs are associated with better working conditions and greater worker respect (see Chapter 1). Employee-led governance implies worker-owned employers are unlikely to cheat workers. Thus, we encourage the state to consider which regulations could provide flexibility to democratic employee-owned firms.

Deference to unions is based in part on a union’s duty of fair representation, the prohibition on company unions, and other legal protections. Co-ops would need a corresponding set of safeguards to earn deference. At the same time, we do not know what metrics best signal democratic governance, or how co-ops will choose to trade off elements of job quality. At the same time, the state wants to limit any “race to the bottom,” even if some participants are worker-owned.

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[162] Levine, David I., Frank Neuhauser, and Jeffrey S. Petersen. ““Carve‑outs” from the workers’ compensation system.” *Journal of Policy Analysis and Management: The Journal of the Association for Public Policy Analysis and Management* 21, no. 3 (2002): 467-483.

[163] California Labor Code, Section 514. https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?sectionNum=514.&lawCode=LAB, last accessed July 29, 2024.

One approach to avoid a race to the bottom is that deference to co-ops requires a set of mandatory practices for governance, plus meeting a minimum number of standards from a menu of practices and outcomes.[164]

For example, potential mandatory governance practices for deference might include:

1) Workers democratically elect a board
2) Workers receive training on integrating governance and operations
3) Workers vote and decide on executive-level pay levels or ratios (e.g., no more than triple the median pay)

To be certified as a “high road co-op” an employer might need to meet a specified share of standards such as:

1) A specific share of employees are worker-owners
2) Open book management (sharing financial statements and strategic plans across all worker-owners)
3) Training for workers at or above industry average
4) Workers consulted on strategic decisions
5) Rules that any surplus the co-op generates will be shared with workers (e.g., as profit sharing, dividends or patronage)
6) Provide due process for grievance and just cause employment (that is, only firing for a reason)
7) Policies that support work-life balance, such as flexible working hours and remote work options.
8) Pay ratios at a certain maximum (e.g. 3:1) between highest- and lowest-paid positions
9) A sufficient share of employee attitudes are more favorable than the industry average. Relevant attitudes include job satisfaction, respect at work, and self-reported empowerment. Co-ops can measure these using standard instruments such as the workplace module of the General Social Survey.
10) Wages (including profit sharing) sufficiently above (e.g. 125%) the industry average
11) The benefit package’s value (health, pension, childcare, etc.) is above the industry average
12) No substantive violations of workplace regulations including OSHA (safety and health), Department of Labor Wage & Hour Division (overtime pay, etc.), EEO (discrimination), and NLRB (unionization).
13) In dangerous industries: Health and safety record in the last 3 years equal or better than the industry average.
14) Employee retention rate is above industry average.
15) Career development opportunities as proxied outcomes such as the share of managers promoted from within or by processes such as the existence of active mentoring programs, support for professional certifications, etc.

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[164] This approach builds on Levine, David I. "Public policy implications of imperfections in the market for worker participation.” *Economic and Industrial Democracy* 13, no. 2 (1992): 183-206.

Note that this menu includes both process standards (points 1 to 7) in this example) and outcome standards (points 8 to 14), while standard 15 can be either.

A co-op with this high-road certification whose score dipped might have a year or two to improve its practices or outcomes before losing certification.

Invest in ongoing learning on standards

If the state permits any regulatory preemption, we recommend the state consider an external evaluation. For example, it is important to identify any metrics that are very costly to measure or have low validity (perhaps due to management gaming the metric).

Any preemption system should also build in means to modify the mandatory and optional requirements over time. The state might want to add new standards, remove standards with low validity or high cost, or modify how a standard is defined and measured.

Capital markets

Remove SBA Personal Loan Guarantee ($)

While the 2018 Main Street Employee Ownership Act promoted lending to worker-owned firms, it did not eliminate the barrier for co-ops requiring a personal guarantee signature. Applying for a state waiver from the federal Small Business Administration to modify SBA 7(a) loan regulations could allow worker-owned businesses to access these loans without a personal guarantee. The waiver should also make clear that it is acceptable to use the loan to fund the initial equity stake for new members, permitting them to purchase their share over time with payroll deductions, as suggested by Marjorie Kelly and coauthors.[165]

Raise Cap on Worker Co-op Buy-In ($)

While worker co-ops have limited investment by non-employee equity investors, state law also limits capital investment by new worker-owners buying their share to $1,000 without the workers having to incur legal expenses to register their investments with the state.[166] Increasing the maximum allowable share amount that workers can buy into a co-op without registering their investments could facilitate greater worker investment and ownership.

Provide Securities Exemptions for Co-ops ($)

In addition to having less access to capital from members due to limited personal wealth, securities laws also create barriers when co-ops raise capital from investors. However, as mentioned in Chapter 1, co-ops have demonstrated relatively high repayment rates, stable

[165] Marjorie Kelly, Violeta Duncan, and Steve Dubb. 2016. “Strategies for Financing the Inclusive Economy: Financing cooperatives as a tool to create jobs and build community wealth.” https://institute.coop/sites/default/files/resources/Democracy%20Collaborative%20-%20Financing%20Cooperatives.pdf.

[166] California State Legislature. “AB-816 Cooperative corporations: worker cooperatives.” https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201520160AB816, last accessed July 27, 2024

returns on investment, and overall trustworthiness as businesses compared to conventional businesses.

Granting securities exemptions for high-road co-ops selling shares of moderate value could make it easier for cooperatives to raise capital from unaccredited investors through equity crowdfunding. This exemption for outside investors parallels the proposal above for a higher limit for worker-owners.

Such policies already exist in several states such as Colorado, which grants exemptions for small businesses to offer private solicitations(such as through crowdfunding campaigns up to $500,000) on the basis that they are assumed to engage community members and build trusting relationships, and not defraud investors.[167]

Product markets

Change Certification Rules for minority- and women-owned business enterprises ($)

The current federal certification process for minority- and women-owned business enterprises (MWBEs) is tailored for conventional businesses. Thus, a worker-owned firm where most worker-owners are women or minorities is not typically classed as a MWBE. Working with the federal government could make it possible for worker-owned businesses with more than 51% women and underrepresented minority workers to compete for a range of contracts that have federal funding. This policy is particularly relevant for federal contracts in California, such as those with CalTrans.[168] An example of state legislation comes from North Carolina which recently passed a bill that gives preference to ESOPs with 51% or more historically disadvantaged participants.[169]

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[167] Welter, A., Lidstone, H., Burns, Figa & Will, P.C. “Colorado’s Small Crowdfunding Offering Exemption.” Colorado Bar Association, (2020). https://www.cobar.org/Portals/COBAR/Repository/Sections/business/Crowdfunding-Small-Offering-Exemption_February2020.pdf.

[168] CalTrans. “Disadvantaged Business Enterprises (DBE).” N.d. https://dot.ca.gov/programs/civil-rights/dbe.

[169] See bill at https://www.ncleg.gov/Sessions/2023/Bills/Senate/PDF/S802v5.pdf, especially Section 4. G.S. 143-128.2(g). For commentary on the MWBE certification change from at least 51% minority ownership to 51% of ESOP participants, , see Rosen, Corey. “North Carolina Law Is First in U.S. Qualifying ESOPs for Historically Disadvantaged Contracting Preferences.” NCEO, July 10, 2024. https://www.nceo.org/employee-ownership-blog/north-carolina-law-first-us-qualifying-esops-historically-disadvantaged-contracting-preferences.

Chapter 4: Worker Ownership and Labor Contracting

Summary

This chapter examines the opportunities and challenges for advancing worker ownership in the context of labor contracting. To begin, it introduces the concept of an Association of Cooperative Labor Contractors (ACLC). It then reviews the effects of worker-owned staffing, and discusses the barriers and enablers for such models in California. The last section presents a set of possible business strategies and policy interventions to help launch and grow the ACLC and its cooperative labor contractor (CLC) members.

4.1. The ACLC Concept

This section describes the concept of an Association of Cooperative Labor Contractors (ACLC), a nonprofit hub intended to help establish and grow cooperative labor contractors (CLCs) that help workers find quality jobs in low-wage sectors. Because the concept is novel, we begin by illustrating what the CLCs and ACLC might look like, with a brief review of existing staffing agencies and umbrella groups from our case study research and other sources.

4.1.1. The Vision

As introduced, the 2022 Promote Ownership by Workers for Economic Recovery (POWER) Act, championed by the Service Employees International Union–California, presented a detailed concept for an ACLC.[170,171] The original version of the bill envisioned 1) a new type of worker-owned staffing business, a cooperative labor contractor (CLC), and 2) a nonprofit Association of Cooperative Labor Contractors (ACLC) that would serve as a hub for CLCs.

As envisioned, CLC workers, as members of a worker co-op, would collectively own, democratically control, and benefit from the business.[172] However, as staffing agencies (or labor market intermediaries), the CLCs are different from most businesses; while members of most worker co-ops work collectively within their organizational boundaries to produce a product or deliver a service to customers, members of CLCs would instead supply labor to client organizations.[173]

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[170] The original submitted AB 2849 was considered by the California Senate Committee on Labor, Public Employment and Retirement, and the Senate Judiciary Committee in June 2022. The original bill (see https://sjud.senate.ca.gov/sites/sjud.senate.ca.gov/files/20212022_0_ab2849_05-19-2022_mia_bonta_judiciary_spc_139558.pdf) was modified (see https://legiscan.com/CA/text/AB2849/id/2603587) and passed as a study bill (see https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202120220AB2849).
[171] Designers of the ACLC concept included senior staff from SEIU-UHW, labor attorneys, and cooperative business development professionals.
[172] California law (AB 816) defined worker cooperatives under state law. California allows worker cooperatives to be organized as LLCs, S corporations, or C corporations structured according to cooperative principles.
[173] Typically, workers will be joint employees of the CLC and the Association. To include 'excluded workers', people unable to have W-2 employment, CLCs would allow for LLC entrepreneur members.

The POWER Act planners envisioned CLCs serving clients in various sectors, with separate CLCs organized potentially for “Healthcare (mobile nursing, senior care, special needs care, etc.)”; “Home Services (tutoring, pet care, housekeeping, childcare, nanny services, cleaning, installation, gardening, handyman, etc.)”; and “Transportation of things.” The planners assumed that these CLC sectors would broadly match the differing jurisdictions of specific labor unions, which generally track industry structure.[174]

Similarly, the original proposed bill language imagined an umbrella group for CLCs, the ACLC. The ACLC would help member CLCs become economically viable. The goal is that the ACLC would grow to encompass a significant portion of the California contingent workforce. As described in the state Senate Bill version as presented in June 2022, the ACLC would be structured as a nonprofit mutual benefit corporation and would therefore be exempt from federal and state income taxes.[175]

As an umbrella group providing shared services, the ACLC would be a kind of “critical missing infrastructure that will support worker co-op membership to grow and thrive,” according to the AB 2849 (2022) POWER Act fact sheet.[176] Overall, the ACLC would establish CLCs in various sectors and provide them with management assistance, and business support. It would employ managers and implement management policies within the member CLCs to ensure they meet labor and democratic governance standards. In the 2022 proposal, these standards included requiring CLCs to carry employment practices liability insurance and establishing a wage floor of no less than 125% of the minimum wage, limiting pay inequality between managers and the lowest-paid hourly workers, and requiring pay transparency and minimum health and retirement benefits.[177] The ACLC would also provide services to start, grow, and advise the CLCs such as “shared administrative, managerial, and other functions and costs, leveling the playing field for worker co-ops of any size to… gain the benefits of scale.”[178]

4.1.2. Examples of Worker-Owned Labor Contracting

While the CLC concept is a relatively new kind of staffing agency, a number of relevant examples help illustrate what it could look like. The motivation and goals for CLCs are largely the same: creating higher quality jobs than traditional staffing agencies, with better wages and working conditions, with substantial opportunities for voice and decision-making power, within

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[174] Draft internal memo “Platform Worker Co-ops and Industries” (n.d.), shared by Ra Criscitiello; interviews with David Miller and Darin Ranahan, March 2024.
[175] The income tax exemptions are significant; the federal income tax rate is 21% and the California state income tax rate ranges from 6.65% to 8.84%.
[176] “Fact Sheet: AB 2849: Promote Ownership by Workers for Economic Recovery (POWER) Act.” N.d. Last updated March 28, 2022.
[177] From the legislation: “The purpose of this section is to provide that the association shall be deemed the employer of the management professionals and each member’s workers under federal law, regardless of whether a member is also deemed an employer. Under state law, workers are employees of both the association and the applicable member, while management professionals are employees of the association.”
[178] See “The Promote Ownership by Workers for Economic Recovery Act,” N.d. https://sjud.senate.ca.gov/sites/sjud.senate.ca.gov/files/20212022_0_ab2849_05-19-2022_mia_bonta_judiciary_spc_139558.pdf.

more productive and accountable firms overall. However, scope and scale for staffing co-ops similar to CLCs, as well as hubs and umbrella groups similar to the ACLC, vary widely.

In terms of scale, the case studies in this report illustrate the scope of possibilities. At the smaller end, the case study of Courage describes a home care co-op with around 20 worker-owners, plus partner organizations providing business incubation, technical assistance, and more.[179] At the larger end, our case studies of AlliedUP and California Harvesters, Inc. (CHI) describe two worker-owned labor contractors that have focused on placing individuals at a greater scale.[180] AlliedUP is a cooperative for allied healthcare workers, with a majority worker board, which has placed around 3,000 individuals in positions and recruited around 20 worker-owners. CHI is a farm labor contractor with an employee-owned trust (EOT) that has placed around 1,500 farm workers in roles, who become members of the trust. Both AlliedUP and CHI have several partners providing training, recruiting, labor advocacy, and funding.

We reviewed a dozen other cooperative staffing agencies in the US, plus several more internationally with a range of workers and owners. These include a new co-op called Guilded which serves around 80 workers and has no owners so far as they formalize their membership, and the Mondragon Corporation, founded in the 1950s in the Basque region of Spain, which now has 110 factories, retail stores, a university, and a bank owned by 80,000 workers. Some of the smaller co-ops we reviewed started operations within the last five or six years; aside from AlliedUP and CHI, all of the larger initiatives were founded in the 1990s or earlier. One outlier is SEWA (Self-Employed Women's Association) in India, a federation that includes around 3 million members total plus 112 collectives with over 300,000 worker-owners, including SEWA Homecare.

Overall, staffing agency scope varies in several ways:

1) Sector (office work such as bookkeeping, translation, and legal services; manual labor, e.g. cleaning, home care, and manufacturing; or arts and entertainment such as live music)
2) Contract type (one-time, irregular, temporary, or seasonal work vs. long-term “managed service provider” arrangements)
3) Sales strategy (workers getting work through the agency versus finding and doing work independently, where the labor contractor provides back-office services such as invoicing or health insurance).

For example, in New York, there is an umbrella cooperative of cleaning services member co-ops called Up & Go. Some cleaners get work independently through their own co-op while others through the umbrella group that maintains a website and app. The umbrella co-op also provides back-office services to manage advertising, marketing, booking, scheduling, and payments for the member co-ops.[181]

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[179] See Scott, K. MacKenzie, “Case Studies of Immigrant Entrepreneurship and Home Care Co-op Development” in our Portfolio of Supporting Research.
[180] See Ji, Minsun, “Case Studies of Worker-Owned Labor Contracting in Agriculture and Healthcare: California Harververs, Inc. and AlliedUP” in our Portfolio of Supporting Research.
[181] See Spitzberg, Daniel and Morshed Mannan, “Staffing Co-ops, Umbrella Groups, and the Cooperative Labor Contracting Ecosystem” in our Portfolio of Supporting Research.

Staffing agencies and umbrella groups also vary in models and incorporation. The diversity of worked-owned staffing agencies ranges from worker co-op to employee ownership trust (EOT) to ESOP, and includes LLC co-ops and a Limited Cooperative Association (LCA).[182] Each model offers, and requires, different levels of governance rights and financial rights for its members.

The diversity of hubs and umbrella groups for cooperative staffing agencies is even wider than for staffing coops, and includes cooperative federations and associations, informal unincorporated networks of several co-ops, and coalitions that include community-based nonprofit organizations serving a group of co-ops.[183]

4.2. Effects of Worker-Owned Labor Contracting

Chapter 1 reviewed the effects of worker ownership on job quality and firm performance based on a literature review, statistical analysis, and case studies on worker co-ops and democratic ESOPs.

Building on that review, this section describes the effects of worker ownership in labor contracting, focusing on how ownership in labor contracting might be different from worker ownership in other sectors.

There are under a dozen worker-owned labor market intermediaries compared to 20,000 total staffing agencies in the US. This paucity makes it difficult to do statistical analyses of job quality and of firm performance. However, we have studies of several emerging efforts plus data on several more staffing agencies, which provide insights into job quality and firm performance.

4.2.1. Job Quality

We describe scattered evidence on wages, working conditions, and worker voice and decision-making within a cooperative staffing firm. given firm, which we describe below for labor contracting. However, we lack any data to describe economic stability and economic mobility over time.

The case study on the home care co-op Courage shows slightly better total compensation and benefits for its worker-owners relative to the comparison, a conventional sole-proprietorship LLC.[184] Courage also provides more structured opportunities for worker voice, such as quarterly governance meetings. At the same time, interviewees acknowledged that it “takes practice” to discuss and decide on proposals for alternatives that come up. Importantly, home care business revenue depends largely on government reimbursement rates. So, while the relatively large, 1,600-worker home care provider Cooperative Home Care Associates (CHCA) in New York has

[182] A Limited Cooperative Association (LCA) is a form of cooperative that offers more flexible rules regarding the distribution of profits, allowing for profit rights to be granted to outside investors.
[183] See Spitzberg, Daniel and Morshed Mannan, “Staffing Co-ops, Umbrella Groups, and the Cooperative Labor Contracting Ecosystem” in our Portfolio of Supporting Research.
[184] See Scott, K. MacKenzie, “Case Studies of Immigrant Entrepreneurship and Home Care Co-op Development” in our Portfolio of Supporting Research.

been able to eke out a higher wage for its workers, there are limits beyond the co-op's control to improving compensation.

Similarly, a number of workers at CHI reported better working conditions for its farmworkers. For example, "I like working here because workers are treated well. They treat you like a human. At other places, they'll talk to you like you're less than human, yell at you, and offend you." While CHI has managed to deliver on its vision of better working conditions, it has nevertheless struggled to pay workers above a minimum wage of $16, partly due to the challenge of securing higher-paying clients. This result suggests that demonstrating the value of worker-owned labor in terms of more committed workers, lower turnover, and so on remains a major challenge for the business.

Another consideration for job quality is how working for the co-op affects one's career. At AlliedUP, many workers are new to the allied healthcare profession, and at Turning Basin Labs, a staffing agency for people facing barriers to employment, workers are primarily trainees in vocational programs. In both cases, many workers end up finding permanent employment with client companies , sometimes as trainees or on a trial basis. This outflow from the co-op means that work in the context of labor contracting has limits to tenure and advancement, which also limits the ability to make direct comparisons with job quality in regular worker co-ops, let alone conventional businesses.

4.2.2. Firm Performance

We describe firm performance in terms of productivity, profitability, and longevity. These aspects are closely interrelated for cooperative labor contractors that compete to place workers with client companies.

We found no existing statistical studies of the productivity of cooperative labor contractors. Several indicators suggest that staffing co-ops can be highly productive, depending on measures and the scale of operations. Even in highly-competitive sectors like farming and healthcare that employ hundreds of thousands workers in California, California Harvesters, Inc. (CHI) and AlliedUP have managed to place around 1,500 and 3,000 workers, respectively, with various client companies. These worker-owned labor contractors are relatively new and still working to stabilize their day-to-day operations and overall business, making it difficult to assess productivity. CHI has landed several contracts with growers that place a large number of workers on one site, so that it may be possible to incrementally grow despite temporary, seasonal work. The average placements per week remains low for both cooperative staffing agencies.

By contrast, other staffing agencies and co-op associations and federations founded earlier appear productive enough to sustain their business at scale. For example, the home care co-op CHCA, founded in New York in 1985, has around 16500 worker-owners and appears relatively stable.[185]

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[185] https://www.chcany.org/, last accessed July 25, 204

Several international staffing co-ops that primarily serve freelancers working independently, from musicians to lawyers, have managed to grow to several thousand members. For example, in 1990 in Italy, eight musicians founded Doc Servici to help manage their own gigs, but the co-op continued to expand with additional back-office services, even adding a travel agency during the Covid-19 pandemic for a total membership today of around 7,000. This model for freelancers lets the co-op expand rapidly. This scale enables these co-ops to build and maintain infrastructure. However, as noted in our case study of CHI, many workers in a given farm labor contractor (FLC) often break off to start a new FLC of their own. This suggests that even in sectors characterized by several profitable dominant players and thin margins for others, opportunity exists for productive staffing co-ops.

4.3. Barriers and Enablers to Worker-Owned Labor Contracting

Chapter 2 of this report reviewed a wide range of barriers and enablers for worker ownership that provides high-road employment. Building on that, this section examines the barriers and enablers for CLCs, the ACLC, and worker-owned labor contracting more broadly.

4.2.1. Barriers

Temporary and Seasonal Work

The temporary and seasonal nature of some labor contracting work presents an important barrier, reducing the potential return to investment in skill development and system improvements such as experienced leadership and ownership culture. Workers engaged in temporary or seasonal roles are less likely to commit to long-term skill enhancement and organizational development, creating potential gaps in competency and efficiency. This dynamic harms the stability and financial sustainability of a co-op.

Cohesiveness, Team Dynamics, and Organizational Complexity

In labor contracting, workers often spend their working time at client organizations rather than their own co-op, which can make cohesiveness more challenging, especially if workers are dispersed and not organized into teams. The lack of a unified workplace hinders the development of strong relationships among worker-owners, which are key for peer supervision, mutual accountability, and fostering a sense of belonging. Additionally, the dispersed and often temporary nature of contracting work requires greater coordination and communication across various locations, which adds layers of complexity and takes up staff resources and management capacity.

Management and Governance Challenges

Labor contracting cooperatives face management and governance challenges due to multiple, overlapping, and potentially conflicting management and supervision structures across client companies and the cooperative itself. Navigating these complexities can diminish the effectiveness of democratic governance and worker participation.

4.2.2. Enablers

Strategic Partnerships

Strategic partnerships with worker centers, labor advocacy groups, workforce development boards (WDB), and job training organizations play a critical role in supporting worker-owned labor contractors. Examples include Courage's partnership with the Pilipino Workers Center (PWC), AlliedUP's collaboration with Futuro and labor unions, and California Harvesters, Inc. (CHI)'s various partners. These partnerships help attract and recruit workers with the necessary skills for the job and organizing, leveraging the relationships and networks of the founding teams and leadership within their sectors.

Back-Office Support

Back-office support staff are valuable for workers in staffing co-ops to the extent that they help build and maintain relationships and they create valuable shared services (e.g., a great app for contractors and clients, etc.). By focusing on the core competency of sourcing and placing workers, these support teams ensure that administrative burdens do not overwhelm the cooperative's primary mission. Effective back-office support can enhance operational efficiency and worker satisfaction, contributing to the cooperative's success.

Back-office services can also assist with marketing and sales to clients, as demonstrated by cleaning agencies like Up & Go. Turning Basin Labs is currently seeking to find an umbrella group to take on these duties and enable their growth. Similarly, one of the featured cooperatives in this report, Courage, is in the process (as of 2024) of joining such an umbrella group called Elevate Cooperative.

Incubation and Runway

To start new businesses in labor contracting and reach break-even, intense help with incubation and sufficient funding to cover several years without profits seems to make a key difference. Courage has a number of partners plus funding from a SEED grant from the state in support of its development. Similarly, coalitions of partners supporting CHI and AlliedUP have brought together networks of allies and funders to sustain their efforts as they seek stable business models.

Reliable Governance

In cooperative labor contractors, democratic governance structures may help workers prevent race-to-the-bottom decisions and ensure that worker interests remain a priority. While worker-centered governance is not necessarily an advantage for competitiveness, it can protect against decisions that could undermine wages, working conditions, and worker voice.

4.4. Strategies and Policies to Promote CLCs

Chapter 3 presented a range of policy approaches to overcome barriers and leverage enablers for high-road co-ops, each one targeted at underlying market failures or regulatory barriers. This section extends that analysis to study policies to promote CLCs.

This section outlines several business strategies and policy approaches to help CLCs and the ACLC reach profitability. The business strategies are not a blueprint for success, but a framework for evaluating where CLCs might thrive. Similarly, the policy approaches can overcome barriers and leverage enablers to worker ownership in labor contracting, but require deeper analysis in the context of specific sectors and geographies.

Table 4.1 outlines the strategies and policies to consider for finding places where CLCs might thrive. It focuses on two main goals, with specific considerations categorized by attributes of the workforce that might provide labor to CLCs; attributes of the CLC work and its fit with potential members who own, control, and benefit; and attributes of the clients who contract with the CLC for labor and related services.

Table 4.1: Overview of strategies and policies to promote cooperative labor contractors (CLCs)

Area to Target	**Goal**	**Strategies and Policies**		
		Workforce and labor markets	*Ownership and capital markets*	*Client and product markets*
Market failures				
Unfavorable economies of scale and externalities	**Integrating workplace democracy and financial sustainability**	Include ‘excluded workers’ as LLC members	Link economic and psychological ownership Include freelancers as employees	Prioritize stable, long-term contracts Create shared services through umbrella groups
Regulatory barriers				
Unhelpful regulations and missing institutions	**Creating appropriate regulations and labor standards**	“Mandatory plus” labor standards Invest in ongoing learning		Exemption on joint employer liability Reduce rates on workers’ compensation

4.4.1. Integrating workplace democracy and financial sustainability

Workforce and labor markets

Include ‘excluded workers’ as CLC members

In low-wage sectors such as home care and agriculture, a large number of workers include ‘excluded workers’ – people facing barriers to employment such as immigration status and history of incarceration. As noted in the accompanying ACLC report, CLC’s can be structured as LLCs, S Corporations, or C Corporations according to cooperative principles and relevant stakeholder needs. A CLC can be structured as an LLC to be more inclusive of ‘excluded workers’ and help develop more entrepreneurship opportunities.

Ownership and capital markets

Link economic and psychological ownership

Workers in employee-owned firms often report a greater commitment and lower likelihood of searching for jobs, as we found in our statistical analysis for this report. This means that workers have opportunities for both psychological ownership of their work as well as economic, material ownership of the business itself.

These two aspects of ownership can be linked in the context of staffing by combining policies like open book management, business literacy training, involvement in job-level decision-making, and profit sharing. In the case of the staffing co-op Opolis, workers find work on their own (unlike in labor contracting) but earn a dividend based on work performed. With skills and systems for a democratic workplace, workers can either propose or respond to strategic decisions made by leadership that affect them, and see the benefits of doing so, which increases participation and encourages more “practice” to advance these skills and systems (as described in the Courage case study).

Include freelancers as co-op members

Recruiting and including freelancers in a CLC helps to grow the membership base (possibly as a second tier) and generate revenue for shared services and infrastructure provided by the ACLC.

Clients and product markets

Prioritize stable, long-term contracts

Another strategy is prioritizing clients that have demand for stable, long-term contracts over temp arrangements, at least initially. These kinds of “managed service” arrangements make it possible for CLCs to invest in skills for committed worker-owners, and build cohesive groups that use workplace democracy to improve the business and keep it accountable. Example contracts cover a range of outsourced but ongoing needs, including administrative functions such as HR and IT, and facility needs such as janitorial, laundry, and food services.

Create shared services through umbrella groups

While staffing co-ops benefit from accessing back-office services such as administrative support or financial analysis, an umbrella group that provides shared services to a number of staffing co-ops can dramatically reduce operational costs and improve the quality of services by collectivizing risk, facilitating group purchasing, and pooling data, capital, and other resources. For example, Elevate Co-op aims to help its 18 home care co-ops by handling digital marketing and web hosting as well as financial benchmarking and other services, enabling them to save time and focus on their core functions, which helps them reach break-even points more quickly. Similar to the co-ops they serve, these umbrella groups benefit when their members participate in democratic governance, ensuring the services are high quality, deliver value for collective benefit, and respond and adapt to changing goals and needs over time.

4.4.3. Creating appropriate regulations and labor standards

“Mandatory plus” labor standards

As noted above, any regulatory deference should require minimum standards of being a high-road democratic co-op. The ACLC could require all its member CLCs meet these standards. ACLC oversight (such as running employee surveys) can help ensure high quality metrics for such certification. The extra level of oversight provided by the ACLC should make it more comfortable for the state to give regulatory deference in some domains to CLCs.

Clients and product markets

Exemption on joint employer liability

Joint employer liability poses a problem for client companies because it holds them accountable for labor violations committed by staffing agencies, exposing them to legal and financial risks. The ACLC concept proposes an exemption from joint employer liability, which traditionally holds both staffing agencies and client companies accountable for labor violations, such as wage and hour infractions. By limiting liability solely to the CLC, this approach encourages client companies to contract with CLCs.[186]

The advantage for client companies is substantial: they gain protection from lawsuits related to labor violations committed by the CLC, thereby reducing legal and financial risks. For California companies that heavily rely on outsourced labor, the potential liability reduction is a major incentive. In 2022, California companies faced over 5,000 wage and hour lawsuits, with settlements averaging $1.5 million per case.[187] If a traditional staffing agency fails to comply with labor laws, the client company can be held jointly liable, leading to costly legal battles. However, under the proposed exemption, if CLCs adhere to high-road standards, the client would be shielded from such liabilities, promoting compliance and responsible business practices.

This exemption addresses a significant concern for employers and business associations, while also ensuring that CLCs maintain rigorous standards. As a result, this strategy not only protects businesses but also empowers workers by supporting ethical labor practices and enhancing the appeal of worker-owned models.

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[186] At the same time, joint liability partially protects the staffing agency from client firms that do not give appropriate breaks, violate safety regulations, and so forth. Limiting client liability also increases risks that the staffing agency cannot control. (We appreciate Lisa Powell for making this point.)

[187] For example, a 2022 California Supreme Court ruling permitted an employee to bring a second class action against the client company as joint employer, after having already brought a wage and hour class action against the staffing agency that had employed them and having settled with the staffing agency; see Grande v. Eisenhower Medical Center, 2022 WL 2349762 (Cal. June 30, 2022). In another California news story on joint employment liability, the Cheesecake Factory agreed to pay $750,000 in connection to wage theft and other alleged violations by a janitorial contractor; see Farida Jhabvala Romero, “The Cheesecake Factory Pays $750,000 in Connection to Wage Theft Case,” *KQED*, January 22, 2024. https://kqed.org/news/11973279/the-cheesecake-factory-pays-750000-in-connection-to-wage-theft-case.

Chapter 5: Evidence Gaps and Learning Agenda

Summary

This chapter reviews the evidence gaps in our study on worker ownership and presents a learning agenda to inform future research. To begin, we summarize the strengths and limitations of our research. We then outline a learning agenda to address the limitations, detailing the objectives and policy implications for each step.

5.1. Strengths and Limitations of our Study

Our research study has important strengths:

- Comprehensive perspective on worker ownership by using multiple research methods: literature review, case studies on a variety of worker-owned firms (some with comparison firms), quantitative analysis of survey data, expert interviews, and analysis of cooperative labor contracting;
- Approach to policy analysis for worker ownership that focuses on identifying barriers and enablers, and addressing government and market failures;
- Deep knowledge in our team on worker ownership, labor markets, policy, and democratic workplace practices across worker-owned and conventional firms;
- Expert feedback from the study's panel members, public comments, and interviews with labor advocates, employment lawyers, ownership advisors, and cooperative developers.

At the same time, our study has important limitations:

- Limited statistical data on members of worker-owned firms. This problem led to few observations for historically underserved and disadvantaged workers, especially people of color;
- Limited peer-reviewed literature with comparison studies on job quality across worker-owned and conventional firms;
- Lack of access to workers and worker perspectives in many of our case studies, lack of comparison firms for some of our case studies, and lack of longitudinal data for these workers and firms in low-wage sectors;
- Limited ability to analyze an Association of Cooperative Labor Contractors (ACLC), a novel idea that does not yet exist, and cooperative labor contractors (CLCs) which have few direct or large-scale comparisons;
- Challenges understanding all of the mechanisms that make a CLC or staffing co-op flourish, including both internal issues and external market and regulatory forces;
- A relatively constrained timeline.

5.2. Learning Agenda for Future Research

To bridge the gaps on worker ownership, this section outlines a learning agenda for future research with specific objectives and policy implications. The first four items are incremental proposals, and the final three are more ambitious.

1. Enhanced Understanding through Key Informant Interviews

- Objective: Conduct more key informant interviews to gain deeper insights into various staffing agency models, such as "Managed Service Providers" (MSPs), and explore cooperative operations in these sectors.
- Policy Implication: Better tailored regulations and support structures for diverse employment models, enhancing worker satisfaction and company performance.

2. Comprehensive Data Collection

- Objective: Conduct surveys of co-op members and democratic ESOP employees, with comparative data from conventional firms, focusing on metrics like dignity and respect that are crucial yet poorly measured in workplace surveys. Oversample migrants, people of color, etc.
- Policy Implication: Robust data to guide policy enhancements that foster dignified and respectful work environments, with a focus on historically underrepresented and underserved groups.

3. Advanced Statistical Analyses

- Objective: We hypothesize that the benefits of worker ownership are maximized when coupled with training and worker voice and decision-making. We will utilize machine learning to conduct robust, flexible analyses with additional data on how worker ownership influences key outcomes like satisfaction, retention, and empowerment.
- Policy Implication: Data-driven evidence to promote training and participation in worker-owned firms, potentially reducing turnover and enhancing workplace dignity.

4. Measuring Injury Costs

- Objective: Investigate the correlation between worker ownership and injury rates to determine if lower injury rates warrant lower workers' compensation rates for worker co-ops and CLCs.
- Policy Implication: Potential for reduced insurance costs for co-ops and CLCs, promoting financial sustainability and worker safety.

5. Chatbot Pilot for Succession Planning

- Objective: Following up on our initial work, do further development and testing of a chatbot that assists business owners and workers in exploring worker ownership as a succession option, thereby lowering decision-making costs and increasing awareness.

- Policy Implication: Facilitate smoother transitions to worker ownership, preserving businesses and jobs.

6. Evaluation of the EO Hub

- Objective: Assess the impact of potential initiatives like the EO Hub, examining their effectiveness and areas for improvement. This may include comparative analysis with other state employee ownership centers, and perhaps also similar services provided by some (but not all) Small Business Development Centers nationwide.
- Policy Implication: Evidence-based recommendations for scaling effective practices and addressing any emergent challenges.

7. Evaluation of the ACLC and its Member CLCs

- Objective: Identify best practices among CLCs. Identify if regulatory flexibility for CLCs is leading to high-road co-ops (not self-exploitation or sham democracy).
- Policy Implication: Speed dissemination of best practices among CLCs and co-ops more broadly, ensuring this worker ownership model delivers tangible benefits to workers.

Each component of our proposed research agenda offers significant potential returns by informing and refining policies that support worker ownership. This approach can not only enhance worker outcomes, but also contributes to economic resilience and equity. Investing in this research is an investment in guiding sustainable, inclusive, and equitable economic growth.

PORTFOLIO OF SUPPORTING RESEARCH

Article 1: Literature Review on Worker Ownership

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June 6, 2024

Summary

This paper reviews academic and non-peer-reviewed research examining how worker ownership impacts workers and firms, with a specific focus on how worker cooperatives impact low-wage and marginalized workers.

This review finds a range of evidence for several outcomes. The most solid evidence for worker ownership is in terms of its association with greater job stability (e.g., fewer layoffs), particularly during economic downturns. In terms of increased productivity, the review finds a range of studies showing equal or greater results, with some evidence to suggest this may be due to increased worker training, information sharing, shifts in norms, and empowerment to make decisions. In terms of compensation, the review finds that there is no robust comparison of wages between US cooperatives and non-cooperatives that controls for differences in industry, region, and occupation, although co-op members reported a $2 median increase in pay compared to their previous employment. In ESOPs, this review finds consistent evidence of equal or higher wages and wealth (for example, workers have an average of $180,292 in their ESOP accounts). While wages are important in shaping job quality, this review finds that worker-owned firms have a number of attributes tied to high-quality employment. Most notably, the ability of workers to exercise greater control (both over organizational governance and their individual job tasks) may improve work experiences. Most studies find equal or higher levels of job satisfaction in worker-owned firms, while others find no significant differences.

These findings suggest that while worker-ownership may improve job quality, firm performance, and other social and economic outcomes, it is not a complete solution for labor market challenges and does not fully resolve systemic issues of gender and racial discrimination. The review calls for more comprehensive studies to understand the conditions for successful worker-ownership and to address persistent inequalities, informing policies for equitable economic development. The review also highlights the need for more rigorous studies (and more studies overall) in an attempt to find the causal mechanisms between worker ownership and positive outcomes like job quality, equality among workers, and wealth accumulation.

Introduction

This literature review presents research evidence primarily on worker cooperatives, and secondarily on ESOPs and other forms of employee ownership, with a particular focus on how these forms of ownership affect low-wage and marginalized workers and their workplaces. The focus of this review aligns with the study objectives of the “Promote Ownership by Workers for

Economic Recovery" (POWER) Act, to advance understanding of "the benefits and sustainability of worker cooperatives to improve low-wage, low-skill worker outcomes. This will include examining the business conditions and enabling factors that may support a successful and sustainable business model."

We review a wide range of worker and firm outcomes associated with worker ownership. The focus is on worker cooperatives, which are structured democratically on a one-person/one-vote basis. For many of the outcomes, there is only limited research available on worker cooperatives, and thus we incorporate the broader literature on other forms of employee ownership to provide insight into these gaps.

The most common form of broad-based employee ownership is an Employee Stock Ownership Plan (ESOP), a form of retirement plan in which employers contribute company stock (or money to buy stock) to employee accounts, typically based on pay levels. According to the US Department of Labor, there were 10.7 million active participants in ESOPs in 2021.[188] An ESOP must be broad-based, covering all or nearly all employees. While the stock plan has only minimal legally required voting rights on major corporate issues, ESOP companies are often structured to have a higher degree of employee participation in decision-making at the department and job level than conventional firms. There are also a variety of other forms of employee ownership, including plans that let employees purchase stock in 401(k)'s or Employee Stock Purchase Plans, and those that provide grants of stock or stock options to employees. For each outcome reviewed here, we first describe the evidence stemming from studies of worker cooperatives, and then describe the evidence from ESOPs and other forms of employee ownership.

We are careful to address methodological concerns in describing the nature and quality of the evidence and research design limitations and concerns related to establishing causality (the absolute certainty that one variable causes changes in another). There are three levels of evidence used by the literature, each progressively stronger in its ability to suggest that worker ownership has an effect on the outcome of interest. First, some evidence is based on simple means or tabulations of outcomes without any controls or comparison groups, which we present to provide a portrait of worker ownership, but caution that it sheds almost no light on the effects of worker ownership. Second, some evidence analyzes outcomes with controls to adjust for selection issues – for example, comparing worker owners' and non-owners' job satisfaction while holding observable job and demographic characteristics like occupation, tenure, gender, and race constant. Such controls help to make comparisons more "apples to apples" in examining the plausibility of a causal connection between worker ownership and an outcome. Nevertheless, the results must still be interpreted cautiously – for example, there may be unaccounted-for pre-existing differences in the types of people who become worker-owners. The third level of evidence involves stricter tests to help establish causality, including longitudinal pre/post designs with control groups in a quasi-experimental setting – for example,

[188] Blasi, Joseph, and Douglas Kruse. Employee Ownership and ESOPS: What we know from recent research, June 2023. At https://cleo.rutgers.edu/wp-content/uploads/2024/01/What-We-Know-From-Recent-Research_-Joseph-Blasi-and-Douglas-Kruse-Rutgers-Aspen-DC-conference-June-13-14-2023.pdf.

comparing firms before and after the adoption of worker ownership, with comparisons to non-adopters over the same period and controls for other relevant variables that may have changed at the same time. While no study can establish causality with absolute certainty, these types of studies create a much stronger case for causality.

Overall, the literature on worker outcomes has found that workers have greater job security in worker cooperatives and other forms of employee ownership. There is greater wealth accumulation in non-cooperative forms of employee ownership, with a lack of clear data on the wealth effects of worker cooperatives. There are mixed or context-dependent results in the correlations of employee ownership with compensation levels, job satisfaction, and other worker attitudes. The review also highlights that worker ownership can make meaningful differences in the work experiences of low-wage workers. However, shared ownership and greater worker participation in firm governance do not automatically resolve long-standing issues of systematic gender and racial discrimination. Studies of firm outcomes have generally found strong evidence that employee-owned firms are less likely to fail. Most studies find higher firm performance across a variety of measures – although there is substantial dispersion in estimates depending on the context.

Worker Outcomes

Job Stability

Employment within worker-owned firms (and corporations with some employee ownership) is more stable than in conventional firms during economic downturns. Employee ownership may lead to greater stability through (i) workers directly exercising voice to maintain jobs when they can do so; (ii) the potential of increased productivity from greater cooperation, information sharing, and commitment; (iii) reduced dysfunctional workplace conflict; (iv) increased worker investments in valuable firm-specific skills; and/or (v) creation and maintenance of a workplace culture that instills a sense of ownership, with a corresponding commitment to preserve jobs whenever possible. Although the exact causal mechanisms remain unclear, multiple studies employing robust methodologies have consistently found evidence of enhanced job stability across various forms of employee ownership in multiple countries.

Worker cooperatives

A number of studies taking place in different countries find that employment is more stable in worker cooperatives. In the United States, Pencavel and Craig (1992, 1995) use industry-based longitudinal data of plywood cooperatives finding that on average, employment within worker cooperatives was less likely to decrease during recessions when compared to conventional firms.[189] This is consistent with subsequent studies in other countries (Italy and Uruguay), which

[189] Craig, Ben, and John Pencavel. "The behavior of worker cooperatives: The plywood companies of the Pacific Northwest." *The American Economic Review* (1992): 1083-1105. Craig, Ben, John Pencavel, Henry Farber, and Alan Krueger. "Participation and productivity: a comparison of worker cooperatives and conventional firms in the plywood industry." *Brookings papers on economic activity. Microeconomics* 1995 (1995): 121-174

used panel data to compare all worker cooperatives and conventional firms over several years, showing that employment was more stable in worker cooperatives.[190]

The COVID-19 pandemic has also been used to examine employment stability in employee-owned firms. Based on a survey conducted by the Democracy at Work Institute (DAWI), of 142 worker cooperatives during the initial months of the pandemic, only 12% of cooperatives responded that they had laid off workers, and almost 60% kept the same number of workers employed, instead opting to furlough workers or reduce employment hours.[191] There is, however, no comparison group for these results, preventing direct comparison between cooperative and conventional firm employment behavior during the pandemic.

Other forms of employee ownership

Similar results on employment stability have been observed for ESOPs, including in studies contrasting ESOPs to similar non-ESOP firms over time.[192] Most recently, Kurtulus and Kruse, (2017) used data from all publicly traded companies within the US from 1999–2011 to find that (mostly large) stock market companies with ESOPs and other forms of employee-owned pension plans were less likely to lay off workers than conventional firms during the two recessions in this period.[193] While the employee ownership firms had higher productivity in general (reviewed below), their relative productivity advantage declined in recessions, which may be due to retaining workers who receive training or otherwise invest in activities that bolster long-term, but not short-term, productivity.

Blasi et al (2021) surveyed executives from ESOP and non-ESOP firms about their workplace practices in response to the pandemic, finding that majority ESOP firms (that is, where the ESOP owns a majority of the company, typically 100%) laid off on average 14.7% fewer workers in the first six months of the pandemic (including when controlling for industry differences).[194] The reduction in layoffs among ESOP companies was especially strong for non-managerial employees: a tight comparison between management and non-management cutbacks within firms found that the non-management cutbacks exceeded management cutbacks by an average

[190] Pencavel, John, Luigi Pistaferri, and Fabiano Schivardi. "Wages, employment, and capital in capitalist and worker-owned firms." *ILR Review* 60, no. 1 (2006): 23-44. Burdin, Gabriel, and Andrés Dean. "New evidence on wages and employment in worker cooperatives compared with capitalist firms." *Journal of Comparative Economics* 37, no. 4 (2009): 517-533.

[191] "Worker Co-ops: Weathering the Storm of COVID-19 | Democracy at Work Institute," n.d. Available at https://institute.coop/resources/worker-co-ops-weathering-storm-covid-19.

[192] Blair, Margaret M., Douglas L. Kruse, and Joseph Blasi. "Employee ownership: an unstable form or a stabilizing force?." *Available at SSRN 142146* (2000). Park, Rhokeun, Douglas Kruse, and James Sesil. "Does employee ownership enhance firm survival?." In *Employee participation, firm performance and survival*, pp. 3-33. Emerald Group Publishing Limited, 2004. Blasi, Joseph, Douglas Kruse, and Dan Weltmann. "Firm survival and performance in privately held ESOP companies." In *Sharing ownership, profits, and decision-making in the 21st century*, pp. 109-124. Emerald Group Publishing Limited, 2013.

[193] Kurtulus, Fidan Ana, and Douglas L. Kruse. *How did employee ownership firms weather the last two recessions?: Employee ownership, employment stability, and firm survival: 1999-2011*. WE Upjohn Institute, 2017.

[194] Blasi, Joseph, Douglas Kruse, and Dan Weltmann. "The response of majority employee-owned firms during the pandemic compared to other firms." *Journal of Participation and Employee Ownership* 4, no. 2 (2021): 92-101.

of 6.9 percentage points in non-ESOP firms but by only 2.0 percentage points in majority ESOP firms, indicating that ESOP firms preserved a greater number of non-managerial jobs.

To the extent that employee ownership's employment stabilizing effect can be viewed as causal, reducing instances of unemployment has important social implications. Indeed, reduced unemployment can act as a buffer against issues tied to systematic discrimination as workers of color who experience fewer layoffs will be less likely to face discriminatory hiring practices in the labor market. Wiefek (2017) uses longitudinal data from the National Longitudinal Survey of Youth (NLSY) (a nationally representative survey following respondents over time) to detail employment stability statistics based on demographic data. While controlling for education, gender, and marital status, she finds that employee-owners of color's median job tenure was 4.5 years, compared to 3.3 years for non-employee owners of color. Employee owners of color also have higher job tenure than non-owners of color (4.5 compared to 3.3 years) as well as all non-employee owners (4.5 compared to 3.4 years).[195] Greater employment stability also reduces the negative social externalities of unemployment on the economy, government, communities, and the families of affected workers. Rosen (2015) for example, estimates that the ESOP's employment stabilizing alone effect saved the federal government $6 billion on average, annually from 2002–2010.[196] Preventing unemployment also prevents the "scarring" effects of unemployment on workers' mental and physical health and future employment outcomes.[197]

Wages

The studies on wages in employee-owned firms show higher compensation in ESOPs, with less consistent results in worker co-ops.

Worker cooperatives

For cooperatives, results are mixed depending on the national context, with studies pointing to higher wages in Uruguayan cooperatives, and lower wages in Italian cooperatives, relative to non-cooperatives in the same industry.[198] Navarra (2016) investigated the mechanisms that cause Italian cooperatives to pay below market wages, finding that cooperatives chose to pay lower wages in order to offer more stable employment and wage levels over time. Navarra finds

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[195] Wiefek, Nancy. *Employee Ownership & Economic Well-Being: Household Wealth, Job Stability, and Employment Quality Among Employee-Owners Age 28 to 34*. National Center for Employee Ownership, 2017.
[196] Rosen, Corey. "The impact of employee ownership and ESOPs on layoffs and the costs of unemployment to the federal government." National Center for Employee Ownership, July, 2015. https://nceo.org/assets/pdf/articles/Employee-Ownership-and-Unemployment-2015.pdf .
[197] Gangl, Markus. "Scar effects of unemployment: An assessment of institutional complementarities." *American Sociological Review* 71, no. 6 (2006): 986-1013. Brand, Jennie E. "The far-reaching impact of job loss and unemployment." *Annual review of sociology* 41 (2015): 359-375.
[198] Pencavel, John, Luigi Pistaferri, and Fabiano Schivardi. "Wages, employment, and capital in capitalist and worker-owned firms." *ILR Review* 60, no. 1 (2006): 23-44. Burdin, Gabriel, and Andrés Dean. "New evidence on wages and employment in worker cooperatives compared with capitalist firms." *Journal of comparative economics* 37, no. 4 (2009): 517-533.

that Italian worker cooperatives invest wage-savings into the firm, so that cooperative firms do not need to reduce members wages or employment levels during economic downturn.[199]

In the United States, the only data comes from a survey conducted by DAWI, which received responses from 835 individuals working within worker cooperatives. However, this survey does not represent the entire population of workers in cooperatives, which DAWI estimates is close to 10,000. The survey found that workers' mean wages in cooperatives were $17.74 an hour, and median wages were $13.76 per hour. These figures, which were lower than the overall national mean and median of $26.32 and $17.02 respectively, reflect the fact that existing US cooperatives tend to be concentrated in low-wage industries. A robust analysis comparing cooperatives to non-cooperatives in similar industries in similar regions has not been done. DAWI provided mean wages for cooperative workers. DAWI also reported data on average hourly wages by industry. Wages in typically "low wage" industries are as follows: accommodation and food services, $17.40; health care and social assistance, $11.67; transportation and warehousing, $15.30; retail trade, $15.79. Reflecting patterns in the overall economy, the mean wage ($17.74) was also much lower for people of color ($14.75) than for whites ($22.63).

While the DAWI survey suggests wages may be lower in US worker cooperatives than in conventional firms, these findings should be interpreted with caution. The survey is not representative of all worker co-ops and does not compare the wage levels of cooperatives to non-cooperatives in similar industries and regions. Additionally, Self-reported data from respondents in the DAWI survey further suggests that these wage levels may be inaccurate, as respondents reported earning an average of $2 an hour more at their cooperative job than during previous employment.[200]

Other forms of employee ownership

Existing evidence suggests that ESOPs pay wages equal to or higher than market and industry averages. Cross-sectional comparisons find higher wages in ESOP than in non-ESOP firms and that ownership plans provide an additional benefit for workers, as opposed to substituting for wage increases.[201] Blasi (1996) conducted the first wage comparison study, comparing publicly traded ESOP/conventional firms, and finding similar levels of pay between the two.[202] More recently, Kruse et al (2010) used a combination of data from the General Social Survey (GSS) and data obtained from the National Bureau of Economic Research (NBER) which surveyed over 40,000 workers, to find that employee-owners, and ESOP participants in particular, reported higher wages than otherwise-similar non-owners (using job and demographic

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[199] Navarra, Cecilia. "Employment stabilization inside firms: An empirical investigation of worker cooperatives." *Annals of Public and Cooperative Economics* 87, no. 4 (2016): 563-585.
[200] Schlachter, Laura Hanson, and Olga Prushinskaya. "How economic democracy impacts workers, firms, and communities." *Oakland, CA: The Democracy at Work Institute* (2021).
[201] Kardas, Peter, Adria L. Scharf, and Jim Keogh. *Wealth and income consequences of employee ownership: A comparative study from Washington State*. Washington State Community, Trade and Economic Development, 1998. Scharf, Adria, and Christopher Mackin. "Census of Massachusetts companies with employee stock ownership plans (ESOPs)." *Boston: Commonwealth Corporation* (2000).
[202] Blasi, Joseph, Michael Conte, and Douglas Kruse. "Employee stock ownership and corporate performance among public companies." *IRL Review* 50, no. 1 (1996): 60-79.

controls).[203] Weifek (2017) finds support for this as well over time using the nationally representative National Longitudinal Survey of Youth (NLYS), which follows the same respondents over several decades. Wiefek (2017) is based on NLYS data where respondents were aged 28 to 34. She found that workers with an ownership stake had 33% higher median wages (median salary of $40,000 for employee ownership, vs $30,000 for non-employee ownership) when controlling for other predictors of wages (education, race, gender, marital status – importantly, however, the study did not control for the industry).[204]

Wiefek (2017) examines the correlates of ESOPs on people of color, comparing the income-to-poverty ratio of employee owners to non-employee owners. She finds that this ratio rose from 1.43 in 1997 to 2.31 in 2013 among non-employee owners of color but increased more for employee owners (from 1.71 to 3.16) over the same period.[205]

Wealth Building

Worker cooperatives

Data on wealth accumulation for workers in cooperatives is limited. The only existing US data is from the DAWI survey of individual workers. Workers were asked about the value of their internal capital accounts, reporting that the mean value of these accounts was over $10,000; the median value was $2,000.[206] An internal capital account holds individual workers' cooperative ownership and may receive annual profit distributions. However, these internal capital accounts do not typically pay market rates of interest and do not accumulate capital gains. Consequently, experts debate whether they constitute a form of wealth accumulation.

Other forms of employee ownership

Due to ESOP's ownership structure as a retirement plan, there is more data on ESOP workers' wealth. Recent Department of Labor data from the Rutgers Institute for Employee Ownership which examined ESOP workers' wealth found that, on average, employees in ESOP firms have ownership accounts that have accumulated $180,292.[207] Those employed in ESOP firms for 10 years or longer have an average of $315,000 in wealth through their ESOPs, based on

[203] Freeman, Richard B., Joseph R. Blasi, and Douglas L. Kruse. "Introduction to" Shared Capitalism at Work: Employee Ownership, Profit and Gain Sharing, and Broad-based Stock Options"." In *Shared capitalism at work: Employee ownership, profit and gain sharing, and broad-based stock options*, pp. 1-37. University of Chicago Press, 2010.
[204] Wiefek, Nancy. *Employee Ownership & Economic Well-Being: Household Wealth, Job Stability, and Employment Quality Among Employee-Owners Age 28 to 34*. National Center for Employee Ownership, 2017.
[205] *ibid.*
[206] Schlachter, Laura Hanson, and Olga Prushinskaya. "How economic democracy impacts workers, firms, and communities." *Oakland, CA: The Democracy at Work Institute* (2021).
[207] Blasi, Joseph, and Douglas Kruse. Employee Ownership and ESOPS: What we know from recent research, June 2023. At https://cleo.rutgers.edu/wp-content/uploads/2024/01/What-We-Know-From-Recent-Research_-Joseph-Blasi-and-Douglas-Kruse-Rutgers-Aspen-DC-conference-June-13-14-2023.pdf.

individual-level data from the GSS.[208] Wiefek (2017) uses the NLSY data (which only examines young workers aged 28 to 34) to find that median ESOP employee household wealth was 92% higher than non-ESOP employee household wealth ($28,500 vs $14,831).[209]Wiefek (2017) also examines ESOP worker wealth by race and gender, finding that median household wealth was higher among employee-owners of color ($16,450) than non-employee owners of color ($9,175); the same pattern was found among women($9,089 for employee-owners and $6,000 for non-employee owners).[210]

The finding that wealth differentials exist between women and workers of color in ESOP and conventional firms are corroborated by Boguslaw and Schur (2019) who surveyed and interviewed close to 200 participants at 21 ESOP firms. Workers in their sample reported much higher retirement savings than non-EO workers in a national comparison group (based on the 2016 Federal Reserve Survey of Consumer Finance). Low-to-moderate income ESOP workers in their sample reported median retirement savings of $215,000 compared to $17,000 for non-EO workers in the national comparison group. Workers from different historically disadvantaged groups in Boguslaw and Schur's (2019) study have much higher wealth amounts when compared to national medians. For example, Black women's median wealth is $200 (based on the 2016 Federal Reserve Survey of Consumer Finance), while black women in their sample have $32,000 in their ESOP accounts. Black men's median national wealth is $300, while black men's ESOP wealth in this sample is $180,000.[211][212]

A fully representative study of US families over the 2004–2016 period also finds that employee ownership appears to generally come in addition to other forms of family wealth. This study analyzed the Survey of Consumer Finances conducted by the Federal Reserve every three years, with controls for job and demographic characteristics along with a selection correction for unobservable differences between owners and non-owners.[213]

Race and Gender

While much of the above-reviewed literature has intersected with race and gender, this section covers additional findings on how race and gender shape workers' experiences in employee-owned firms. First, employee-owned firms are diverse. DAWI's survey of individual workers in worker cooperatives found that roughly 30% of workers are people of color, and

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[208] Blasi, Joseph, and Douglas Kruse. "Employee Ownership and ESOPs: What We Know from Recent Research." (2024). At https://aspeninstitute.org/publications/employee-ownership-and-esops-what-we-know-from-recent-research-3/.
[209] Wiefek, Nancy. *Employee Ownership & Economic Well-Being: Household Wealth, Job Stability, and Employment Quality Among Employee-Owners Age 28 to 34*. National Center for Employee Ownership, 2017.
[210] *ibid.*
[211] Boguslaw, Janet, and Lisa Schur. "Building the Assets of Low and Moderate Income Workers and their Families." (2019).
[212] Wealth levels of black respondents in the 2016 Federal Reserve Survey of Consumer Finance used by Boguslaw and Schur (2019) are much lower than wealth levels reported in other sources.
[213] Kruse, Douglas, Joseph Blasi, Dan Weltmann, Saehee Kang, Jung Ook Kim, and William Castellano. "Do employee share owners face too much financial risk?." *ILR Review* 75, no. 3 (2022): 716-740.

cooperatives are equally split by gender.[214] The picture for ESOPs is more mixed; Black workers are overrepresented in ESOPs, comprising 16% of all ESOP workers (compared to 14% of the US population); conversely, only 9% of ESOP workers are Latino (while constituting 13% of the US population). Men are overrepresented in ESOPs as only 37% of ESOP members are women.[215]

Both ESOPs and worker cooperatives, however, reproduce issues of race and gender-based issues common among conventional firms. For example, occupational segregation continues in employee-owned firms.[216] Occupational segregation refers to instances where different groups of workers (based on gender, race, or ethnicity) tend to work in similar occupations. Often, occupations that are predominantly white and male are higher status and higher paid, and jobs with more people of color tend to pay less.

In ESOPs, for example, women are overrepresented in support, service, and administrative roles, and men are overrepresented in professional, technical, and managerial roles.[217] Reibstein and Schlachter (2023) find that white men are over-represented in high-paying worker co-op sectors, such as construction and manufacturing, resulting in gender and race-based wage differences. They, however, find no wage disparities *within individual* worker cooperatives based on gender, race, or immigration status, suggesting that these wage differentials arise solely because of industry and occupational differences. [218] Wealth inequalities persist in employee-owned firms as well.[219] Women, for example, have lower amounts of money in their ESOP accounts than men.[220] In Co-ops, Reibstein and Schlachter find that Black and Hispanic/Latina workers are less likely to own (and own less) wealth in the form of an individual capital account within their cooperative.

[214] Reibstein, Sarah, and Laura Hanson Schlachter. "Inequalities in democratic worker-owned firms by gender, race and immigration status: evidence from the first national survey of the sector." *Journal of Participation and Employee Ownership* ahead-of-print (2023).
[215] Kim, J. (n.d.) “Research Brief: Women in ESOPS”. *Rutgers Institute for Employee Ownership and Profit Sharing.*
[216] Dickerson, Niki, Lisa Schur, Douglas Kruse, and Joseph Blasi. "Worksite segregation and performance-related attitudes." *Work and occupations* 37, no. 1 (2010): 45-72. Reibstein, Sarah, and Laura Hanson Schlachter. "Inequalities in democratic worker-owned firms by gender, race and immigration status: evidence from the first national survey of the sector." *Journal of Participation and Employee Ownership* ahead-of-print (2023).
[217] Kim, J. (n.d.) “Research Brief: Women in ESOPS”. *Rutgers Institute for Employee Ownership and Profit Sharing.*
[218] Reibstein, Sarah, and Laura Hanson Schlachter. "Inequalities in democratic worker-owned firms by gender, race and immigration status: evidence from the first national survey of the sector." *Journal of Participation and Employee Ownership* ahead-of-print (2023).
[219] Felice Klein et al, “Report for the Second Quarter, July 2023: Distribution of Equity Compensation Based on Gender,” *The Shares Laboratory: Institute for the Study of Employee Ownership and Profit Sharing Rutgers University, School of Management and Labor Relations*, July 2023. Available at https://smlr.rutgers.edu/sites/default/files/Documents/Centers/Institute_Employee_Ownership/Rutgers_Shares_Laboratory_Report_April-June2023.pdf. Joo Hun Han et al, “Report for the Third Quarter: Distribution of Equity Compensation Based on Race,” *The Shares Laboratory: Institute for the Study of Employee Ownership and Profit Sharing Rutgers University, School of Management and Labor Relations New Brunswick, New Jersey*, October 2023. Available at https://smlr.rutgers.edu/sites/default/files/Documents/Centers/Institute_Employee_Ownership/Rutgers_Shares_Laboratory_Report_July-September2023.pdf.
[220] Carberry, Edward J. "Employee ownership and shared capitalism: New directions in research." (2011).

Gender and race-based disparities also manifest in employee-owned firms outside of income and wealth. Using the NBER survey, Carberry (2010) finds that women are less likely to participate in organizational governance when these practices are present in ESOP firms.[221] He also finds that women and non-white workers in employee-owned firms are also less likely to hold power or authority in the workplace than their white/male counterparts. For example, women and Asian-American workers are less likely to be in management roles, and all non-white groups (other than Hispanics) are less likely to be promoted.[222] Similar trends occur in co-ops, in the DAWI survey Black and Hispanic/Latina respondents reported participating in cooperative decision-making less than whites.[223]

Qualitative studies, on the other hand, suggest that cooperative participatory structures (especially when they are non-hierarchical) can create spaces for workers from historically marginalized groups to contest discriminatory practices. Meyers and Vallas (2016), compare two worker cooperatives in North California, one grocery store and one bakery, finding that one of their examined cooperatives improved workplace equity changes through a system of working groups and committees, which helped to distribute power horizontally through the cooperative while empowering marginalized workers to contest decisions made by other committees. Meyers and Vallas (2016) find that this structure helped to reduce the development of within-firm occupational segregation, as hiring decisions were decentralized to different workers in the firm.[224]

Psychological and Attitudinal Outcomes

A set of studies have investigated employee ownership's effect on workers' attitudes and perceptions of their workplaces. This literature focuses on how employee ownership interacts with a few key behavioral outcomes; employee satisfaction, organizational commitment, perceptions of organizational influence, as well as more tangible outcomes such as turnover. These psychological-based studies underpin other ways (such as productivity) that employee ownership is theorized to affect workers' behavior.

Klein (1987) presented the first attempt to examine how employee ownership affects workers' satisfaction. Using a survey of 2,804 ESOP workers across 37 companies, Klein (1987) found that employee ownership was not solely sufficient to increase employee commitment and satisfaction with work, but did so when coupled with opportunities for worker participation in organizational decision-making and/or if workers believe the ownership program resulted in

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[221] *Ibid*.
[222] Carberry, Edward J. "Who benefits from shared capitalism? The social stratification of wealth and power in companies with employee ownership." In *Shared capitalism at work: Employee ownership, profit and gain sharing, and broad-based stock options*, pp. 317-349. University of Chicago Press, 2010.
[223] Reibstein, Sarah, and Laura Hanson Schlachter. "Inequalities in democratic worker-owned firms by gender, race and immigration status: evidence from the first national survey of the sector." *Journal of Participation and Employee Ownership* ahead-of-print (2023).
[224] Meyers, Joan SM, and Steven Peter Vallas. "Diversity regimes in worker cooperatives: Workplace inequality under conditions of worker control." *The Sociological Quarterly* 57, no. 1 (2016): 98-128. Sobering, Katherine. "Producing and reducing gender inequality in a worker-recovered cooperative." *The Sociological Quarterly* 57, no. 1 (2016): 129-151.

financial gain.[225] These findings were replicated in other studies as well, which included study designs that found positive changes in employee attitude after adopting an ESOP structure.[226] Bucko (1993) extended Klein's (1987) model, to find that being satisfied with their ESOP and believing one was an 'owner' resulted in greater organizational influence, which led to greater organizational commitment, and reduced turnover and turnover intention.[227] These and similar findings have been replicated in several studies, including in a meta-analysis by Kruse and Blasi (1995).[228]

Despite these positive findings, several studies and reviews of the literature have found either non-significant or negative results of employee ownership's effect on worker attitudes.[229] For example, using a sample of 321 airline pilots Culpepper et al (2004) found that the ESOP plan was associated with negative organizational commitment, as the high financial value of the ownership plan led employees to feel freer to leave rather than increasing organizational embeddedness.[230] As a result of these diverging findings, more recent scholarship has highlighted the role of other contextual factors that may explain these discrepancies.[231] For example, Kruse et al (2010) combine the NBER survey and GSS data to find that employee ownership is associated with lower employee turnover intention and a greater willingness to work hard when combined with high-performance management policies and low levels of

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[225] Klein, Katherine J. "Employee stock ownership and employee attitudes: A test of three models." *Journal of applied psychology* 72, no. 2 (1987): 319.

[226] Tucker, James, Steven L. Nock, and David J. Toscano. "Employee ownership and perceptions of work: The effect of an employee stock ownership plan." *Work and occupations* 16, no. 1 (1989): 26-42. See also: Hammer, Tove H., Jacqueline C. Landau, and Robert N. Stern. "Absenteeism when workers have a voice: The case of employee ownership." *Journal of Applied Psychology* 66, no. 5 (1981): 561; Buchko, Aaron A. "Effects of employee ownership on employee attitudes: A test of three theoretical perspectives." *Work and Occupations* 19, no. 1 (1992): 59-78.

[227] Buchko, Aaron A. "The effects of employee ownership on employee attitudes: An integrated causal model and path analysis." *Journal of Management Studies* 30, no. 4 (1993): 633-657.

[228] Kruse, Douglas L., and Joseph R. Blasi. "Employee ownership, employee attitudes, and firm performance." (1995). See also: Elouad, S. (2020). The effects of employee ownership on organizational commitment and job satisfaction: An empirical evidence from French listed companies. *Journal of Organizational Psychology*, *20*(6); Park, Rhokeun. "Responses to job demands: moderating role of worker cooperatives." *Employee Relations* 40, no. 2 (2018): 346-361.

[229] McCarthy, Dermot, Eoin Reeves, and Tom Turner. "Can employee share‐ownership improve employee attitudes and behaviour?." *Employee Relations* 32, no. 4 (2010): 382-395. Kruse, D. (2002). Research evidence on prevalence and effects of employee ownership. *Journal of Employee Ownership Law and Finance*, *14*(4), 65-90.

[230] Culpepper, R. A., Gamble, J. E., and Blubaugh, M. G. (2004). Employee stock ownership plans and three‐component commitment. *Journal of Occupational and Organizational Psychology*, *77*(2), 155-170.

[231] Basterretxea, Imanol, and John Storey. "Do employee‐owned firms produce more positive employee behavioural outcomes? If not why not? A British‐Spanish comparative analysis." *British Journal of Industrial Relations* 56, no. 2 (2018): 292-319. Kruse, Douglas, Richard Freeman, Joseph Blasi, Robert Buchele, Adria Scharf, Loren Rodgers, and Chris Mackin. "Motivating employee-owners in ESOP firms: Human resource policies and company performance." In *Employee participation, firm performance and survival*, vol. 8, pp. 101-127. Emerald Group Publishing Limited, 2004. Weltmann, Dan, Joseph R. Blasi, and Douglas L. Kruse. "Does employee ownership affect attitudes and behaviors? The role of selection, status, and size of stake." In *Advances in the economic analysis of participatory & labor-managed firms*, pp. 249-275. Emerald Group Publishing Limited, 2015.

supervision.[232] This finding is similar to Blasi et al (2015), who found a similar relationship between broad-based employee ownership and turnover intention, and that this relationship is stronger when employee ownership is coupled with involvement-oriented management policies.[233]

Job Quality

Job satisfaction

Worker cooperatives

There is some evidence to suggest that workers in employee-owned firms are more satisfied with their work than others in the same industry. One early study found higher job satisfaction among plywood cooperative members than among similar workers in a conventional firm.[234] More recently, Berry (2013) compares job satisfaction among home-healthcare workers across different types of firms (conventional, cooperative, and not-for-profit), finding that workers in cooperative home-healthcare firms were more satisfied with their work than in the other types of firms.[235] In a survey of individual workers in cooperatives Schlachter and Prushinskaya (2021) found that 75% of workers reported much higher levels of job satisfaction at their cooperative job than at their previous non-cooperative employment. These findings are limited as they do not directly compare the rates of job satisfaction or employment preferences for employees in conventional firms.[236]

Other forms of employee ownership

Job satisfaction has been studied using both cross-sectional comparisons between employee-owners and non-owners with controls for job characteristics and demographics (five studies), pre/post comparisons before and after employee ownership adoption (two studies), and comparisons of employee-owners with different ownership levels (two studies). Results were mixed in all three types of studies, with some studies finding higher satisfaction for worker-owners, but others finding no overall difference associated with employee ownership. These studies also find that context seems to matter: four of these studies indicate that perceived participation or influence in decisions was a key factor in predicting higher satisfaction among employee-owners. Kruse, et al (2010) find higher satisfaction among employee-owners

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[232] Blasi, Joseph R., Richard B. Freeman, Chris Mackin, and Douglas L. Kruse. *Creating a bigger pie? The effects of employee ownership, profit sharing, and stock options on workplace performance*. No. w14230. National Bureau of Economic Research, 2008.
[233] Blasi, Joseph, Richard Freeman, and Douglas Kruse. "Do broad-based employee ownership, profit sharing and stock options help the best firms do even better?." *British Journal of Industrial Relations* 54, no. 1 (2016): 55-82.
[234] Greenberg, Edward S. "Participation in industrial decision making and work satisfaction: The case of producer cooperatives." *Social Science Quarterly* 60, no. 4 (1980): 551-569.
[235] Berry, Daphne P. "Effects of cooperative membership and participation in decision making on job satisfaction of home health aides." In Sharing Ownership, Profits, and Decision-Making in the 21st Century, pp. 3-25. Emerald Group Publishing Limited, 2013.
[236] Schlachter, Laura Hanson, and Olga Prushinskaya. "How economic democracy impacts workers, firms, and communities." *Oakland, CA: The Democracy at Work Institute* (2021).

and profit sharers only when their firms also engage in high-performance work policies, defined as participation in decisions, training, job security, and freedom from close supervision.[237]

Training

Worker Cooperatives

As reviewed above, employee-owned firms are more likely to have stable employment and lower levels of turnover. Theoretically, these firms have stronger incentives to increase training and skill development, as workers are employed longer in these firms. Ownership and governance bring novel challenges and opportunities for workers, which increases the returns firms reap for training programs on how to be an effective employee-owner.

The only examination of training practices in cooperatives we know of comes from Schlachter and Prushinskaya's (2021) survey of individual workers within cooperatives. 79% of respondents to this survey reported their cooperative offered formal training relevant to their job, and 54% stated they have received cooperative-specific training, which aims to teach workers necessary business and governance skills. Most (54%) workers felt that this training had a positive impact on their ability to participate in organizational decision-making. Again, this study had no comparison group of employees at conventional employers.[238]

Other forms of employee ownership

There is more evidence on the level of training for ESOPs and all types of employee ownership than just for worker cooperatives. A simple comparison using a nationally representative sample from the GSS shows that employee owners reported greater access to training than non-owners (70% vs 48%).[239] Using the GSS and the NBER data from over 40,000 employees, Kruse et al (2010) found that both ESOP participants and employee-owners, in general, are more likely than non-owners to say they have the training opportunities they need, and reported receiving more training overall, holding constant other job and demographic characteristics.[240] Among employee-owners, involvement in training is associated with higher self-reported willingness to discourage free-riding behaviors by co-workers.[241]

Health and Safety

A handful of studies have investigated how worker ownership impacts workplace health and safety. Three of the earliest studies on this topic report conflicting findings. Rhodes and Steers

[237] Reviewed in, Kruse, Douglas L., and Joseph R. Blasi. "Employee ownership, employee attitudes, and firm performance." (1995). See also, Freeman, Richard B., Joseph R. Blasi, and Douglas L. Kruse. "Introduction to" Shared Capitalism at Work: Employee Ownership, Profit and Gain Sharing, and Broad-based Stock Options"." In *Shared capitalism at work: Employee ownership, profit and gain sharing, and broad-based stock options*, pp. 1-37. University of Chicago Press, 2010.
[238] Schlachter, Laura Hanson, and Olga Prushinskaya. "How economic democracy impacts workers, firms, and communities." *Oakland, CA: The Democracy at Work Institute* (2021).
[239] Calculations done by Douglas Kruse, School of Management and Labor Relations, Rutgers University.
[240] Freeman, Richard B., Joseph R. Blasi, and Douglas L. Kruse. "Do Workers Gain by Sharing?" In *Shared capitalism at work: Employee ownership, profit and gain sharing, and broad-based stock options*, pp. 257-290. University of Chicago Press, 2010
[241] Kruse, Douglas. "Does employee ownership improve performance?." *IZA World of Labor* (2022).

(1981) found no differences in injury rates, while Rooney (1992) and Grunberg et al (1986) found that worker-owned firms had higher levels of workplace injury and accidents. Both Rooney (1992) and Grunberg et al (1996) attribute these higher injury rates to the transparent management practices in cooperatives and the underreporting of injuries in conventional firms.[242]

More recently, several studies have found some evidence to suggest that broad-based employee-owned firms may be safer than conventional ones. Kruse et al (2008) use the NBER survey to find that employee-owners are more likely to state that workplace safety is a high priority for managers.[243] More recently Palis (2022) combined firm-level data from the Department of Labor and establishment-level data from the Occupational Safety and Health Administration from 2016-2019, finding that ESOPS were associated with lower rates of injury and illness among full-time workers, and injuries decreased after ESOPs were adopted.[244] During the pandemic, employee-owned firms were more likely to implement health protections, such as personal protective equipment, social distancing, and enhanced cleaning services.[245]

Respect and Dignity in the Workplace

For workers in democratic employee-owned firms, being an owner and exercising control over their workplace can make a meaningful difference in their perceptions of work. This difference can be especially important for low-wage workers.

In detailed qualitative case studies of two cooperatives and one other employee-owned business in low-wage sectors, Jenkins and Chivers (2021) find that ownership for workers at taxi and packaging cooperatives was a source of pride for workers and had a positive effect on workplace culture. Workers here felt that their ability to shape the conditions of work, including both aspects related to the governance of the organization as well as control over individual job tasks were aspects that made their jobs “good”.[246] Examining caregivers in the low-paid home care sector, Berry and Bell (2018) find that the ability to have control over their workplace in worker cooperatives led to personal fulfillment.[247] Other studies of low-wage workers in cooperatives have found that the model can help to build trust and closer bonds between

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[242] Rhodes, S.R., and R.M. Steers. 1981. "Conventional vs. Worker-Owned Organizations," Human Relations, Vol. 24, pp. 1013-1035. Grunberg, L., Moore, S. and Greenberg, E., 1996. The relationship of employee ownership and participation to workplace safety. Economic and Industrial Democracy, 17(2), pp.221-241. Rooney, Patrick. "Employee Ownership and Worker Participation: Effects on Health and Safety," Economic Letters, Vol. 39, pp. 323-328.

[243] Kruse, Douglas, Richard Freeman, and Joseph Blasi. Do workers gain by sharing? Employee outcomes under employee ownership, profit sharing, and broad-based stock options. No. w14233. National Bureau of Economic Research, 2008.

[244] Palis, Austin, Employee Stock Ownership Plans and Workplace Safety. *Senior Thesis, Rutgers Economics Department.* 2022.

[245] Blasi, Joseph, Douglas Kruse, and Dan Weltmann. "The response of majority employee-owned firms during the pandemic compared to other firms." Journal of Participation and Employee Ownership 4, no. 2 (2021): 92-101.

[246] Jenkins, Sarah, and Wil Chivers. "Can cooperatives/employee-owned businesses improve ‘bad’ jobs? Evaluating job quality in three low-paid sectors." *British Journal of Industrial Relations* 60, no. 3 (2022): 511-535.

[247] Berry, Daphne, and Myrtle P. Bell. "Worker cooperatives: Alternative governance for caring and precarious work." *Equality, Diversity and Inclusion: An International Journal* 37, no. 4 (2018): 376-391.

workers and clients.[248] Qualitative studies have found that these closer social relations are especially important for worker-owners from minority groups who face discrimination and abuse in conventional firms.[249]

Supplemental Case Study Analysis

In addition to reviewing the academic literature on employee ownership and job quality, this review examined 30 qualitative case studies published in 'gray' literature sources, such as reports from academic institutes and other employee-ownership-focused non-governmental organizations. The findings from these case studies were synthesized using Google's 'NotebookLM' an artificial intelligence (AI) program designed to analyze language patterns in order to summarize information and establish commonalities across a large number of sources. A further explanation of the methodology and sources can be found in "Appendix A". While using artificial intelligence to summarize qualitative findings is both a new technology and a new methodology – and thus results that should be taken cautiously – the findings from NotebookLM match much of what the above-reviewed academic literature has found.

The AI model found that worker cooperatives are generally associated with improved experiences of job quality. The model found that worker cooperatives tend to have better pay and benefits than in similar industries. Workers in these case studies also found participating in organizational governance to be fulfilling, as they moved from passive to active agents in their workplaces. The model found diverging levels of participation among workers in the case studies, with some cooperatives delegating management tasks to those in distinct management roles. These decisions were ultimately made by workers, who still enjoyed their ability to exercise control over the structure of the workplace. The model also found that shared governance and ownership led to better relations among each other, increasing feelings of dignity and respect at work. The model highlighted that this was especially important for industries where people work in isolation, such as domestic work. The improved co-worker relations were also found to be reinforced by training regimes, the model found that most cooperatives offered opportunities for skills development, as well as providing training on mutual governance.

Firm Outcomes

Employee ownership can affect a variety of firm outcomes. For example, as owners, workers may be incentivized to work harder than in conventional firms or to offer more ideas for innovations or ways to improve the work process. Employee owners may view their employment as "working for themselves," and by sharing the overall economic "pie" of the firm more widely,

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[248] Majee, Wilson, and Ann Hoyt. "Building community trust through cooperatives: A case study of a worker-owned homecare cooperative." *Journal of Community Practice* 17, no. 4 (2009): 444-463.
[249] "Just Health: Case Studies of Worker Cooperatives in Health and Care Sectors - CLEO," CLEO, January 5, 2024. At https://cleo.rutgers.edu/articles/just-health-case-studies-of-worker-cooperatives-in-health-and-care-sectors/.

the incentives of workers and owners can become aligned so that productivity-reducing conflict is minimized, and productivity-enhancing cooperation and innovation are encouraged.

Conversely, employee ownership may alter worker behavior in ways that negatively affect the firm. For example, some have argued that employee-owned firms can suffer from the 'free-rider problem' which suggests that individual workers will be disincentivized to work hard when participating in group-based incentive schemes, as each worker has little ability to meaningfully increase profits and receive the same reward if the group succeeds. This theory suggests that the free-rider problem will also become more significant the larger the group (or firm) is. The structure of ownership may also alter other aspects of firm behavior, such as investment and expansion decisions. As employee-owners with significant capital tied to their workplace performance, workers may be risk averse and choose to be overly conservative in investment decisions.

Empirically, however, employee ownership has been associated with positive (or similar) firm performance across a variety of outcomes. An important meta-analysis by O'Boyle et al (2017) combines all forms of employee ownership in analyzing performance in 102 studies with data on 56,984 firms. This meta-analysis combined profitability, productivity, and growth measures. The researchers found an overall small but statistically significant effect of employee ownership in predicting firm performance in both publicly traded and closely held firms while using both cross-sectional and pre/post-employee ownership adoption comparisons. If these results are accepted as causal, the magnitudes indicate that "a firm with $1 million in profits could realize an increase of $40,000 (p439)." [250] There is, however, a lot of dispersion around the average positive effect, and the effects may differ by type of employee ownership and performance outcome.

Here we review evidence regarding the following outcomes primarily focused on by scholars: productivity, profitability, growth, and firm longevity.

Productivity

Below we review the evidence on firm productivity for worker cooperatives and other forms of employee ownership.

Worker cooperatives

Some industry-specific studies have produced the strongest evidence in support of the idea that worker cooperatives may increase worker productivity. Craig et al (1995), for example, compared productivity between worker cooperatives and conventional firms in the US Northwest plywood industry over the 1968 to 1986 period, finding that productivity among cooperatives was between 6 to 14% higher than among conventional plywood firms after using detailed controls.[251] More recently, Young-Hyman et al (2022) found support for industry differences by

[250] O'Boyle, Ernest H., Pankaj C. Patel, and Erik Gonzalez-Mulé. "Employee ownership and firm performance: a meta-analysis." *Human Resource Management Journal* 26, no. 4 (2016): 425-448.
[251] Craig, Ben, John Pencavel, Henry Farber, and Alan Krueger. "Participation and productivity: a comparison of worker cooperatives and conventional firms in the plywood industry." *Brookings papers on economic activity. Microeconomics* 1995 (1995): 121-174.

comparing French worker cooperatives and conventional firms between 2005 and 2015. By investigating only firms in knowledge-intensive industries, the authors find that worker cooperatives are more productive than conventional firms.[252] Fakhfakh et al, (2012) use data of all French firms from 1987 to 2004 to find that cooperatives are generally as productive as conventional firms, and more productive in some industries. They found that cooperatives organize production differently, creating productivity differences. Fakhfakh et al (2012) argue that workers in cooperatives' greater access to knowledge of the firm leads to more efficient uses of technology, consequently increasing firm outputs.[253]

Other forms of employee ownership

Much like the literature on worker cooperatives' effects on productivity, several studies find that firms with other forms of employee ownership are at least as efficient as conventional firms. The O'Boyle et al (2016) meta-analysis (cited above) combined productivity and profitability measures under the label "efficiency" – and did not separate productivity and profitability measures. As noted above, they found a positive effect of employee ownership on the combined outcomes.[254]

Looking specifically at productivity measures, the highest quality study is by Kim and Ouimet (2014) who use US Census data to examine ESOP and non-ESOP publicly traded firms from 1982–2000 and include comparisons of firms' productivity pre- and post-ESOP adoption. They find that small ESOP plans (holding 5% or less of firm shares) for the smallest quartile of firms (in terms of the number of workers employed) had higher productivity increases than otherwise similar conventionally structured firms.[255] A previous study by Blasi et al (1996) of publicly traded companies did not find increases in productivity measures among small firms adopting employee ownership from 1980 to 1990 after controlling for industry and firm characteristics but did find improvements in profitability and stock price. Outside of 'small firms,' Blasi et al (1996) find employee-owned firms to have similar productivity and profitability outcomes as conventional firms.[256]

Others have investigated the effect of the 'free rider' problem on productivity. Kruse et al (2010), find that the free-riding problem may be counteracted by the development of workplace norms and policies that encourage cooperation and higher effort. Employee owners are most likely to act against free riders when they are part of employee involvement teams, have received

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[252] Young-Hyman, Trevor, Nathalie Magne, and Douglas Kruse. "A real utopia under what conditions? The economic and social benefits of workplace democracy in knowledge-intensive industries." *Organization Science* 34, no. 4 (2023): 1353-1382.
[253] Fakhfakh, Fathi, Virginie Pérotin, and Mónica Gago. "Productivity, capital, and labor in labor-managed and conventional firms: An investigation on French data." *ILR Review* 65, no. 4 (2012): 847-879.
[254] O'Boyle, Ernest H., Pankaj C. Patel, and Erik Gonzalez-Mulé. "Employee ownership and firm performance: a meta-analysis." *Human Resource Management Journal* 26, no. 4 (2016): 425-448
[255] Kim, E. Han, and Paige Ouimet. "Broad-based employee stock ownership: Motives and outcomes." *The Journal of Finance* 69, no. 3 (2014): 1273-1319.
[256] Blasi, Joseph, Michael Conte, and Douglas Kruse. "Employee stock ownership and corporate performance among public companies." *IRL Review* 50, no. 1 (1996): 60-79.

company training, and have job security, as they feel sufficiently embedded within and emotionally tied to the organization to ensure its productivity.[257]

Still, some research finds that majority employee ownership is positively related to productivity even when there is little or no employee involvement in decision-making.[258] Pendleton and Robinson (2010) use the British Workplace Employment Survey (2004) to find that ESOP implementation has an independent effect on productivity, regardless of the level of employee participation in firm governance.[259] Similarly, Kurtulus and Kruse (2017) find higher productivity among publicly traded firms with broad-based employee ownership in the 1999–2011 period after using industry and firm controls. As noted above, Kurtulus and Kruse found that the productivity advantages for employee ownership firms were smaller in recessions as they laid off fewer workers, which may hurt short-term productivity but help long-term productivity.[260]

Profitability

No studies we found examined the profitability of worker cooperatives.

For firms with other forms of employee ownership, O'Boyle et al's (2016) meta-analysis of 102 studies mentioned above included profitability among the efficiency measures and concluded that there was a small but statistically significant improvement in efficiency on average associated with employee ownership.[261] Also as noted above, Blasi et al (1996) found that profitability and stock price improved among small firms that adopted employee ownership from 1980 to 1990 relative to otherwise similar firms after controlling for industry and firm characteristics.[262]

Growth and Investment

Several studies examine how employee ownership predicts business growth. Theoretically, some have argued that employee ownership will disincentivize worker-owners to pursue firm growth. Expanding the number of employee-owners within a firm necessitates growing an organization predicated on close ties between workers, which may encourage employees to maintain the status quo to reduce risk, as the survival of the firm is tied to workers' wealth and

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[257] Freeman, Richard B., Joseph R. Blasi, and Douglas L. Kruse. "Introduction to" Shared Capitalism at Work: Employee Ownership, Profit and Gain Sharing, and Broad-based Stock Options"." In *Shared capitalism at work: Employee ownership, profit and gain sharing, and broad-based stock options*, pp. 1-37. University of Chicago Press, 2010

[258] Kruse, Douglas. "Does employee ownership improve performance?." *IZA World of Labor* (2022).

[259] Pendleton, Andrew, and Andrew Robinson. "Employee stock ownership, involvement, and productivity: An interaction-based approach." *ILR Review* 64, no. 1 (2010): 3-29.

[260] Kurtulus, Fidan Ana, and Douglas L. Kruse. *How did employee ownership firms weather the last two recessions?: Employee ownership, employment stability, and firm survival: 1999-2011*. WE Upjohn Institute, 2017.

[261] O'Boyle, Ernest H., Pankaj C. Patel, and Erik Gonzalez‐Mulé. "Employee ownership and firm performance: a meta‐analysis." *Human Resource Management Journal* 26, no. 4 (2016): 425-448

[262] Blasi, Joseph, Michael Conte, and Douglas Kruse. "Employee stock ownership and corporate performance among public companies." *ILR Review* 50, no. 1 (1996): 60-79.

retirement portfolio.[263] Employee owners may also be concerned that expanding the organization could create risk for themselves, as they are reliant on their firm-specific human capital and thus may advocate for the firm to pursue less risky behavior to preserve employment.[264]

Worker cooperatives

The small empirical literature on the correlation between employee ownership and growth has largely not found support for the claim that employee-owned firms grow more slowly. Fakhfakh et al's (2012) longitudinal study of French worker cooperatives compared their investment habits to those in conventional firms, finding that cooperatives generally invest at similar rates as conventional firms.[265] Arando et al (2015) use panel data to compare growth between retail worker cooperatives in the Basque region (622 cooperatives) to non-cooperative retail firms from 2006–2008. They find that the cooperative firms' sales grow faster, with average annual growth being 2.4% more than conventional firms.[266] These findings, however, may be explained by the institutional complementarities that exist as the co-ops surveyed were members of Mondragon, the largest cooperative in the world. No studies exist that examine cooperatives' growth tendencies in the US.

Other forms of employee ownership

Several studies examine the relationship between employee ownership and firm growth. These studies tend to find that employee ownership is positively associated with firm growth, as indicated in the meta-analysis O'Boyle et al (2016) discussed above that separates growth from efficiency measures.[267]

Business Longevity

The evidence of equal, and in some cases, better performance generally among employee ownership firms may contribute to greater firm longevity. Furthermore, additional dynamics linked to employee ownership, such as increased worker willingness to adapt to demand shocks or increased worker ideas for product or process innovations, may lead to greater survival rates. There is consensus within the literature that employee ownership is positively associated with firm longevity.

Worker cooperatives

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[263] Ben‑Ner, Avner, and Derek C. Jones. "Employee participation, ownership, and productivity: A theoretical framework." *Industrial Relations: A Journal of Economy and Society* 34, no. 4 (1995): 532-554.
[264] O'Boyle, Ernest H., Pankaj C. Patel, and Erik Gonzalez‑Mulé. "Employee ownership and firm performance: a meta‑analysis." *Human Resource Management Journal* 26, no. 4 (2016): 425-448
[265] Fakhfakh, Fathi, Virginie Pérotin, and Mónica Gago. "Productivity, capital, and labor in labor-managed and conventional firms: An investigation on French data." *ILR Review* 65, no. 4 (2012): 847-879.
[266] Arando, Saioa, Monica Gago, Derek C. Jones, and Takao Kato. "Efficiency in employee-owned enterprises: An econometric case study of Mondragon." *ILR Review* 68, no. 2 (2015): 398-425.
[267] O'Boyle, Ernest H., Pankaj C. Patel, and Erik Gonzalez‑Mulé. "Employee ownership and firm performance: a meta‑analysis." *Human Resource Management Journal* 26, no. 4 (2016): 425-448

Several studies across different countries found that worker cooperatives exist longer than conventional firms.[268] For example, Burdin (2014) uses population data based on all firms in Uruguay from 1997 to 2007 to find that cooperatives are 29% less likely to fail than conventional firms.[269] Other studies of worker cooperatives have found higher survival rates compared to conventional firms in the UK and France.[270] The US, however, lacks a comprehensive data set with which a nationally comparative study on worker cooperatives' longevity can be done.

Existing qualitative studies suggest that cooperatives are more able to thrive when they are embedded within networks of support. This support can come in the form of private or state-based networks of support, such as training, education, and development programs. Cooperatives benefit from the development of more cooperatives, as Scharf (2022), highlights. In a comparative study of five homecare cooperatives in Washington state, Scharf (2022) found that leaders believe that their networked approach to building cooperatives – providing mutual support and approaching business development cohesively – led to greater success for these cooperatives in the region.[271] State-based initiatives can also make important differences in a cooperative's ability to succeed. Spicer and Zong (2022) use qualitative data to compare how cooperative worker-owners discussed their experiences in attempting to form and run worker cooperatives in regions with (Quebec) and without (Toronto) state-based institutional support.[272] Spicer (2022) also finds empirical evidence for this, that cooperatives' ability to grow is more likely in regions where states play a more active role in the economy and encourage firm-to-firm collaboration.[273] The meta-analysis by O'Boyle et al (2016) also suggests the importance of institutional context and support, as they found smaller effects of employee ownership in US-based studies than in Europe.[274]

Other forms of employee ownership

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[268] Olsen, Erik K. "The relative survival of worker cooperatives and barriers to their creation." In *Sharing ownership, profits, and decision-making in the 21st century*, vol. 14, pp. 83-107. Emerald Group Publishing Limited, 2013.
[269] Burdín, Gabriel. "Are worker-managed firms more likely to fail than conventional enterprises? Evidence from Uruguay." *ILR Review* 67, no. 1 (2014): 202-238.
[270] Thomas, Alan, and Chris Cornforth. "The survival and growth of worker co-operatives: A comparison with small businesses." *International small business Journal* 8, no. 1 (1989): 34-50. Pérotin, Virginie. "Early cooperative survival: The liability of adolescence." In *Employee Participation, Firm Performance and Survival*, pp. 67-86. Emerald Group Publishing Limited, 2004.
[271] Scharf, Adria, *Five Home Care Cooperatives in Washington State,* Rutgers Institute for the Study of Employee Ownership and Profit Sharing, 2022.
[272] Spicer, Jason, and Michelle Zhong. "Multiple entrepreneurial ecosystems? Worker cooperative development in Toronto and Montréal." *Environment and Planning A: Economy and Space* 54, no. 4 (2022): 611-633.
[273] Spicer, Jason. "Cooperative enterprise at scale: comparative capitalisms and the political economy of ownership." *Socio-Economic Review* 20, no. 3 (2022): 1173-1209.
[274] O'Boyle, Ernest H., Pankaj C. Patel, and Erik Gonzalez‐Mulé. "Employee ownership and firm performance: a meta‐analysis." *Human Resource Management Journal* 26, no. 4 (2016): 425-448

Several studies examining ESOP firms' survivability draw from US data and find that ESOP firms are associated with greater firm survivability.[275] Blasi et al (2013) use population data that covers all ESOPs in the US over the 1988–1999 period, finding that closely held ESOP firms were only half as likely as non-ESOP firms of the same size and industry to go bankrupt or close over this period.[276] A similar result occurs for publicly traded companies: Kurtulus and Kruse (2017) found that ESOP companies were 18% less likely to disappear for any reason, and 10% less likely to disappear due to bankruptcy or liquidation, than otherwise-similar firms without ESOPs.[277] These results are consistent with data indicating that bank loans to ESOP firms have lower default rates.[278]

Conclusion

There is a large accumulation of consistent evidence for the association between worker ownership and several important worker and firm outcomes described above. While we remain cautious in our review, recognizing that these findings are not strong enough to definitively demonstrate causality for the outcomes examined here, we note that a number of different studies report similar findings using different data sources, at times across multiple countries, and various types of employee ownership. Consequently, we have some confidence in the likelihood that these outcomes are genuinely associated with employee ownership.

For worker outcomes, there is strong evidence to suggest that workers are less likely to be laid off (especially during economic downturns) in 100% employee-owned firms and firms with some employee ownership. ESOPs have a positive effect on workers' ability to build wealth; the effect of worker co-ops to build wealth is less clear. Owning one's workplace and being able to participate in organizational decision-making has a positive effect on perceptions of job quality, especially for workers in low-wage industries who have few other ways to improve their work experiences. Participating in organizational decision-making, however, does not necessarily solve issues of systemic discrimination or occupational segregation for gender or racial minorities in either cooperatives or ESOPs. For firm outcomes, there is strong evidence that employee-owned firms are at least as productive as conventional firms, with some evidence to suggest that are more productive, contingent on company practices. There is also strong evidence suggesting that employee-owned firms are less likely to fail than conventional firms.

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[275] Park, Rhokeun, Douglas Kruse, and James Sesil. "Does employee ownership enhance firm survival?." In *Employee participation, firm performance and survival*, pp. 3-33. Emerald Group Publishing Limited, 2004. Blasi, Joseph, Douglas Kruse, and Dan Weltmann. "Firm survival and performance in privately held ESOP companies." In *Sharing ownership, profits, and decision-making in the 21st century*, pp. 109-124. Emerald Group Publishing Limited, 2013.

[276] Blasi, Joseph, Douglas Kruse, and Dan Weltmann. "Firm survival and performance in privately held ESOP companies." In *Sharing ownership, profits, and decision-making in the 21st century*, pp. 109-124. Emerald Group Publishing Limited, 2013.

[277] Kurtulus, Fidan Ana, and Douglas L. Kruse. *How did employee ownership firms weather the last two recessions?: Employee ownership, employment stability, and firm survival: 1999-2011*. WE Upjohn Institute, 2017, 98.

[278] Rosen, Corey, and Loren Rodgers. "Default Rates on Leveraged ESOPs, 2009-2013." *National Center for Employee Ownership, July* 2 (2014).

This review has identified gaps in the literature on worker ownership. Overall, this literature would benefit from additional studies on several of the outcomes of interest we have reviewed here. Despite being important outcomes, some of these areas have few, or no studies. For example, no academic literature (based in any country) has examined the wealth effects of worker cooperatives, or their profitability rates. The difficulty in establishing causation for these (or any) outcomes means that a preponderance of evidence is necessary to clarify what the likely effects of worker ownership are. While some of the findings presented here are intriguing, alone they are not sufficient to argue there is a generalizable effect. Additional studies, in multiple national locations, a number of findings reviewed in this paper.

For cooperatives, greater clarity is needed on the compensation effect, particularly in the US. The median wages found in the survey by DAWI suggest that most worker cooperatives are based in low-wage sectors. However, without proper comparisons to non-worker cooperatives (in similar industries and similar regions), we are unable to meaningfully assess the wage levels of these firms in the US. The conflicting international evidence on compensation trends in cooperatives heightens the importance of this research gap. Furthermore, we found no studies that examine the reasons why employee-owned firms were formed (market failure, ideological, desire for workplace participation, etc.), or why workers choose to work in an employee-owned firm.

The literature on worker co-ops would also benefit from more comparative studies. While several qualitative studies exist, too few compare worker's experiences between employee-owned, and non-employee-owned firms. Comparing worker's experiences in the same industry/region would add depth to the question of what (if any) effect employee-ownership has on worker's job quality. Firm-focused outcomes studies could also benefit from additional comparisons. Spicer (2022) found the importance of institutional and policy complementarities for the development of employee-owned firms, but little is known about the specific policies and practices that have supported the growth of these firms in Europe. Here too, qualitative comparative studies could help to elucidate how government policies help or hinder the development of employee-owned firms. Moreover, this literature would benefit from research that examines how employee-ownership alters customer-worker experiences.

Additional qualitative studies should further investigate issues of discrimination in employee-owned firms based on race, gender, sexual orientation, and disability. Theoretically, employee-owned firms are positioned to decrease discrimination by increasing worker voice in the organization. Yet, the statistical and qualitative analysis reviewed in this paper suggests that identity-based inequalities persist. However, there are very few qualitative studies that investigate why and how this occurs – only two qualitative studies (of any type of employee ownership) shed light on how structural discrimination is continued (or reduced) in employee-owned firms. Additional research here should investigate governance practices to establish greater clarity on what practices can reduce discrimination within worker-owned firms.

Appendix A

30 case studies were added to NotebookLM, a large language artificial intelligence model programmed to summarize commonalities across a large number of sources. The model was asked questions related to workers' experiences in cooperatives, and how cooperatives affect workers' job quality. Prompts to NotebookLM were formulated by factors noted in the literature on job quality (for example, organizational governance, training and skill development, respect, and dignity). NotebookLM does not record user prompts; program responses can be shared by the authors upon request.[279]

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[279] The sources uploaded to Notebook LM are as follows:
Scharf, A. (2022). Case Studies of Worker Cooperatives in Health : Alliance Collective. Piscataway, New Jersey : Rutgers: Institute for the Study of Employee Ownership and Profit Sharing.
Scharf, A. (2022). Case Studies of Worker Cooperatives in Health : Evergreen Cooperative Piscataway, New Jersey : Rutgers: Institute for the Study of Employee Ownership and Profit Sharing.
Scharf, A. (2022). Case Studies of Worker Cooperatives in Health : Five Point Holistic Health Piscataway, New Jersey : Rutgers: Institute for the Study of Employee Ownership and Profit Sharing.
Camille, K. (2022). Case Studies of Worker Cooperatives in Health : Obran Cooperative, LCA. Piscataway, New Jersey : Rutgers: Institute for the Study of Employee Ownership and Profit Sharing.
Scharf, A. (2022). Case Studies of Worker Cooperatives in Health : Five Home Care Cooperatives in Washington State: Rutgers: Institute for the Study of Employee Ownership and Profit Sharing.
Minsun, J. (2022). Case Studies of Worker Cooperatives in Health : AlliedUp a Worker-Owned Healthcare Staffing Cooperative Transforms Temporary Work. Piscataway, New Jersey : Rutgers: Institute for the Study of Employee Ownership and Profit Sharing.
Pinto, S. (2022). Case Studies of Worker Cooperatives in Health : Golden Steps. Piscataway, New Jersey: Rutgers: Institute for the Study of Employee Ownership and Profit Sharing.
Pinto, S. (2022). Case Studies of Worker Cooperatives in Health : Cooperative Home Care Associates. Piscataway, New Jersey : Rutgers: Institute for the Study of Employee Ownership and Profit Sharing.
Lund, M. (2022). Case Study: Isthmus Engineering. Halifax, Nova Scotia: The International Centre for Co-operative Management, Saint Mary's University.
Logue, J. (2006). The 1042 roll-over cooperative in practice: A Case Study of how Select Machine became a co-op. Kent, Ohio. Ohio Employee Ownership Center, Kent State University.
Project Equity, Pattycake Bakery. At https://project-equity.org/ownership-story/pattycake-bakery/
Project Equity, Alternative Technologies. At https://project-equity.org/ownership-story/alt-tech/
Project Equity, Bellegarde Bakery. At https://project-equity.org/ownership-story/bellegarde-bakery/
Project Equity, Happy Earth. At https://project-equity.org/ownership-story/happy-earth-just-got-happier/
Project Equity, Mandela Grocery Coop. At https://project-equity.org/ownership-story/mandela-grocery-coop/
Project Equity, Niles Pie. At https://project-equity.org/ownership-story/niles-pie/
Project Equity, The Local Butcher Shop. At https://project-equity.org/ownership-story/the-local-butcher-shop/
Project Equity, Westbrae Nursery. At https://project-equity.org/ownership-story/westbrae-nursery/
Project Equity, A Slice of New York. At https://project-equity.org/ownership-story/a-slice-of-new-york/
Project Equity, Collective Copies. At https://project-equity.org/ownership-story/collective-copies/
Project Equity, Cargas Systems. At https://project-equity.org/ownership-story/cargas-systems/
Project Equity. (2015). Case Studies: Business Conversions to Worker Cooperatives, Insights and Readiness Factors for Owners and Employees.
Democracy at Work Institute. (2014). Creating Better Jobs and a Fairer Economy with Worker Co-ops.
Democracy at Work Institute. (2015). A Yard and a Half: Landscaping Cooperative
Berner, C., Holmes, M., Reynolds, A., Rinehart, J. (2015). Successful Cooperative Ownership Transitions: Case Studies on the Conversion of Privately Held Businesses to Worker Cooperatives. University-Wisconsin Madison, Centre for Cooperatives.
Harris, B., Shipper, F., Manz, P., Manz, C. (2013) Equal Exchange: Doing Well by Doing Good.
Northcounty Cooperative Foundation, Centre for Cooperative Enterprise and Innovation. (2004). Using Worker Co-ops to Enhance the Economic Well-being of Rural Residents: A report for the United States Department of Agriculture.

Article 2: Statistical Analysis of ESOP Membership and Worker Outcomes

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Summary

This statistical analysis examines the effects of employee ownership on worker outcomes, and whether these effects are different for disadvantaged workers. While previous studies have established that ESOP firms exhibit productivity levels equal to or higher than conventional firms and that ESOP members tend to benefit from wealth building, there is limited research on worker experiences within ESOPs.

The analysis of self-reported attitudes and perceptions in two datasets, the General Social Survey and the National ESOP Employee Survey,[280] finds that ESOP membership is related with several outcomes: increased worker satisfaction, participation in decision-making, commitment to the firm, and less searching for alternative jobs. While the GSS data shows mixed results with only some findings remaining statistically significant after adjusting for multiple comparisons, the NEES data consistently indicates robust positive impacts of ESOP membership on job satisfaction, organizational commitment, and reduced intentions to seek new employment. However, the analysis also finds no significant evidence that these effects vary significantly between disadvantaged and non-disadvantaged workers.

These findings suggest that ESOP membership can enhance job quality and employee well-being in certain measures. However, given a modest sample size, these findings have limited precision, with insufficient data to draw firm conclusions about the experiences for disadvantaged workers.

This calls for further research with larger, more representative data to better understand the diverse impacts of ESOPs and to inform policies that support equitable benefits across different worker groups.

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[280] The Rutgers Institute for the Study of Employee Ownership and Profit Sharing ran the National ESOP Employee Survey with funding from the Employee Ownership Foundation. The Rutgers Institute also added questions on employee ownership to the General Social Survey with financial support from the Employee Ownership Foundation from 2002 to 2018, and from Google.org in 2022. We appreciate both the Rutgers Institute and these donors for providing the data we analyze. We also thank Ed Carberry and Jungook Kim for their valuable efforts with data collection.

1. Introduction

A growing body of research has highlighted the potential benefits of Employee Stock Ownership Plans (ESOPs) for both firms and workers. Studies have found that ESOP firms exhibit productivity levels at least on par with conventional firms.[281] Furthermore, ESOP companies are less likely to lay off workers during economic downturns,[282] suggesting greater employment stability. Evidence also indicates that ESOP participants accumulate higher levels of household wealth compared to non-ESOP employees.[283] However, despite these insights, a gap remains in our understanding of how ESOP membership relates to employees' self-reported attitudes, perceptions, and overall job quality experiences.

Examining the impact of ESOP membership on worker attitudes and perceptions is crucial for evaluating the merits of ESOPs as a means to promote job quality and employee well-being. Key questions arise: Does ESOP membership contribute to improved worker satisfaction, heightened organizational commitment, and reduced intentions to seek new employment opportunities? Moreover, do these potential benefits extend equitably to workers facing various forms of social disadvantage, such as those belonging to ethnic or racial minorities, immigrants, or individuals without a high school diploma? Addressing these questions is essential to assess ESOPs' ability to promote high-road employment.

We analyze two complementary datasets to address these questions: the General Social Survey (GSS) and the National ESOP Employee Survey (NEES). The GSS, conducted biennially by the National Opinion Research Center at the University of Chicago, provides a nationally representative sample of American households and includes information on respondents' ESOP membership status, job characteristics, and various worker outcomes related to job satisfaction, decision-making, fairness perceptions, and experiences of discrimination. While the GSS offers a broad sample that is representative of the US population, it has a relatively small number of ESOP worker observations, which limits the precision of statistical estimates for this subgroup. On the other hand, the NEES dataset, collected by Rutgers' Institute for the Study of Employee Ownership and Profit Sharing, has a sample that is more focused on ESOP firms and their employees. This dataset includes survey data from approximately 3,000 employees. These workers are either recruited from nine different ESOP firms, or are non-ESOP workers recruited through Amazon Mechanical Turk, allowing for a comparison of worker experiences and

[281] Kurtulus and Kruse, 2017; Kim and Ouimet, 2014; Pendleton and Robinson, 2010.
[282] Blasi et al, 2021; Kurtulus & Kruse, 2017.
[283] Wiefek, 2017.

perceptions between these two groups. However, a limitation of the NEES is that it is not nationally representative. Importantly, the NEES also captures additional dimensions of the employee experience, such as organizational commitment, citizenship behavior, and perceptions of organizational justice, providing a nuanced understanding of the potential impact of ESOP membership.

To evaluate the effects of ESOP participation on worker outcomes while accounting for potential endogeneity concerns, we employ a double machine learning technique.[284,285] This approach leverages machine learning algorithms to partial out the effects of various control variables from both the dependent (worker outcomes) and independent variables (ESOP membership and its interaction with worker disadvantage). Subsequently, we estimate the net effects of ESOP membership on worker outcomes using the residualized variables, ensuring that our estimates are adjusted for observable differences between ESOP and non-ESOP workers.

Intuitively, this method isolates the direct relationship between the worker outcomes and ESOP membership, while holding all other observable variables constant. It does this by first removing the influence of the control variables from both the outcome and treatment variables. This is achieved by regressing the outcomes and ESOP membership separately on the control variables and calculating the residuals. The residualized versions now have the variation explained by the controls removed. The effect of ESOP membership on outcomes is then estimated using just these residual components, capturing the relationship after taking out the “noise” from the other observable factors.

Our analysis of the GSS data reveals a positive association between ESOP membership and several indicators of job quality, such as participation in decision-making and good relations with management. However, after adjusting for the potential false discovery rate arising from multiple comparisons, the only result that remains statistically significant is the effect of ESOP membership on workers’ agreement with the statement “I take part in decision-making.” On a 1 to 10 agree-disagree scale, ESOP membership is associated with an increase of 1.5 in this worker outcome, suggesting that ESOP members tend to report higher levels of participation in decision-making processes. Despite the limited individually significant results, a joint significance test rejects the null hypothesis of no overall effect of ESOP membership on the examined worker outcomes. This further indicates a general positive association between ESOP membership and various measures of job quality and worker experiences, even if the individual effects do not all reach conventional levels of statistical significance after correcting for multiple comparisons.

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[284] Chernozhukov et al, 2018.
[285] Our pre-analysis plan is at https://osf.io/jx8kd/.

In contrast, the results from the NEES dataset suggest statistically significant positive impacts of ESOP membership on various aspects of the employee experience. On a 1 to 10 agree-disagree scale, ESOP participation is associated with a 1.3 higher score on the level of satisfaction and pride in their company, a 1.2 higher score on participation in decision-making, a 0.6 higher score on freedom to do one's job, and a 1.7 higher score on commitment to the worker's firm. Participation in an ESOP is also associated with a 1.1 lower score on reporting being actively searching for new employment opportunities. These effects are substantial in magnitude and statistically significant after accounting for the potential false discovery rate. ESOP participation also has a statistically significant effect on all the outcomes when tested jointly. While our results point to a generally positive effect of ESOP membership on the whole sample of workers, we find no statistically significant evidence that this effect is heterogeneous between disadvantaged and non-disadvantaged workers (defined as workers who are either Black, Hispanic, immigrant, lacking a high school diploma, or earning in the bottom 30% of the dataset's income distribution).

The findings from these two datasets consistently point toward a positive association between ESOP membership and desirable worker outcomes, particularly in areas related to job satisfaction, decision-making involvement, and organizational commitment. Despite these insights, our analysis has several limitations. The lack of an experimental design or an opportunity in data for a causal identification strategy precludes us from establishing causal relationships between ESOP membership and worker outcomes. While our methodology attempts to account for observable differences between ESOP and non-ESOP workers, the potential for unobserved factors influencing both ESOP participation and worker attitudes cannot be ruled out.

Furthermore, our datasets suffer from sample size limitations, particularly concerning the representation of disadvantaged workers who are ESOP members. The relatively small number of observations in this subgroup restricts our ability to estimate the potentially heterogeneous effects of ESOP membership across different dimensions of disadvantage, such as race, ethnicity, immigration status, or educational attainment. This sampling limitation also prevents us from exploring how the impact of ESOP membership may vary over time, across economic cycles, or in different regional or industry contexts. Further, ESOPs participating in the National ESOP Employee Survey may not represent all ESOPs, and the non-ESOP workers recruited through Amazon Mechanical Turk may not represent the broader US workforce.

Despite these limitations, our study contributes to the growing literature on employee ownership and its implications for workers' attitudes and perceptions. While previous research has examined the effects of ESOPs on firm performance, productivity, and employment stability (as summarized in the literature review), fewer studies have focused on employees' self-reported attitudes and perceptions. Our analysis provides new evidence on the positive association between ESOP membership and indicators of job quality, such as satisfaction, pride in the company, participation in decision-making, and organizational commitment.

Overall, our study reinforces the potential benefits of ESOPs for promoting desirable worker outcomes and job quality, while also underscoring the need for further research with larger and more representative samples to better understand the nuanced effects of ESOP participation across different contexts and subgroups of workers.

2. Data

We analyze two datasets: the General Social Survey (GSS) and the National ESOP Employee Survey (NEES). The GSS, conducted by the National Opinion Research Center (NORC) at the University of Chicago, has been carried out biennially since 1972. It collects information on social behaviors, civic engagement, and political opinions. Our analysis utilizes data from the 2014, 2019, and 2022 survey waves, which include information on ESOP membership. This data encompasses firm and worker characteristics and evaluates aspects of job quality, such as perceived discrimination, respect in the workplace, fairness of earnings, and job satisfaction – which we refer to as worker outcomes.

The National ESOP Employee Survey (NEES), conducted by Rutgers' Institute for the Study of Employee Ownership and Profit Sharing, surveys approximately 3,000 employees from ESOP and non-ESOP firms. ESOP worker respondents were recruited from nine different firms, while the data for non-ESOP workers was collected via Amazon Mechanical Turk (MTurk). In addition to exploring worker outcomes similar to those analyzed in the GSS, the NEES also examines additional dimensions such as the sense of ownership of the firm, commitment to it, and perceptions of organizational justice, offering a more nuanced view of the employee experience.

However, the NEES dataset has significant limitations. Firstly, it encompasses surveys from only nine ESOP firms. Should these firms diverge significantly from the typical US ESOP firm, our findings might lack representativeness. Additionally, the comparison group of non-ESOP workers fails to reflect the broader US workforce, consisting solely of "turkers" – individuals who undertake tasks online via MTurk. Lastly, although we excluded any respondents in this comparison group who failed an attention-assessment question, lingering concerns remain regarding the overall data quality collected through MTurk.[286]

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[286] Ahler et al, 2019.

We want to evaluate the impact of ESOP participation on worker outcomes. To accurately identify the effects of ESOP participation, we need comparable ESOP and non-ESOP worker samples. Therefore, we excluded categories of workers who significantly differ from typical ESOP participants, such as self-employed individuals, government employees, part-timers, and employees from firms with fewer than 50 employees. In addition, we removed low-quality responses in the NEES dataset, including those from participants failing an attention check, ESOP firm employees who denied ESOP participation, and non-ESOP workers recruited through MTurk who identified as ESOP members.

Table 1 presents the distribution of ESOP workers across each dataset, segmented by various strata of disadvantage. Within the GSS, which includes a total of 892 workers, there are only 12 ESOP workers in the lowest 30% income bracket of the sample. Additionally, the dataset contains only 36 workers that we identify as disadvantaged, i.e., workers that are in the lowest 30% income bracket, Black, Hispanic, immigrant, or high school dropouts.[287] Due to the limited number of observations among the income-poor and disadvantaged workers, we use the GSS data to explore only the main effects of ESOP membership on employees. The investigation into how these effects vary among disadvantaged workers is conducted with the NEES dataset, which offers a larger sample size of 1,718 workers and a more substantial representation of ESOP members, totaling 855 workers.

Table 1: Number of ESOP members by socioeconomic, ethno-racial, and educational disadvantages in each dataset.

	GSS	NEES
Bottom 30% earnings	12	150
Black worker	10	14
Hispanic worker	14	22
Immigrant worker	13	.
High school dropout	3	5
Disadvantaged (any of the above)	36	180
Total ESOP members	80 (of 892)	855 (out of 1,718)

Notes: On the GSS data, we infer immigrant status when both the respondent and their parents were born outside the US. The NEES survey does not include immigration status or proxies. The GSS analysis utilizes surveys from 2014, 2019, and 2022, excluding self-employed, government, part-time workers, and those in firms with fewer than 50 employees. NEES data, collected in 2018-2020, omits respondents from small firms (less than 50 employees), those failing an attention test, Mturk respondents identifying as ESOP members, and ESOP firm respondents denying ESOP participation. The disadvantaged group includes workers in the bottom 30% of the dataset's income distribution or belong to one or more of the following categories: Black, Hispanic, immigrant workers, or those without a high school diploma.

[287] Our datasets do not allow for a more nuanced definition of the disadvantaged group. Thus, we define this group as workers with characteristics related to low socioeconomic status or that belong to ethno-racial minorities, following the literature on social disadvantage in Ayala-Mar´ın at al, 2020 and Goodman et al, 2005.

Table 2 presents cross-sectional differences in mean outcomes for workers in non-ESOP and ESOP settings. For the General Social Survey (GSS) data, the table compares outcomes between all non-ESOP and ESOP workers, whereas the NEES data focuses on comparisons among disadvantaged non-ESOP and ESOP workers. These mean differences, which are not adjusted for characteristics of workers or firms, offer descriptive insights on ESOP workers compared to non-ESOP workers. The GSS data suggests that ESOP workers tend to feel more involved in the decision-making processes at their firms by 1.4 points in a 10-point agree-disagree scale. The remaining differences in outcomes have substantial standard errors, rendering the differences not statistically significant. These differences suggest a positive association between ESOP membership and workers' satisfaction and pride in their company, greater job autonomy, improved relations with management, reduced likelihood of searching for new employment opportunities, or perceiving their pay as fair.

The comparison of mean outcomes in the NEES data illustrates a similar trend for disadvantaged ESOP versus non-ESOP workers. Disadvantaged ESOP workers report higher levels of satisfaction and pride in their companies, and are less likely to seek new employment opportunities compared to their non-ESOP counterparts. Additionally, these workers indicate a greater involvement in decision-making processes within their firms and generally perceive their compensation as fairer than non-ESOP workers. Further comparisons of mean worker outcomes are detailed in Appendix A.1, with information on the survey questions that generated these outcomes available in Appendix A.3.

Table 2: Mean worker outcomes: ESOP vs non-ESOP workers

	GSS			NEES		
	Non-ESOP mean	ESOP mean	Diff	Disad Non-ESOP mean	Disad ESOP mean	Diff
Satisfaction and pride	7.43	7.86	0.43	6.70	8.29	1.59***
	(2.07)	(1.88)	(0.25)	(2.93)	(2.02)	(0.24)
Decision-making	7.00	8.42	1.42***	6.51	7.35	0.84**
	(2.96)	(2.01)	(0.35)	(3.19)	(2.96)	(0.28)
Freedom on job	7.71	7.75	0.04	7.25	7.58	0.34
	(2.71)	(2.65)	(0.33)	(2.58)	(2.63)	(0.23)
Good relation w/ mgt	7.14	7.34	0.20	3.67	3.24	-0.43
	(2.06)	(2.10)	(0.25)	(4.83)	(4.69)	(0.43)
Earnings are fair	6.15	5.78	-0.37	4.64	5.31	0.67**
	(2.10)	(1.89)	(0.25)	(2.80)	(2.78)	(0.25)
Searching for new job	2.91	2.23	-0.68	3.47	2.08	-1.39***
	(3.71)	(3.81)	(0.45)	(3.63)	(3.25)	(0.31)
Sample Size (N*)	692 to 727	73 to 74		468	183 to 186	

Note: Means scale is 1-Totally disagree to 10-Totally Agree. Sample size values depend on the number of missing variables in the outcome variable. For mean values, standard deviations are reported in parentheses; for differences, standard errors are reported in

parentheses. The Disad ESOP column reports means for disadvantaged workers that are ESOP members, while the Disad Non-ESOP column reports means for disadvantaged workers who are not ESOP members.The disadvantaged workers group comprises workers who fall within the bottom 30% of the dataset's income distribution or belong to one or more of the following categories: Black, Hispanic, immigrant workers, or those without a high school diploma.
Significance levels: $^{*}p < 0.05$, $^{**}p < 0.01$, $^{***}p < 0.001$.

3. Methods

3.3. Estimation Technique

Our analysis involves comparing the worker outcomes of ESOP and non-ESOP workers and disadvantaged ESOP and non-ESOP workers. The goal is to estimate the effect of ESOP membership on worker outcomes while controlling for the characteristics of the workers and their jobs. This implies estimating two models for a worker's outcome. One of these models is the following interaction specification (prespecified in a pre-analysis plan):

$$\text{outcome}_i^j = \beta 1^j ESOP_i + \beta_2^j(\text{ESOP*disadvantage})_i + \beta_3^j \text{disadvantage} + v_i^j + \epsilon_i^j, \quad (1)$$

where v is a nuisance parameter that is correlated with outcome j, with ESOP membership and with being disadvantaged (disadvantage), and ϵ is an error term conditionally independent of the outcome, i.e., $E[\epsilon|v] = 0$. The other model is similar to (1) except that we drop the independent variables ESOP*disadvantage and disadvantage from (1) to obtain the main effect of ESOP membership on the outcome.[288]

The potential endogeneity between worker outcomes and ESOP membership is a challenge in our analysis. For instance, the theory of compensating differences posits that workers enduring lower levels of respect at their workplace – one of the worker outcomes we examine – might receive higher compensation (such as ESOP membership) for these less favorable conditions.[289] The relationship can also operate in the opposite direction: Employees might secure high wages and benefits, including ESOP membership, as a result of their high skills, because their jobs entail significant responsibilities, which employers recognize through efficiency wages,[290] or due to the distribution of their firm's rents or quasi-rents resulting from market power.[291] Such compensation often correlates with tangible rewards, like high wages and stock ownership, and intangible ones, such as respect in the workplace.

To address this endogeneity issue, we would ideally conduct an experiment by randomly

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[288] We run both a main effect and an interaction specification to obtain estimates of the general effects of ESOP membership on the whole sample and its heterogeneous effects among disadvantaged and non-disadvantaged workers. By lapse, the main effects specification was not included in the pre-analysis plan.
[289] Lavetti, K., 2023.
[290] Katz, L. F., 1986.
[291] Blanchflower et al, 1996.

assigning similar workers into two groups: ESOP and non-ESOP workers. Such randomization would ensure that the nuisance v in (1) would be independent of ESOP and $\mathrm{ESOP*disadvantage}$. Consequently, this setting would allow us to measure the causal effects of ESOP participation on both general worker outcomes and the specific outcomes of disadvantaged workers.

Without an experimental design, our strategy involves leveraging all observed characteristics potentially affecting ESOP membership, disadvantage, and worker outcomes to control for v in (1). However, due to the extensive array of potential control variables[292], incorporating all controls and their two-way interaction into a standard econometric regression would lead to an overfitting issue. To circumvent this limitation, we employ a double machine learning technique.[293] This approach hinges on the principles of the Frisch–Waugh–Lovell theorem, which suggests that we can estimate the regression coefficients β_1 and β_2 in (1) by initially partialling out the effects of control variables from both the dependent (outcome) and independent variables (ESOP, $\mathrm{ESOP*disadvantage}$ and $\mathrm{disadvantage}$[294]). Subsequently, we regress the outcome's residuals on the residuals of the ESOP and $\mathrm{ESOP*disadvantage}$ variables to uncover the effects of ESOP membership on worker outcomes.

Consequently, we model the nuisance parameter v as an unknown function of a high-dimensional vector of control variables Z (which encompasses the feature 'disadvantage'), and we specify the following "partial-out models" to remove the effects of Z from ESOP, $\mathrm{ESOP*disadvantage}$, $\mathrm{disadvantage}$, and from each independent variable, outcome^j:

$$\mathrm{ESOP}_i = f(Z_i) + \varepsilon,\ E[\varepsilon|Z] = 0, \tag{2}$$

$$\mathrm{ESOP*disadvantage}_i = g(Z_i) + e_i,\ E[e_i|Z] = 0, \tag{3}$$

$$\mathrm{outcome}_i^j = h^j(Z) + \mu_i^j,\ E[\mu_i^j|Z] = 0, \tag{4}$$

$$\mathrm{disadvantage}_i = i(Z) + \rho_i,\ E[\rho_i|Z] = 0. \tag{5}$$

We estimate these models using an ensemble of machine learning methods[295], which are apt to

[292] There are 384 potential control variables and two-way interactions in the GSS dataset and 134 in the NEES dataset. The list of potential control variables is in appendix A.2.
[293] Chernozhukov et al, 2018.
[294] The partialling out of effects from ESOP*disadvantage and disadvantage is only done for the interaction specification.
[295] Following Dube et al, 2020 we employ a range of machine learning algorithms to estimate these models, including Lasso, AdaBoost, Bagging, ExtraTrees, and Random Forest. All these algorithms are implemented using the scikit-learn package.

handle the high-dimensional vector of controls Z.[296] The method that yields the best total validation score is then selected for our analysis.[297,298]

Let $\mathrm{ESOP}_i\tilde{}$ be the estimated residuals of (2), $\mathrm{ESOP\&disad}_i\tilde{}$ be the estimated residuals of (3), and $\mathrm{outcome}_i^{j}\tilde{}$ be the estimated residuals for outcome j in (4). After obtaining these residuals, we estimate the following model, which yields the effects of ESOP membership on workers (β_1) and disadvantaged workers' ($\beta_1 + \beta_2$) outcomes:[299,300]

$$\mathrm{outcome}_i^{j\sim} = \beta_0^j + \beta_1^j ESOP_i^{\sim} + \beta_2^j(\mathrm{ESOP*disadvantage})_i^{\sim} + \beta_3^j \mathrm{disadvantage}_i^{\sim} + r_i^j \quad (6)$$

A key advantage of this double machine learning technique is that it does not require us to make strong assumptions about which specific control variables should be included in the model. Instead, we can leverage a high-dimensional set of observable characteristics that could potentially relate to ESOP membership, worker disadvantage, and the outcomes of interest. The machine learning algorithms will then determine which variables from this larger set are most relevant for predicting the independent and dependent variables in the partialling out step. This approach mitigates the risk of omitted variable bias from inadvertently excluding relevant controls and avoids the overfitting issues that could arise from manually specifying a large number of controls and interactions in a standard regression model.

3.2. Cluster-Robust Standard Errors

The survey design behind the NEES dataset, where firms are selected first, and then workers within each firm are surveyed, suggests that regressors and errors might be correlated within each firm and that clustering the standard errors by firms is appropriate. Treating each firm and the group of MTurk respondents of the data as clusters presents a "few clusters" issue. This issue

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[296] Appendix A.2 lists the controls in Z and appendix A.3 details the construction of the outcomes..

[297] The total validation score we employed to measure model performance was the sum of the root mean square error (RMSE) across the estimations of ESOP, ESOP*disadvantage, and all the outcomes under investigation.

[298] We implement a cross-fitting strategy to mitigate the overfitting bias inherent in using the full sample to estimate the predicted outcome and the predicted independent variables. This involves partitioning the sample into a main subset and an auxiliary subset. The auxiliary subset is utilized to estimate $\hat{\mu}_i$, while the main subset is used for obtaining $\hat{r}_i$ and $\hat{e}_i$. We then reverse the roles of the subsets and derive the remaining fitted values.

[299] In our pre specification plan we had incorrectly included disadvantage (the original variable) in (6). Here we include disadvantage~ (the residualized variable resulting from the model (5) estimation) instead to make (6) consistent with the Frisch–Waugh–Lovell theorem.

[300] The effects of ESOP membership on disadvantaged workers' outcomes are only obtained with the NEES dataset.

tends to bias downward the conventional errors in clustering, causing the Wald test to over-reject the null hypothesis of no significance.[301]

We used simulated data to assess the appropriateness of different types of cluster-robust standard errors. To do so, we first estimated the partialed-out models in (2), (3), (4), and (5) for each dataset using a suite of machine learning algorithms. We then picked the algorithm that achieved the best validation score, i.e., the lowest sum of root mean squared errors (RMSE) summed across all models. As depicted in Table 3, Lasso was the method that achieved the best score for both datasets.

Table 3: Sum of root mean squared errors across "Partial-out models" estimates with different algorithms

	AdaBoost	Bagging	ExtraTrees	Lasso	Random Forest
GSS	64.2	64.4	65.3	59.0	62.4
NEES	55.4	56.8	57.9	54.7	55.4

Once the partial-out models were estimated with the Lasso algorithm, we ran 500 simulations. In each, we created placebo residuals by randomly shuffling $\widetilde{\mathrm{ESOP}_\mathrm{i}}$ and $\widetilde{\mathrm{ESOP\&disad}_i}$, and ran an OLS regression of (6). This process breaks up any systematic association between outcome j and the variables ESOP and $\mathrm{ESOP{*}disadvantage}$, thus imposing the null hypothesis that there is no effect (i.e., $\beta_1^j = 0 \text{ and } \beta_2^j = 0)$. We initially computed conventional cluster-robust standard errors in each simulation by clustering by the firm and treating the MTurk data as a single cluster. We considered clustering by firm and industry within the MTurk segment as an alternative approach. While this alternative method increased the number of clusters and promised to mitigate the "few clusters" issue, it was unclear whether regressors and errors were sufficiently correlated within industry groups in the MTurk data to justify this stratification.

Across our 500 simulations, where we imposed the null hypothesis of no effect, we anticipated that the p-value would be lower than 5% in exactly 5% of the simulations, reflecting the nominal test size. The first approach resulted in p-values lower than 5% in 20% of the simulations (reflecting the true test size), indicating a significant downward bias in standard errors due to the low number of clusters. The second approach, less affected by the "few clusters" issue, showed a true test size of 8%.

[301] Cameron and Miller, 2015.

We also assess the true test size using the CRV3-Jackknife estimator for cluster-robust standard errors, as described in Mackinnon et al, 2023,[302] and implemented in the Python package wildboottest. This method produced an average true test size of approximately 5% for both the firm-only and firm-plus-industry clustering options across the various outcomes. Given that the CRV3-Jacknife true test size matches the nominal size, and that clustering solely by firm aligns more closely with the survey design, we opt to use the CRV3-Jackknife estimator and cluster by firm, treating the MTurk segment as a single cluster.

3.3. Controlling for False Positives, Joint Significance Test, and Power Analysis

We want to estimate the effect of ESOP membership on multiple worker outcome variables. This introduces a multiple comparison problem, which heightens the risk of false positives[303]. The more hypothesis tests we conduct, the greater the likelihood of inadvertently identifying at least one result as "statistically significant" due to chance. For instance, consider evaluating the impact of ESOP membership on 20 uncorrelated worker outcomes. If all null hypotheses – that ESOP membership has no effect – are true, conducting these 20 separate analyses would typically lead to one statistically significant result at a 5% significance level purely by random chance. This outcome would represent a false positive.

To manage the risk of false positives arising from our multiple comparisons, we employ the Benjamini-Hochberg method[304] to control the false discovery rate (FDR) – the proportion of false positives among all detected statistically significant effects. This approach adjusts the significance threshold for each hypothesis test according to its rank when the hypotheses' p-values are ordered. Each p-value is compared to an increasing critical value, $i/m * \alpha$, where i is the rank, m is the total number of hypotheses tested, and α is the desired FDR.

Furthermore, we also run a joint significance test of β_1^j and β_2^j across all outcomes, to assess the combined significance of the effects of ESOP membership and its interaction with disadvantage $j \in 1, ..., J$ on all measured outcomes. We will estimate the equations as seemingly unrelated regressions (SUR) to accomplish this. We will then re-estimate this system under the constraint that $\beta_1^1 = \beta_2^1 = \beta_1^2 = \beta_2^2 = ...\beta_1^J = \beta_2^J = 0$ and conduct a likelihood ratio test.

Finally, in our pre-specified analysis, we used the simulations described in the previous

[302] Mackinnon et al, 2023.
[303] For an overview of the issue of false positives in multiple comparisons, see Lindquist and Mejia, 2015.
[304] Benjamini and Hochberg, 1995.

subsection to run an exploratory power analysis. The findings from this analysis can be found in Appendix A.4. Notably, these power calculations were based on non-FDR adjusted p-values, as the actual values and their rank order could not be known before we conducted the regression analysis with the real data. Consequently, since these results do not account for the false discovery rate, they overestimate the true power of our tests.

4. Results

This section presents our estimates for the relationship of Employee Stock Ownership Plan (ESOP) membership and its interaction with worker disadvantage on various work-related outcomes using both the NEES and GSS datasets.

Table 6 presents the results using the GSS dataset. These results suggest a statistically significant positive effect of ESOP membership on workplace democracy: ESOP membership is associated with an increase of one point (roughly a third of a standard deviation) on a 10-point agree-disagree scale regarding participation in the worker firm’s decision making. While the data suggests also a positive association between ESOP membership and several indicators of job quality, such as good relations with management and feeling treated with respect, there is also a suggestive association with higher reported rates of discrimination and harassment and a perception of less fair wages. None of these later results are statistically significant after adjusting for a 5% false discovery rate.

Table 6: Estimation results for the effect of ESOP membership on worker outcomes, GSS data.

	(1) Main effect
	ESOP
Satisfaction and pride about company	0.03
	(0.23)
I take part in decision-making	1.02*
	(0.32)
I have freedom to do my job	-0.15
	(0.30)
Good relation with management	0.03
	(0.24)
My earnings are fair	-0.17
	(0.23)
I am searching for a new job	-0.21
	(0.41)
I am treated with respect	0.03
	(0.24)
My coworkers care about me	0.06
	(0.28)
Discriminated against due to age	0.37
	(0.31)
Discriminated against due to race†	1.16
	(0.60)
Discriminated against due to gender††	0.37
	(0.61)
Experienced sexual harassment at workplace	0.14
	(0.19)
Experienced non-sexual harassment at workplace	0.23
	(0.32)

Notes: All regressions but those on outcomes ‘Discriminated against due to race’ and ‘Discriminated against due to gender’ are run with N=892. †The regression for the outcome discriminated against due to race is run on the subsample of Black and Hispanic workers (N= 253). ††The regression for the outcome discriminated against due to gender is run on the subsample of female workers (N=385). These coefficients are from running regression 5 for all outcomes. $\widetilde{\text{ESOP}}$, and $\widetilde{\text{Outcome}}$ are the residuals of the Lasso estimation of equations (2), (3), and (4). The list of potential controls are in Appendix A.2. Outcomes are measured on a scale from 1 ('Totally disagree') to 10 ('Totally agree'). The number of selected control variables is in table 13. P-values: *<5%, **<1%, after adjusting for multiple tests using the Benjamini-Hochberg method to control the False Discovery Rate (FDR).

To assess the overall impact of ESOP membership on the set of worker outcomes, we conducted a joint significance test. The test examines whether the coefficients on ESOP membership are simultaneously equal to zero across all outcome models. With a p-value of 0.13 (Likelihood Ratio Statistic = 92.9), we cannot reject the null hypothesis of no joint effect at conventional significance thresholds. Despite observing a significant effect of ESOP membership on workplace democracy, the data does not suggest an overall influence of ESOP membership on workers outcomes after adjusting for multiple testing. Additional research with larger sample sizes may be needed to increase the statistical power and draw stronger inferences about the joint impact of ESOP participation on worker outcomes.

Table 7: Estimation results for the effect of ESOP membership and its interaction with disadvantage on worker outcomes (all partialed out). NEES data.

	(1) Main effect	(2) Interaction	
	1.1 ESOP	2.1 ESOP	2.2 ESOP&disad
Satisfaction and pride about company	1.34***	1.34*	0.03
	(0.27)	(0.48)	(0.48)
I take part in decision-making	1.23*	1.74***	-1.00
	(0.52)	(0.29)	(1.51)
I have freedom to do my job	0.64***	0.77*	-0.24
	(0.16)	(0.25)	(0.63)
Good relation with management	0.43	0.56	-0.27
	(0.89)	(0.91)	(1.17)
My earnings are fair	1.48	1.78	-0.56
	(1.11)	(1.02)	(1.44)
I am searching for a new job	-1.05*	-0.87*	-0.39
	(0.39)	(0.32)	(0.25)
Level of commitment to the firm	1.68***	1.77***	-0.15
	(0.29)	(0.43)	(0.72)
Organizational citizenship behavior	1.03***	1.04***	0.00
	(0.10)	(0.16)	(0.00)
Organizational justice	1.10	1.37	-0.52
	(0.85)	(0.68)	(1.02)
Perceived probability of losing job	-0.33	-0.36	0.06
	(0.34)	(0.37)	(0.35)

Notes: All regressions N=1,718. The main effect specification estimates equation 5 with $\mathrm{ESOP}\sim$ as the sole regressor. The interaction specification estimates equation (6) with $\tilde{\mathrm{ESOP}}$, $\tilde{\mathrm{ESOP\&disad}}$ and $\mathrm{disadvantage}$ (coefficient omitted) as regressors. $\tilde{\mathrm{ESOP}}$, $\tilde{\mathrm{ESOP\&disad}}$, and $\tilde{\mathrm{Outcome}}$ are the residuals of the Lasso estimation of equations 2, 3, and 4. The list of potential controls are in Appendix A.2. Outcomes are measured on a scale from 1 ('Totally disagree') to 10 ('Totally agree'). The disadvantaged workers group comprises anyone who is Black, Hispanic, immigrant, lacking a high school diploma, or earning in the bottom 30% of the dataset's income distribution. Standard errors (in parentheses) clustered at the firm level using the CRV3-Jackknife method. The number of selected control variables is in table 14. P-values: *<5%, **<1%, after adjusting for multiple tests using the Benjamini- Hochberg method to control the False Discovery Rate (FDR).

Table 7 presents the estimation results for the effect of ESOP membership and its interaction with worker disadvantage status on various worker outcomes using the NEES dataset. The main effect specification (column 1.1) estimates the overall impact of ESOP membership by including only the ESOP residual variable in the controls of equation (6), and excluding the interaction term ($\mathrm{ESOP\&disad}\sim$) and the disadvantaged worker control (disadvantaged~).

The results from this specification show that ESOP membership has a highly statistically significant positive effect on several worker outcomes. Notably, asThe interaction specification (columns 2.1 and 2.2) estimates the full model in equation (6), including the ESOP main effect, the interaction term $\mathrm{ESOP\&disad}$, and the disadvantaged worker control. The ESOP coefficients in column 2.1 are similar to the main effects in column 1.1, representing the impact of ESOP membership for non-disadvantaged workers.

The ESOP&disad~ coefficients in column 2.2 show the difference in the ESOP effect between disadvantaged and non-disadvantaged workers. The fact that most coefficients are negative suggest that the positive effects of ESOP membership tend to be smaller in magnitude for disadvantaged workers. However, the fact that no coefficient in column 2.2 is significant indicates that our methods do not find a statistically significant difference of ESOP effects between disadvantaged and non-disadvantaged workers.

Finally, we run a joint significance test for the main effect specification using the NEES dataset. We test the null hypothesis that the ESOP effects on all worker outcomes are jointly not significant. The test strongly rejects this null hypothesis (Likelihood Ratio Statistic = 749.9, p-value < 0.001), providing further evidence of generally positive effects of ESOP membership on job quality, decision-making influence, and other worker experiences captured in the NEES survey.

These results suggest that ESOP workers' perception and attitudes towards their workplace confirm a positive effect of ESOPs, and find no statistically significant evidence of different impacts for disadvantaged workers. ESOP workers tend to feel more satisfied, committed and proud of working for their firm. Furthermore, while ESOP firms' administrators may be more reluctant to lay off workers, our results suggest that ESOP stability is, at least partially, driven by workers' commitment to the firm and reduced desire to search for new jobs.

5. Conclusion

In this study, we investigate the relationship between employee stock ownership plan (ESOP) membership and workers' self-reported attitudes, perceptions, and overall job quality experiences. Drawing from two complementary datasets – the nationally representative General Social Survey (GSS) and the focused National ESOP Employee Survey (NEES) – we employed a double machine learning approach to account for potential endogeneity concerns while estimating the effects of ESOP participation.

Our analysis of the GSS data revealed a positive association between ESOP membership and several indicators of job quality, such as involvement in decision-making and good relations with management. However, except for the relation between ESOP membership and workplace democracy, these associations did not remain statistically significant after adjusting for the potential false discovery rate arising from multiple comparisons.

In contrast, the results from the NEES dataset suggested robust positive impacts of ESOP membership on various aspects of the employee experience, including higher levels of job satisfaction, pride in the company, participation in decision-making, and organizational commitment. ESOP workers were also less likely to be actively searching for new employment opportunities. Furthermore, we assessed whether these effects varied between the group of workers who may have historically faced systemic barriers or marginalization, namely those who identify as Black, Hispanic, or immigrant, those without a high school diploma, or those earning in the bottom 30% of the dataset's income distribution, a group we called “disadvantaged” for brevity, and workers who have not faced such barriers. We could not find statistically significant evidence that the ESOP membership effects differed between these two groups.

These results suggest that ESOP workers’ perception and attitudes towards their workplace confirm positive effects of a firm having an ESOP structure. However, while our findings consistently pointed toward a positive association between ESOP membership and desirable worker outcomes, several limitations should be acknowledged. The lack of an experimental design or a clear identification strategy precluded us from establishing causal relationships. Additionally, our datasets suffered from sample size limitations, particularly concerning the representation of disadvantaged workers who are ESOP members, restricting our ability to precisely estimate heterogeneous effects across different dimensions of disadvantage. Future research with larger sample sizes could allow for more nuanced examination of distinct disadvantaged groups, such as analyzing Black, Hispanic, immigrant, and low-income workers separately, which may uncover important differences masked by combining them into a single category.

Notwithstanding these limitations, our study contributes to the growing literature on employee ownership by providing new evidence on the positive association between ESOP membership and indicators of job quality. Furthermore, it sheds light on workers’ perceptions and attitudes towards the firm as possible drivers for differences between ESOP and non-ESOP firms. For instance, our findings suggest that the enhanced satisfaction and commitment among ESOP members may drive the generally favorable outcomes associated with ESOPs founded in literature.

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Appendix

A.1 Mean-differences in workers outcomes

Table 8: GSS data: Non-ESOP vs. ESOP. Means on a 1-Totally disagree to 10-Totally Agree scale.

	Non-ESOP mean	ESOP mean	Difference
Satisfaction and pride about company	7.43	7.86	-0.43
	(2.07)	(1.88)	(0.25)
Participation in decision-making	7.00	8.42	-1.42***
	(2.96)	(2.01)	(0.35)
Freedom to do job	7.71	7.75	-0.04
	(2.71)	(2.65)	(0.33)
Good relation with management	7.14	7.34	-0.20
	(2.06)	(2.10)	(0.25)
Earnings fairness	6.15	5.78	0.37
	(2.10)	(1.89)	(0.25)
Searching for new job	2.91	2.23	0.68
	(3.71)	(3.81)	(0.45)
Treated with respect	7.38	7.66	-0.27
	(2.21)	(2.19)	(0.27)
Coworkers' care	2.95	2.57	0.38
	(2.61)	(2.31)	(0.32)
Age discrimination	0.81	1.35	-0.54
	(2.73)	(3.44)	(0.34)
Race discrimination	0.50	0.68	-0.18
	(2.17)	(2.53)	(0.27)
Gender discrimination	0.63	0.95	-0.31
	(2.44)	(2.95)	(0.30)
Sexual harassment	0.29	0.41	-0.12
	(1.68)	(1.99)	(0.21)
Non-sexual harassment	0.92	1.08	-0.16
	(2.90)	(3.13)	(0.36)
Sample Size (N*)	692 to 727	73 to 74	

Note: Means scale is 1-Totally disagree to 10-Totally Agree. Sample size values depend on the number of missing variables in the outcome variable. For mean values, standard deviations are reported in parentheses; for differences, standard errors are reported in parentheses.
Significance levels: *$p < 0.05$, **$p < 0.01$, ***$p < 0.001$.

Table 9: NEES data: Disad Non-ESOP vs. Disad ESOP. Means in 1-10 scale for intersectionally disadvantaged workers.

	Disad Non-ESOP mean	Disad ESOP mean	Difference
Level of commitment to the firm	5.32	7.28	-1.96***
	(2.48)	(2.01)	(0.21)
Good relation with management	3.74	3.14	0.60
	(4.84)	(4.65)	(0.42)
Organizational citizenship behavior	6.64	7.65	-1.00***
	(2.40)	(1.76)	(0.19)
Intention to stay	5.50	7.39	-1.89***
	(2.80)	(2.33)	(0.23)
Work conflicts with family life	4.19	3.87	0.31
	(2.91)	(2.90)	(0.25)
Organizational justice	5.26	5.62	-0.35
	(2.25)	(2.40)	(0.20)
Burnout index	3.82	3.14	0.67**
	(2.99)	(2.52)	(0.25)
Probability of losing job	4.00	3.26	0.74***
	(1.96)	(1.34)	(0.16)
Sample Size (N*)	468	175 to 186	

Note: Means scale is 1-Totally disagree to 10-Totally Agree. Sample size values depend on the number of missing variables in the outcome variable. For mean values, standard deviations are reported in parentheses; for differences, standard errors are reported in parentheses. The Disad ESOP column reports means for disadvantaged workers that are ESOP members, while the Disad Non-ESOP column reports means for disadvantaged workers who are not ESOP members.The disadvantaged workers group comprises workers who fall within the bottom 30% of the dataset's income distribution or belong to one or more of the following categories: Black, Hispanic, immigrant workers, or those without a high school diploma.
Significance levels: *$p < 0.05$, **$p < 0.01$, ***$p < 0.001$.

A.2 Control Variables

For the analysis of the GSS dataset, the following control variables are as follows:

Demographics and Household Composition:
- Age
- Presence of minors in household
- Household size
- Marital status: Married, Widowed, Separated/Divorced
- Gender: Female

Economic and Work Characteristics:
- Tenure in job
- Number of workers in the entire firm
- Respondent's real income (adjusted to 2022 Prices)
- Whether the respondent usually works more than 45 hours
- The degree to which the worker is highly supervised

Ethnicity and Education:
- Ethnic background: Nonwhite, Black, Hispanic
- Educational background: Less than High school diploma, High school or equivalent degree, Associate/junior college degree, Bachelor's degree, Graduate degree

Health and Job Involvement:
- Whether the respondent has an impairing health issue
- Whether involved in any task force for decision-making

Fixed Effects:
- Industry (9 groups) fixed effects
- Occupation (6 groups) fixed effects Additional Variables:
- Indicator of disadvantage

For the NEES dataset, control variables are as follows:

Demographics and Household Composition:
- Age
- Presence of minors in household
- Household size
- Marital status: Married, Widowed, Separated/Divorced
- Gender: Female

Economic and Work Characteristics:
- Tenure in job
- Number of workers in the entire firm
- Respondent's real income (adjusted to 2022 Prices)
- Whether the respondent usually works more than 45 hours
- The degree to which the worker is highly supervised
- Ethnic background: Nonwhite, Black, Hispanic
- Educational background: Less than High school diploma, High school or equivalent degree, Associate/junior college degree, Bachelor's degree, Graduate degree

Health and Job Involvement:
- Whether the respondent has an impairing health issue
- Whether involved in any task force for decision-making Fixed Effects:
- Industry (9 groups) fixed effects
- Occupation (6 groups) fixed effects Additional Variables:
- Indicator of disadvantage

A.3 Construction of Outcomes

Table 10: Outcome variables and original variables in the GSS dataset.

Outcome	Original Variables	Original survey question
Satisfaction and pride about company index	satjob1	All in all, how satisfied would you say you are with your job?
	proudemp	Agree/Disagree: I am proud to be working for my employer
	respect	Agree/Disagree: At the place where I work, I am treated with respect
I take part in decision-making	wkdecide	In your job, how often do you take part with others in making decisions that affect you?
I have freedom to do my job	wkfreedm	Agree/Disagree: I am given a lot of freedom to decide how to do my own work
Good relation with management	promtefi	Agree/Disagree: Promotions are handled fairly
	manvsemp	In general, how would you describe relations in your workplace between management and employees?
	spvtrtair	Agree/Disagree: My supervisor treats me fairly.
My earnings are fair	fairearn	How fair is what you earn on your job in comparison to others doing the same type of work you do?
I am searching for a new job	trynewb	Taking everything into consideration, how likely is it you will make a genuine effort to find a new job with another employer within the next year?
I am treated with respect	respect	Agree/Disagree: At the place where I work, I am treated with respect
My coworkers care about me	cowrkint	Agree/Disagree: The people I work with take a personal interest in me
Discriminated against due to age	wkageism	Do you feel in any way discriminated against on your job because of your age?
Discriminated against due to race	wkracism	Do you feel in any way discriminated against on your job because of your race or ethnic origin?
Discriminated against due to gender	wksexism	Do you feel in any way discriminated against on your job because of your gender?
Experienced sexual harassment at workplace	wkharsex	In the last 12 months, were you sexually harassed by anyone while you were on the job?
Experienced non-sexual harassment at workplace	wkharoth	In the last 12 months, were you threatened or harassed in any other way by anyone while you were on the job?

Note: Outcomes were bundled based on correlations and thematic consistency. Variables with strong correlations and overlapping concepts were combined into single indices, as they likely represent a single construct.

Table 11: Outcome variables and original variables in the NEES dataset.

Outcome	Original Variables
Satisfaction and pride about company index	affcomm2, affcomm5
I take part in decision-making	wp1
I have freedom to do my job	jobsat2
Good relation with management	lmx7
My earnings are fair	ojdist1, ojdist2, ojdist3, ojdist4
I am searching for a new job	tovint4
Level of commitment to the firm	loyal, psyown, commi
Organizational citizenship behavior	all OCB vars Intention to stay
	all TOVint vars
Work conflicts with family life	wfconf1, wfconf2
Organizational justice	all Ojdist, Ojprcd, and futil vars
Burnout index	all BO vars
Probability of losing job	jobsec

Note: Outcomes were bundled based on correlations and thematic consistency. Variables with strong correlations and overlapping concepts were combined into single indices, as they likely represent a single construct. For as much as the variables allowed, we reproduced the GSS survey construct for comparison purposes. Since the NEES data has not been made public, we refrain from sharing the original survey questions.

A.4 Power Analysis

We obtained estimates of effect sizes we will be powered to detect. This was done by simulating the model in (6) with placebo explanatory residuals. Note, however, that if we only have a few significant effects in our multiple comparison problem, the 5% FDR adjustment will yield a very stringent threshold for significance, which may render the whole analysis underpowered. As a result, this power analysis, which was part of the pre-specification plan, was only exploratory.

Table 4: Minimum detectable effects of ESOP membership on worker outcomes, GSS data.

	Mean	Std Dev	MDE ESOP
Satisfaction and pride about company	7.51	1.94	0.59
I take part in decision-making	7.17	2.76	0.75
I have freedom to do my job	7.70	2.56	0.80
Good relation with management	6.86	2.05	0.57
My earnings are fair	6.10	1.96	0.58
I am searching for a new job	2.80	3.52	1.07
I am treated with respect	7.41	2.09	0.63
My coworkers care about me	2.91	2.44	0.73
Discriminated against due to age	0.86	2.66	0.80
Discriminated against due to race†	0.95	2.87	1.63
Discriminated against due to gender††	1.10	3.04	1.46
Experienced sexual harassment at workplace	0.30	1.62	0.47
Experienced non-sexual harassment at workplace	0.94	2.76	0.79

Notes:†The regression for the outcome discriminated against due to race is run on the subsample of Black and Hispanic workers.
††The regression for the outcome discriminated against due to gender is run on the subsample of female workers.
The outcomes are measured on a scale from 1 ('Totally disagree') to 10 ('Totally agree').

The MDE are obtained from the 10th to 90th percentile range of the distribution of coefficients β_1 and β_2 from our shuffled residuals, $\widetilde{\mathrm{ESOP}_i}$ and $\widetilde{\mathrm{ESOP\&disad}_i}$. Table 4 depicts the MDE for the impact of ESOP membership on various worker outcomes using GSS data. This table suggests that assuming the FDR adjustment is modest enough not to affect the power, we are powered to detect increases of approximately a quarter of a standard deviation increase from the outcomes sample mean resulting from the worker being an ESOP member. Finally, Table 5 shows a similar table with the minimum detectable effect for the impact of ESOP membership on worker outcomes. This table suggests that, assuming the FDR adjustment is modest enough not to affect the power, we are powered to detect increases of approximately a twelfth of a standard deviation from the outcomes sample mean resulting from the worker being an ESOP member. Similarly, we are powered to detect increases of a sixth of a standard deviation from the outcome sample resulting from the worker being disadvantaged and an ESOP member.

Table 5: Minimum detectable effects of ESOP membership on worker outcomes. NEES data. The "partial-out models" were estimated with Lasso.

	Mean	Std Dev	MDE ESOP	MDE ESOP*disad
Satisfaction and pride about company	7.93	2.40	0.20	0.35
I take part in decision-making	7.58	2.92	0.25	0.41
I have freedom to do my job	7.63	2.54	0.19	0.36
Good relation with management	4.10	4.91	0.38	0.69
My earnings are fair	6.02	2.70	0.21	0.36
I am searching for a new job	2.23	3.27	0.24	0.45
Level of commitment to the firm	6.85	2.39	0.20	0.34
Organizational citizenship behavior	7.49	2.04	0.17	0.30
Organizational justice	6.20	2.20	0.18	0.32
Perceived probability of losing job	3.51	1.70	0.13	0.23

Note: The outcomes are measured on a scale from 1 ('Totally disagree') to 10 ('Totally agree').

A.5 Joint significance test with SUR models in Python

To perform the joint significance test mentioned in subsection 2.2, we utilize the "linear-models" Python package to estimate both an unrestricted and a restricted SUR model. The unrestricted model incorporates vectorized outcome variables and coefficients to assess the impacts of ESOP membership and its interaction with disadvantage across multiple job- related outcomes:

$$\mathbf{outcome} = \boldsymbol{\beta}_0 + \boldsymbol{\beta}_1\mathbf{ESOP} + \boldsymbol{\beta}_2\mathbf{ESOP\&disad} + \boldsymbol{\beta}_3\mathbf{disadvantage} + \boldsymbol{r} \qquad \textbf{(A.1)}$$

Here, **outcome** is a vector containing various measurements of worker outcomes. **ESOP**, **ESOP&disad**, and **disadvantage** are vectors of the original variables stacked for each outcome. The vectors of coefficients $\boldsymbol{\beta}_0$, $\boldsymbol{\beta}_1$, $\boldsymbol{\beta}_2$, and $\boldsymbol{\beta}_3$ represent the effects of the intercept, ESOP membership, its interaction with disadvantage, and the effects of being disadvantaged across all considered outcomes. The residual vector $\boldsymbol{r}$ is assumed to follow a multivariate normal distribution, $\boldsymbol{r} \sim N(0, \Sigma \otimes I_T)$, where Σ is the covariance matrix representing the covariances between equations in the model. I_T is an identity matrix, and T denotes the number of observations per equation.

The restricted model is formulated similarly to (A.1) but excludes the **ESOP** and **ESOP&disad** vectors. To calculate the likelihood ratio for the joint significance test, we compute the likelihood for both the unrestricted and restricted SUR models. Since the linearmodels Python package does not provide a method to directly obtain the log likelihood, we extract the estimated coefficients $\boldsymbol{\beta}_0$, $\boldsymbol{\beta}_1$, $\boldsymbol{\beta}_2$, and $\boldsymbol{\beta}_3$ and the estimated covariance matrix of errors Σ for both models. These estimates are then used to calculate the likelihood of each model.

The log-likelihood function for the SUR model, considering the multivariate normal distribution of errors, is given by:

$$\text{Log}L = -\left(\frac{nT}{2}\right)\ln(2\pi) - \frac{1}{2}\ln(\det(\Sigma \otimes I_T)) - \frac{1}{2}(r)'(\Sigma^{-1} \otimes I_T)(r) \qquad \text{(A.1)}$$

For efficient implementation in Python, we rewrite (A1) as[305]

$$\text{Log}L = -\frac{nT}{2}\ln(2\pi) + \frac{T}{2}\ln(\det(\Sigma^{-1})) - \frac{1}{2}\sum_{i=1}^{M}\sigma^{ii}(r_i)'(r_i) - \sum_{i=1}^{M}\sum_{j<i}\sigma^{ij}(r_i)'(r_j) \qquad \text{(A.2)}$$

where σ^{ij} is the (i,j) element of Σ^{-1}, T represents the number of observations per equation, M is the number of equations in the model, and n is the total number of individuals. Each $\boldsymbol{r}_i$ vector contains residuals for the i-th equation. Thus, we use (A.2) to obtain the log likelihood of the unrestricted and restricted models, and test the null hypothesis that $\boldsymbol{\beta}_1 = \boldsymbol{\beta}_2 = 0$ by doing:

$$LR = 2 \times (\text{Log}L_{\text{unrestricted}} - \text{Log}L_{\text{restricted}}) \sim \chi^2_{df} \qquad \text{(A.3)}$$

where $\text{LogL}_{\text{unrestricted}}$ and $\text{LogL}_{\text{restricted}}$ are the log-likelihoods of the unrestricted and restricted models, respectively. The likelihood ratio statistic *LR* follows a chi-squared distribution with degrees of freedom *df* , which equals the number of restrictions imposed by the null hypothesis. In this case, the degrees of freedom are 2**M* , reflecting that two coefficients ($\boldsymbol{\beta}_1$ and $\boldsymbol{\beta}_2$) are being tested for each of the *M* equations in the model.

[305] As derived in the class notes of Seung Ahn. https://www.public.asu.edu/~miniahn/ecn726/cn_sur.pdf, last accessed on May 7, 2024.

Table 13: Number of covariates used by the LASSO regression to residualize the dependents (ESOP) and independent variables with the GSS dataset.

Variable	Covariates No.
ESOP	170
Satisfaction and pride about company	28
I take part in decision-making	15
I have freedom to do my job	12
Good relation with management	18
My earnings are fair	10
I am searching for a new job	23
I am treated with respect	25
My coworkers care about me	15
Discriminated against due to age	2
Discriminated against due to race	17
Discriminated against due to gender	14
Experienced sexual harassment at workplace	1
Experienced non-sexual harassment at workplace	2

Note: The dummy variable ESOP is estimated with a Cross-fit Logistic Regression (L1 Penalty), which extends the LASSO method to classification problems. The remaining variables, measured on a 1 to 10 agree/disagree scale, are estimated with a Cross-fit Lasso Regression. Covariates No. represents the number of variables that were picked at least once for the LASSO regression across the two folds of the cross-fit. The disadvantaged workers group comprises anyone who is Black, Hispanic, immigrant, lacking a high school diploma, or earning in the bottom 30% of the dataset's income distribution. There were a total of 384 potential covariates in the GSS dataset.

Table 14: Number of covariates used by the LASSO regression to residualize the dependents (ESOP, ESOP*disad, Disadvantaged) and independent variables with the NEES dataset.

Variable	Covariates No.
Esop	98
Esop*disad	90
Disadvantaged	56
Satisfaction and pride about company	18
I take part in decision-making	21
I have freedom to do my job	12
Good relation with management	5
My earnings are fair	13
I am searching for a new job	6
Level of commitment to the firm	7
Organizational citizenship behavior	5
Organizational justice	14
Perceived probability of losing job	15

Note: The dummy variables ESOP, ESOP*disad, and Disadvantaged are estimated with a Cross-fit Logistic Regression (L1 Penalty), which extends the LASSO method to classification problems. The remaining variables, measured on a 1 to 10 agree/disagree scale, are estimated with a Cross-fit Lasso Regression. Covariates No. represents the number of variables that were picked at least once for the LASSO regression across the two folds of the cross-fit. ESOP*disad corresponds to the interaction of ESOP membership and being part of the disadvantaged group. The disadvantaged workers group comprises anyone who is Black, Hispanic, immigrant, lacking a high school diploma, or earning in the bottom 30% of the dataset's income distribution. There were a total of 134 potential covariates in the NEES dataset.

Article 3: Case Studies of Immigrant Entrepreneurship and Home Care Co-op Development

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Summary

California's home care system struggles to meet its growing needs, partly due to poor job quality for frontline caregivers. It leans on historically marginalized women of color and immigrants.[306] These dynamics put at risk not only the workers, but also those who need care.

Affordability challenges for individuals has led to heavy reliance on state programs for funding. Limited state budgets for care result in low reimbursement rates, shaping market prices. Further, immigration rules and gray markets empower unscrupulous employers to exploit and abuse some historically marginalized workers. In light of this, California policymakers are considering new organizational models to support quality jobs, such as an Association of Cooperative Labor Contractors, a form of worker ownership.

Of existing models, entrepreneurship and worker ownership may be particularly attractive to immigrant care workers and others with barriers to employment. Owning a business can offer a way out of exploitative work conditions often faced by historically marginalized workers. Testing this hypothesis are two home care agencies that are owned and run by Filipino immigrants: COURAGE LLC and SplenDoor in Home Care LLC. COURAGE LLC ("Courage") is an 18-person cooperative incubated by the Pilipino Workers Center, with significant nonprofit support and engagement. SplenDoor in Home Care LLC ("SplenDoor") is a traditional small business, LLC model led by a dynamic immigrant entrepreneur and home care worker.

Analysis of these two models leads to the following key takeaways:

1. State policies & practices could be modified to support worker-owned business;
2. Cooperative development remains experimental and inadequately supported, relative to more traditional small business development;
3. Financial and voice benefits are mutually important, especially for immigrant owners;
4. At current wage rates, it is not yet clear whether worker-owned models in home care are sustainable without external supports.

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[306] Batalova, Jeanne. 2023. "Immigrant Health-Care Workers in the United States." Aggregated Table Migration Policy Institute (MPI): Tabulation from U.S. Census Bureau 2021 American Community Survey (ACS). https://www.migrationpolicy.org/article/immigrant-health-care-workers-united-states, accessed April 11, 2024.; Zallman, Leah, Karen E. Finnegan, David U. Himmelstein, Sharon Touw, and Steffie Woolhandler. 2019. "Care For America's Elderly And Disabled People Relies On Immigrant Labor." Health Affairs 38, no. 6 Health Affairs: 919–26.

Home Care in California: A Strained System

California already has a shortage of quality home care[307] options for Californians who are older and/or experience illness and disability, and the need is only projected to grow. By 2030, one in five Californians will be over the age of 65 (State of California Department of Finance 2024, author calculations). Between 25 and 50 percent of senior adults report having a physical or cognitive disability, and many live alone and prefer to age in place.[308] These statistics imply increasing demand for home care workers, on top of the roughly 775,000 home health and personal care aides that California already employs.[309] This report will focus on paid, long-term care workers who support individuals with daily living activities such as toileting, feeding, and mobility.[310]

Even as demand for care workers rises, long-term care work relies on people in historically marginalized groups to accept low wages and difficult working conditions. Among paid caregivers in California, four in five are women and over 75 percent are people of color. Immigrants are also critical to this industry nationally, and particularly in California. Foreign-born workers make up 41 percent of all California care support workers (including home health aides, personal care assistants, and nursing assistants), which is double the national average.[311] Understanding the current workforce is critical to meeting projected care needs.

In part explaining the reliance on historically marginalized workers, wages for long-term care workers in California are not competitive with other entry-level jobs.[312] Downward wage pressure results from low state reimbursement rates for state-funded home care, as well as many individuals' low ability to pay – which occasionally drives them to the gray market of informal, directly-paid care. Still, the challenge of finding workers for these jobs creates a tiered system between private pay clients who can afford higher-priced care and those who cannot – mirroring a dynamic found in nursing homes.[313]

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[307] "Home care" in this context refers to paid, nonmedical support with activities of daily living (e.g. toileting, feeding, dressing) for clients living at home with limitations due to age, disability, or illness. This definition draws on that of California's Health and Safety Code, Section 1796.12.
[308] US Census Bureau. 2022. "Sex by Age by Disability Status, American Community Survey." (version 2022: ACS 1-year Estimates). https://data.census.gov/table?q=disability&g=040XX00US06, accessed March 14, 2024.; Wolff, Jennifer L., Judith D. Kasper, and Andrew D. Shore. 2008. "Long-Term Care Preferences among Older Adults: A Moving Target?: Journal of Aging & Social Policy." Journal of Aging & Social Policy 20, no. 2 England: Informa Healthcare: 182–200. 18788364.
[309] Bureau of Labor Statistics. 2022. "Home Health and Personal Care Aides." Occupational Employment and Wages. https://www.bls.gov/oes/current/oes311120.htm, accessed March 14, 2024.
[310] Outside the scope of this report are the nearly 5 million family caregivers in California, working without pay (California Master Plan for Ageing).
[311] Batalova, 2023; Zallman et al, 2019.
[312] PHI. 2023. "Direct Care Workforce State Index." https://www.phinational.org/state-index-tool/, accessed March 14, 2024.
[313] Mor, Vincent, Jacqueline Zinn, Joseph Angelelli, Joan M Teno, and Susan C Miller. 2004. "Driven to Tiers: Socioeconomic and Racial Disparities in the Quality of Nursing Home Care." The Milbank Quarterly 82, no. 2: 227–56.

Policy Options for Home Care: State and County Challenges

California is not alone in facing these issues, and a number of other states have acted to raise the bar for home care jobs and available care options. Some of these interventions directly target compensation. As an example, New York State set minimum wages for home care workers to $19.65 per hour by 2026. Others attempt a broader approach to working conditions – for example, eleven states including California, New Jersey, and Virginia have passed Domestic Worker Bills of Rights that include practices such as paid sick leave and protections from discrimination. Yet policies related to ownership and long-term care still focus mainly on the role of private equity in nursing homes – with fewer considering the role of ownership and governance structures in home care.

In part, this silence from policymakers mirrors the relative dearth of research on ownership options available for the home care workforce. One possible exception is Cooperative Home Care Associates (CHCA) in New York, which is among the most successful cooperatives in the United States in terms of longevity and worker empowerment.[314] Yet attempts at replicating their model have been mixed, and worker ownership research tends to focus on the more numerous companies with Employee Stock Ownership Plans (ESOPs).[315]

Getting an inside look at the world of home care poses a research challenge for the same reasons that it's difficult to regulate: this work happens in domestic spaces; much of it is hidden in the informal economy; and many workers come from disadvantaged communities, potentially reticent to speak out about their workforce experiences. Yet an aging population has inspired research and policymaker efforts to better understand and support home care needs.[316] Through AB 2849, California put forward a call for more research, particularly on case examples of

[314] Berry, Daphne, and Myrtle P. Bell. 2018. "Worker Cooperatives: Alternative Governance for Caring and Precarious Work." Equality, Diversity and Inclusion: An International Journal 37, no. 4 Emerald Publishing Limited: 376–91.; Berry, Daphne P. 2013. "Effects of Cooperative Membership and Participation in Decision Making on Job Satisfaction of Home Health Aides." Sharing Ownership, Profits, and Decision-Making in the 21st Century Advances in the Economic Analysis of Participatory & Labor-Managed Firms Emerald Group Publishing Limited. At https://doi.org/10.1108/S0885-3339(2013)0000014002, accessed April 5, 2023.

[315] Inserra, Anne, Maureen Conway, and John Rodat. 2002. "Cooperative Home Care Associates: A Case Study of a Sectoral Employment Development Approach. Sectoral Employment Development Learning Project Case Studies Series." Publications Department, The Aspen Institute, P. https://eric.ed.gov/?id=ED466758, accessed May 11, 2023.; D. Berry and Bell 2018

[316] Harris, Ben, and Liam Marshall. 2024. "Immigration to Address the Caregiving Shortfall." Brookings Commentary. At https://www.brookings.edu/articles/immigration-to-address-the-caregiving-shortfall/, accessed April 11, 2024.; Osterman, Paul. 2017. Who Will Care For Us? Long-Term Care and the Long-Term Workforce: Long-Term Care and the Long-Term Workforce. Russell Sage Foundation. https://www.jstor.org/stable/10.7758/9781610448673, accessed April 27, 2023; The White House. 2024. "Biden-Harris Administration Highlights Substantial Progress on the President's Care Agenda During Month of Action on Care." Statements & Releases: Fact Sheet. At https://whitehouse.gov/briefing-room/statements-releases/2024/04/09/fact-sheet-biden-harris-administration-highlights-substantial-progress-on-the-presidents-care-agenda-during-month-of-action-on-care/, accessed April 12, 2024.; D. Berry and Bell 2018

companies in low-wage industries such as allied health, with a focus on worker-owned and worker-governed models.

AB 2849: Responding to the Call for Case Studies

Answering California's call for research, this report introduces two new case studies on home care agencies in the Los Angeles area[317]:

1. COURAGE LLC ("Courage"), a worker-owned cooperative incubated by the Pilipino Workers' Center and funded by a state grant program for immigrant entrepreneurs; and
2. SplenDoor In Home Care LLC ("SplenDoor"), a minority-owned small business started by a naturalized citizen and workers' center member.

These companies are similar in size, location, and worker populations. And yet, they offer two different approaches to provide quality jobs in home care with non-traditional ownership.

The first, Courage, takes an experimental approach, using the LLC cooperative model to include all worker-owners as entrepreneurs. The second, SplenDoor, is a more common small business approach, and one that the state has actively supported in its procurement policy, through preferencing firms owned by entrepreneurs from underrepresented backgrounds.

For this research, I observed and took field notes on strategic sessions, conferences, and governance meetings between October 2023 and May 2024; reviewed documents from both agencies; conducted voluntary interviews with leadership and workers at each organization; and had background conversations for context with ten home care workers across the United States, three former and current public staffers, and advocacy and nonprofit organizations related to care work and/or cooperative development.

Through these two case studies, we lift up several insights:

1. State policies and practices could be modified to support worker-owned organizations;
2. Cooperative development remains experimental, relative to small business development; and
3. Financial and voice benefits are mutually important, particularly for immigrant workers.

As a note, these companies aspire to be high-road employers in an otherwise low-margin, low-road industry. The experiences of these companies ought to be interpreted in the context of a difficult playing field for a high-road model.

Research Objectives: What a Case Comparison Can Tell Us

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[317] Case studies analyzed data collected between June 2023 and May 2024. Data collection includes field visits to the organizations and to the Pilipino Workers Center in Los Angeles, document review, coalition meetings, and conversations with leadership and workers in each organization. For Courage, interviews included workers with various lengths of tenure and client assignments with the organization, and observations included a training session, multi-day strategic meetings, and three conferences held by partnering organizations (Democracy at Work Institute, The ICA Group, and Caring Across Generations with the National Domestic Workers Alliance).

This study contributes a comparative case study to evaluate management and work practices at a worker-owned and non-worker-owned firm in the same industry. From a policy perspective, this approach addresses a limitation of individual case studies, which can make it difficult to distinguish what's unique to worker-owned companies, relative to otherwise similar companies.[318] This approach also reflects a trend in policy research toward "treatment" and "control" logic – as promoted by groups such as J-PAL at MIT. And yet, this trend has drawn its share of critics.[319] Thus, we emphasize that this comparative approach is helpful in providing additional context, although the cases are not necessarily representative.

Report Outline: Multi-Level Lessons

Next, I will briefly discuss industry dynamics before delving into each of the two cases. For the case studies, I start with SplenDoor, as a more familiar small business structure. Second, I discuss Courage, the worker cooperative incubated out of the local worker center and intended as a pilot initiative in a growing network. While California has already provided support to Courage in the form of startup grants, there is still relatively little public infrastructure for worker cooperatives, relative to other small businesses.

Home Care Non-market Factors

Paid home care in California takes three primary forms: 1) publicly funded options, including the In-Home Support Services (IHSS) program (through state Medicaid funds); 2) privately funded care through agencies or other licensed home care organizations; and 3) direct-hire care, often on the gray market.[320] The IHSS program requires state Medicaid (Medi-Cal) eligibility criteria to be met, including low income – though California recently expanded access by considering income, not assets, in determining eligibility. One issue across the board for paid home care is affordability: exceedingly few carry private long-term care insurance, and roughly one-quarter of participants in the nationally representative Health & Retirement Study reported spending at least $800 per month out-of-pocket for care.[321] This dynamic pushes many clients and their family members toward state programs or the gray market.

[318] Johnson, Ana Gutierrez, and William Foote Whyte. 1977. "The Mondragon System of Worker Production Cooperatives." Industrial and Labor Relations Review 31, no. 1 Sage Publications, Inc.: 18–30.
[319] Small, Mario Luis. 2009. "'How Many Cases Do I Need?': On Science and the Logic of Case Selection in Field-Based Research." Ethnography 10, no. 1 SAGE Publications: 5–38.
[320] Shore, Kayla, Lucero Herrera, Michele Wong, Henry Rosen, and Saba Waheed. 2022. "Lives and Livelihoods: California's Private Homecare Industry in Crisis." UCLA Labor Center, Golden Gate University School of Law Women's Employment Rights Clinic, Hand in Hand: The Domestic Employers Network, California Domestic Workers Coalition, and Pilipino Workers Center. At https://www.labor.ucla.edu/wp-content/uploads/2022/03/Lives-and-Livelihood-Report-1.pdf, accessed May 29, 2024.
[321] Osterman, Paul. *Who Will Care For Us? Long-Term Care and the Long-Term Workforce: Long-Term Care and the Long-Term Workforce* (Russell Sage Foundation, 2017), 23, https://doi.org/10.7758/9781610448673.

The Role of the State in Care

In California, the In-Home Support Services (IHSS) program combines Medicaid, state, and county funds to support nearly 600,000 Californians in need of home care, yet unable to afford it.[322] Generally, clients find their own caregivers through personal connections or public registries – and three-quarters of caregivers provide services to a family member.[323] This setup generally circumvents private home care agencies, thus minimizing overhead costs but also potentially reducing oversight.

Despite efforts such as unionization, the State's budgetary limitations and high cost of living result in relatively low reimbursement rates. The state plays a role in setting care prices through its market power as a primary payer for home care services.[324] The state is unique in its strong labor presence in home care, as the SEIU represents In-Home Support Services home care providers. While this representation increases collective worker power in the sector, many California counties have negotiated IHSS caregiver wages close to minimum wage, for example, $18 in Los Angeles (with minimum wage $16.90 as of July 2023). While higher than the average state reimbursement rates, these wages are low relative to the cost-of-living and available wages to California workers. These low relative wages contribute to a care worker shortage, a dynamic that has previously been shown to threaten care quality in nursing home settings.[325] Furthermore, low-wage workers and unpaid caregivers may also experience mental health issues associated with financial and emotional strain.[326] The current state of home care is characterized by low wages and relatively high risk of injury and harassment.[327]

In-Home Care: Gray markets

Private-pay clients who are not eligible for publicly-funded care similarly aim to avoid agency fees and find direct caregivers to reduce costs. Some of these clients find caregivers on the "gray market," using direct, cash-based arrangements similar to informal babysitting employment. One survey found that 3 in 10 Americans seeking dementia care sought out the gray market of care, often outside of regulatory bounds.[328] Immigrants and nonwhite workers appear particularly vulnerable to cash-based arrangements and to this form of systemic

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[322] California State Auditor. 2021. "In-Home Supportive Services Program: It Is Not Providing Needed Services to All Californians Approved for the Program, Is Unprepared for Future Challenges, and Offers Low Pay to Caregivers." 2020–109 California State Auditor.
[323] Ibid.
[324] The Master Plan for Aging. 2021. "Data Dashboard for Aging." Let's Get Healthy California. At https://letsgethealthy.ca.gov/mpa-data-dashboard-for-aging/, accessed March 14, 2024.
[325] Castle, Nicholas G. 2008. "Nursing Home Caregiver Staffing Levels and Quality of Care: A Literature Review." Journal of Applied Gerontology 27, no. 4 SAGE Publications Inc: 375–405.
[326] Hoffman, Geoffrey J., and Steven P. Wallace. 2018. "The Cost of Caring: Economic Vulnerability, Serious Emotional Distress, and Poor Health Behaviors Among Paid and Unpaid Family and Friend Caregivers." Research on Aging 40, no. 8 SAGE Publications Inc: 791–809.
[327] Osterman, 2017.
[328] Shih, Regina A., Esther M. Friedman, Emily K. Chen, and Grace C. Whiting. 2022. "Prevalence and Correlates of Gray Market Use for Aging and Dementia Long-Term Care in the U.S." Journal of Applied Gerontology 41, no. 4 SAGE Publications Inc: 1030–34.

invisibility. Conversations with immigration advocates and immigrants reveal the perception that susceptibility to off-the-books, cash payment is particularly strong for workers who financially support family in their country of origin or those who experience human trafficking. This large gray market reflects the lack of sustainable options for those in need of long-term care services, as both clients and workers accept increased risk with fewer protections.

While hiring individual home care workers may save money in the short term, the practice may pose longer-term risks.[329] Under-the-table care arrangements provide little in the way of worker protections and can result in low care quality or caregiver abuse.[330] Workers may not have any training or adequate support to provide high-quality care.[331] And these activities are often untaxed, cutting into public funds that could be reinvested to improve the home care system.

It is in this context that I turn to the cases of SplenDoor and Courage. Both of these firms operate in the private-pay market segment, though some interviewees discuss experiences in the gray market of care as well.

Case Study I: SplenDoor, an Entrepreneur-Owned Small Business

> "All the appointments, the marketing strategy, the marketing tools, and everything. I, I spend most of my money, my savings to, you know, get everything done… This is a challenge." – CEO Terry Villasenor, CEO
>
> "Because I work nights, day and night. That's the thing. It's hard to get a caregiver ready... I just can't go get more clients, because I don't have caregivers." – Terry Villasenor, CEO
>
> "[The hired caregivers] just don't want to be a part of it. It's like, they just work *for* the company, but they don't want to work *with* the company, if that makes sense."
> – "Kristianne," employee

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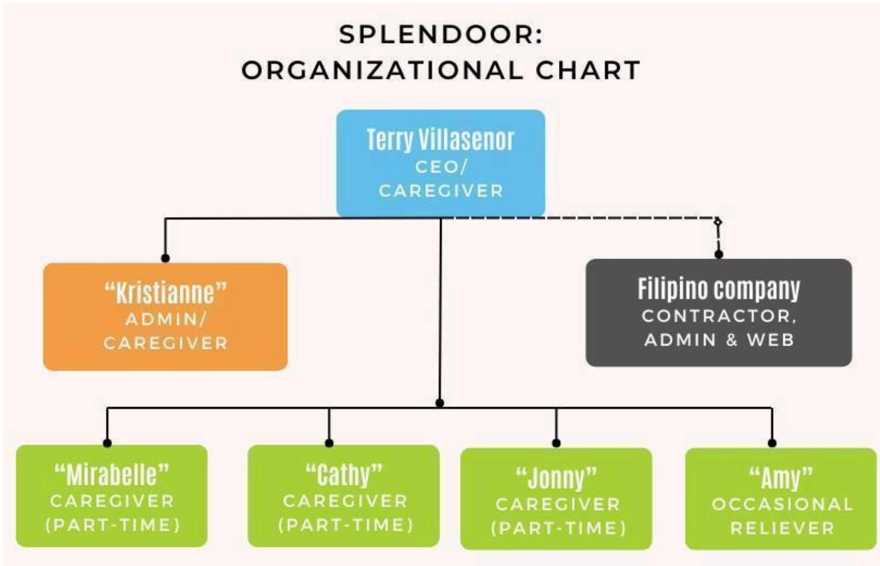
329 Marek, Karen Dorman, Frank Stetzer, Scott J. Adams, Lori L. Popejoy, and Marilyn Rantz. 2012. "Aging in Place Versus Nursing Home Care: Comparison of Costs to Medicare and Medicaid." Research in Gerontological Nursing 5, no. 2 SLACK Incorporated: 123–29; Thomason, Sarah, and Annette Bernhardt. 2017. "California's Homecare Crisis: Raising Wages Is Key to the Solution." UC Berkeley Labor Center. https://laborcenter.berkeley.edu/pdf/2017/Californias-Homecare-Crisis.pdf.

330 Rosenfeld, Abigail S. 2021. "Consider the Caregivers: Reimagining Labor and Immigration Law to Benefit Home Care Workers and Their Clients Notes." Boston College Law Review 62, no. 1: 315–56.; Storey, Jennifer E. 2020. "Risk Factors for Elder Abuse and Neglect: A Review of the Literature." Aggression and Violent Behavior 50 Elsevier. https://dx.doi.org/10.1016/j.avb.2019.101339, accessed April 12, 2024.

331 Shih et al, 2022.

Structure and Governance: One-Woman Decision-Making



Terry Villasenor started SplenDoor in 2020 after experiencing the dark side of the care industry. A survivor of human trafficking, she aimed to work for herself and to provide good jobs to other care workers by creating a home care agency for private-pay clients. While she had to put the company on pause during the pandemic, today she employs variably three to five of her friends and family as part-time caregivers, while continuing to work as a full-time caregiver herself. For administrative support, she relies on her daughter, a former HR professional. She also contracts out back-office work such as web design to contacts in her native country, the Philippines.

When it comes to governance, Villasenor ultimately makes company decisions. When she discusses her practices, she often draws on state regulatory requirements and what she has learned in public trainings, through courses in the state college system, and in her interactions with the Pilipino Workers' Center (where she is a member and volunteer). As one example, she shares her decision to switch workers over from 1099 status as independent contractors to W-2 status as employees:

> "[A] caregiver is not an independent contractor… In other words, you have to be in W-2. In other words, you have to be in an Employer Development Department. In other words, the employer will pay for your workers' compensation. In other words, the employer will get you insurance. In other words, your employer will give you an orientation like any other employer. In other words, they give you everything that you need to send you to the work site." – Terry Villasenor, CEO

She goes on to explain that many caregivers would prefer 1099 (or independent contractor) status – in part because it allows more tax write-offs, which can help offset the low wages paid in the industry. Yet Villasenor remains firm in classifying employees correctly by structuring employment as W-2 employment, because of what she learned through her work with the state and the Pilipino Workers' Center. Her decision to comply with the law means greater protections for workers, although their take home pay may be reduced.

Workers generally provide input on decisions informally, as there are infrequent meetings. In the six months covered by my study, there was one full staff meeting, and one other meeting had occurred right before the start of the research. Based on interview reports, these meetings are primarily structured for top-down communications from the CEO to workers – for example, to address issues like workers calling in sick at the last-minute, requiring coverage by another care worker. However, there's also opportunity for more discussion, as in an annual strategy session. Workers also mentioned their personal relationship with the owner, which provided informal opportunities for feedback.

One worker shared mixed opinions on these opportunities for worker voice and input. That is, she expressed frustration that other workers might disrespect the company hierarchy, for example, by treating the CEO as a "friend" rather than a "boss." At the same time, she also shared her preference that the CEO be receptive to worker voices. Even in the existing format, she acknowledged that home care work is largely autonomous and that not many of the other part-time caregivers have brought forward ideas.

Job Quality in Home Care: Compliance-Plus

Compliance

High-road employers are often expected to do more than comply with the law.[332] Yet compliant companies in the care industry in California have a relatively high bar. State regulatory standards in this sector are high, requiring mandatory minimum wages, paid sick leave, workers' compensation, agency licensure, background checks, and overtime. At the same time, there is a substantial gray market in the sector – with under-the-table cash wages, direct negotiations, and vulnerable client and worker populations. Contributing to the challenges of enforcing regulations of home care work, this work is often conducted in people's private residences and typically involves 1-to-1 relationships between the caregiver and the care recipient. In this landscape, a high-compliance organization might offer substantially better job quality than the average care arrangement.

Compensation and Protections

In this context, job quality at SplenDoor compares favorably to public and gray market options. In terms of compensation structure, workers are W-2 employees earning $22 per hour, well above the minimum wage in Los Angeles ($16.78 before July 1, 2024).[333] They are covered by workers' compensation and the LLC's business insurance, reducing the risk of uncompensated injury or personal litigation. These protections are important because of the physical tasks often involved in home care, including lifting the patient and supporting them in order to prevent falls. Because caregivers work part-time (by choice), they are typically ineligible for overtime, which

[332] Osterman, 2018.
[333] While home health agencies are covered under the $25 per hour minimum wage for healthcare workers, that policy does not cover private home *care* agencies like SplenDoor and Courage.

kicks in after a nine hour shift or after 45 hours per week. Further, they are not eligible for health insurance through SplenDoor, and there is no retirement plan.

Scheduling and Transportation

Scheduling and transportation came up as pain points from many California workers that I spoke with, and SplenDoor was no exception. In this case, interviewees expressed frustration at last-minute requests for coverage, whether due to a caregiver's illness or family care responsibilities. The weight of these care responsibilities largely fell on the CEO and her family, who felt most responsible for the company – yet caused tension when they interfered with other plans. As a note, the employees are part-time voluntarily, citing family responsibilities and other (non-care) jobs. It was also difficult for workers to find transportation to get to their clients. At one point, the CEO mentioned that she personally drove caregivers to jobs in order to ensure staffing, but that was not sustainable. Commutes were long and unpredictable, and one worker cited the commute as a reason not to pick up more hours. On the whole, SplenDoor sounded like a typical agency in terms of both scheduling and transportation, but its small size put pressure on the administrative workers to pick up extra shifts, detracting from their quality of life.

Worker Respect and Dignity

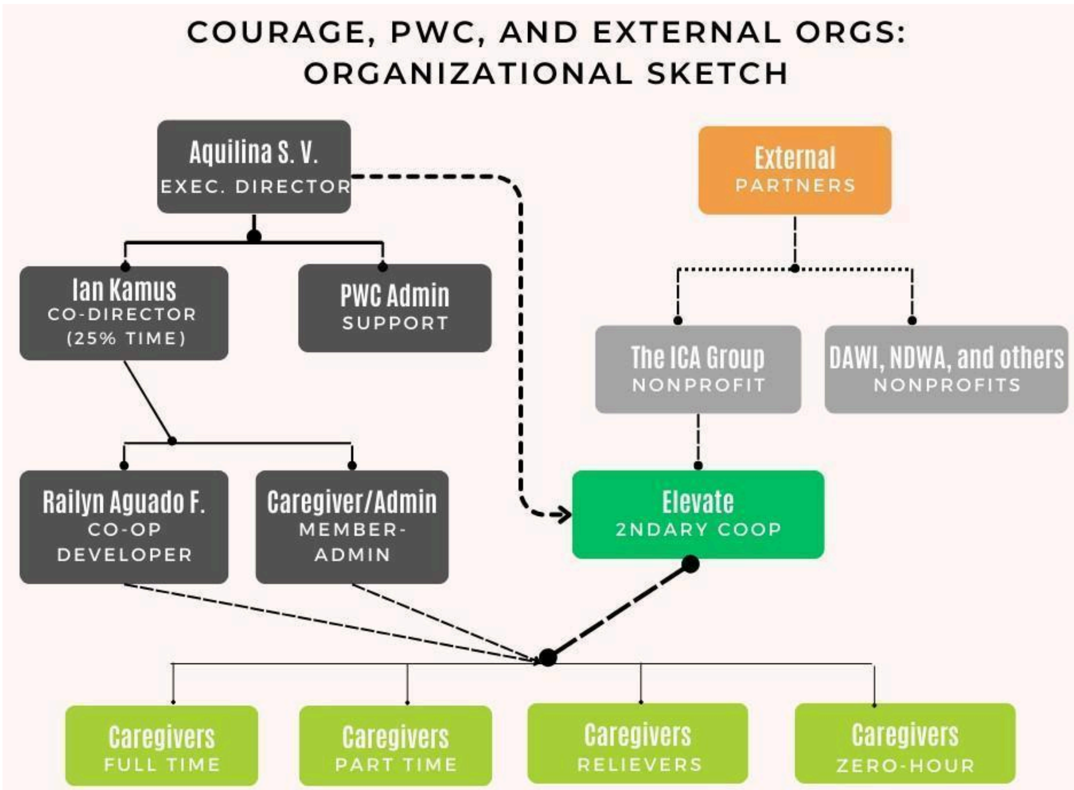
Finally, worker respect and dignity are key components to job quality for frontline home care workers, a historically marginalized occupation within the hierarchical medical field.[334] In the context of SplenDoor, each manager understood the challenge of care work from personal experience, which they claimed gave them more insight into its value. The person overseeing HR split her days between care work and administrative work. Of the care work experience, she said, "[other people are] like, 'Oh, caregiving, it's this and that,' but there's more to it than people think." Furthermore, the managers vocalized their belief that "happy" employees would be best for the company and expressed an interest in treating employees fairly. Without reviewing interactions over time, the relationships are difficult to assess – but workers said they were in close communication with the CEO and generally felt supported.

Case Study II: Courage, an LLC Cooperative

> "I got interested right away, because it's different from other agencies. This is a cooperative, [and] you're gonna help each other to succeed… with the clients. So, I like that kind of principle, that mission." – Courage home care worker
>
> "They still just see themselves as workers. [For] example, they don't take leadership in the governance meeting, because it's like, they don't see themselves as the owners of it." – Courage administrator

[334] Osterman, 2017, op. cit.

Structure: Workers' Center-Incubated Co-op



Organization of Courage cooperative and strategic partners. PWC-funded positions in dark gray; external organizations in light gray; secondary cooperative in dark green. Courage members (except member-administrator) in light green. Direct hierarchical relationships in solid lines; dotted-lines signal indirect/non-compulsory relationships.

Courage is a cooperative incubated out of the Pilipino Workers Center (PWC) in Los Angeles. The PWC is a worker center that provides education, legal protections, and supportive services to the local Filipino immigrant community. A high proportion of its members are in the care industry, and PWC has represented multiple workers who experienced wage theft and rights violations. A client approached PWC, having discovered that the agency she had hired was not distributing wages to her caregivers. The nonprofit took on the client's request to develop a better home care agency, and Courage was born.

Courage has continued to evolve over time. While Courage initially started with one client in 2015, its client base has grown to three clients that support 6 full-time jobs and part-time work for two "relievers." To develop the cooperative, Courage has received philanthropic and state funds, including state grant funds. It also receives technical support from the Democracy at Work Institute (DAWI), which pioneered the LLC cooperative model in California, and the ICA Group, which has a nationwide program to support home care cooperatives. As part of its grant targets, Courage brought on new members, bringing the total membership to 17 worker-owners.

As an LLC cooperative, Courage extends ownership rights to its 17 member-owners and includes the Pilipino Workers Center (PWC) as a Special Member. The operating agreement outlines member-owner responsibilities. In terms of financial buy-in, all member-owners buy into the cooperative for $500, which workers can pay in small increments or with grant support.[335] To exercise their governance rights and responsibilities, all member-owners pledge to attend quarterly governance meetings, held virtually. This condition has been more challenging to fully implement, given the round-the-clock nature of care work and the multiple jobs held by care workers who do not have client hours through the cooperative.

While LLC Cooperatives provide greater flexibility and integrate excluded workers, they also introduce two important strictures on the organization. First, in order to be considered “member-managed,” the LLC cooperative cannot have an external board.[336] Instead, the primary control of the company rests with member-owners. And second, member-owners generally have higher tax burdens than they would in traditional company employment.[337] In my interviews with member-owners, one said that she did not understand why they could not have a board. To her, it seemed like it might help solve their engagement problem. And almost every member-owner I spoke with, as well as the administrative staff, vented about their K1 tax status – which some perceived as unfair and a major disincentive to work with Courage.

While the members own the company and help set the direction, PWC plays a key role in governance and management, with technical assistance from external groups like DAWI and the ICA Group. Through grants, PWC covers the administrative costs of the cooperative, including the salaries for administrative staff. Administrative staff in this context includes: 1) a cooperative developer who supports with organizing cooperative culture, business needs, and capacity building; 2) one-quarter of a PWC Co-Director’s time, which supports training and capacity building; and 3) an administrator-member to support with timesheets, taxes, and bookkeeping needs.

Governance: “When an alternative is presented… it takes practice”

Governance meetings generally cover client updates, discussion of firm policies, and any input from workers. Decisions are largely guided to a vote on suggestions and options presented by the PWC cooperative-developer and Director. Examples of decisions that workers report weighing in on include: membership requirements for good standing, pricing, and pay. For instance, the cooperative decided to raise pricing from $25 per hour to $30 per hour in order to increase caregiver pay to $20 per hour, plus overtime.

One challenge in the governance meetings was maintaining member-owners’ engagement and participation. I sat in on three governance meetings, led by either the cooperative developer or

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[335] For new members, a state grant covered this buy-in fee.

[336] Cooperative Development Institute, David Hammer, Camille Kerr, and Andrew Danforth. 2015. “How A Worker Co-Op Structured as a LLC Can Retain Earnings.” Co-Op Cathy. At https://cdi.coop/coop-llc-retain-earnings/, accessed April 19, 2024.

[337] Hammer, David. 2015. “How Does a Co-Op Structured as an LLC Affect Members’ Individual Taxes?” Cooperative Development Institute. At https://cdi.coop/coop-llc-individual-member-taxes/, accessed April 19, 2024.

the member-administrator. In my observation, workers tended to sign off on staff or developer recommendations, share client needs, and seek advice. In follow-up interviews, some workers reported a lack of engagement, for example:

> "[S]ometimes, during the meeting, it is nice to have questions, you know? … [F]or me, I keep quiet because I know I understand already what they're talking about. But others, they keep quiet, and they have got some questions, and they are not telling those... We don't know. If you don't give, if you cannot bring out the question, we don't know." – Tala, member-owner

Administrative staff also mentioned the challenge of maintaining engagement in a virtual environment, particularly for member-owners who did not currently have clients through the cooperative. These challenges did not seem specific to Courage, although Courage administrative staff tended to emphasize the experimental nature of the cooperative for building a participatory culture. As one put it,

> "I think we're all so used to a certain way of working, of living, you know, in our world that like, when an alternative is presented, it's like, 'Oh, I didn't know this was possible. I didn't know that we could do it this way.' Right?... it takes practice."
> – Railyn Aguado-Fuala'au, co-op developer

Job Quality: Aiming for the High Road

In helping to incubate Courage, advocate and PWC leader Aquilina Soriano-Versoza explicitly aimed to improve job quality for the frontline care workers that make up a significant proportion of the local worker center's membership. She refers to the cooperative as a "pilot" and "experiment," and she consistently emphasizes the importance of developing a vision for the type of organization they want to see in the state of California. This exercise occasionally comes up against competitive pressures – and part of the PWC's strategy is to advocate for policy change in order to make the competitive landscape more favorable for high-road cooperatives like Courage.

Compensation and Protections

Relative to SplenDoor, Courage has similarly good job quality and stronger formal channels for worker voice. The hourly wage is slightly less, at $20 per hour (relative to $22). And yet, Courage workers tend to work 12-hour shifts, which then makes them eligible for overtime – paid at $30 per hour. For a 12-hour shift, the average wage is $21.67, roughly the same as SplenDoor. Similarly, Courage also carries the mandated insurance and workers' compensation. While Courage had provided vision and dental insurance through the U.S. Federation of Worker Cooperatives, not enough member-owners enrolled to maintain future coverage. Courage does not provide health insurance, but its link with PWC ensures that member-owners are connected with public services for which they are eligible.

Scheduling and Transportation

In terms of scheduling and transportation, Courage member-owners report different experiences depending on whether they have been matched with a client. For the six workers with full-time hours, scheduling is regular and consistent. Two scheduling-related challenges for this group are finding coverage when they need to take time off and the unpredictability of client mortality. While the member-owners have a chat group for finding coverage, clients prefer to interview caregivers first – meaning that they cannot call on the full group for relief coverage. When clients pass away, a worker can see their hours disappear, cutting off their source of income in a time of grief. Multiple workers spoke about this experience and their preference for having multiple clients to minimize the potential for abrupt termination. Yet this strategy often requires means of transportation between clients, which is not accessible to all member-owners. Multiple member-owners reported relying on Uber or family members to get to work, which was either financially or relationally costly.

Most workers in Courage do not have any client hours. In the cooperative, these workers face challenges of holding multiple jobs and matching with clients who are within reasonable transportation distance. One I spoke with shared her perception that a lack of clients related to member-owner disengagement:

> "Because Courage is still very young, so we don't have a lot of clients, right? So we cannot hold these people who are inactive, because they need to find some work out there somewhere. So you cannot be blaming them [about] being inactive because we don't have a lot of clients… I missed two meetings already." – Member-owner

She then went on to emphasize that matching member-owners to clients has been very difficult due to "location" and "if you drive," underscoring the transportation issue in matching care workers to clients. While Courage administrators have brainstormed options – including a company van – those options have thus far been viewed as not economical or practicable.

Worker Dignity and Respect

A key differentiator for Courage on job quality has been worker respect and dignity at work. Courage member-owners and administrators explicitly spoke to "worker dignity" as a priority. In its enactment, this priority contributed to opportunities for growth and strong communication across the cooperative. As one example, Courage offered to send member-owners to the ICA Group's cooperative conference outside of Washington, DC, in order to network and share lessons learned with other home care cooperatives from around the country. Further, multiple member-owners reported a high level of communication and coordination from the cooperative developer and member-administrator relative to other places they'd worked previously or concurrently. Even the governance meetings seemed unique in building relationships across care workers in the same organization – a practice that some workers reported as "discouraged," in their view, by previous employers, due to concerns about unionization. By contrast, PWC actively collaborates with unions to provide trainings and also invited Courage member-owners to a union cooperative convening held by 1199SEIU in New York City.

Key Distinctions: A Case Comparison

	SplenDoor	**Courage**
Owner	One entrepreneur	17 member-owners plus a nonprofit Special Member (PWC)
Clients	Private pay in Los Angeles	Private pay in Los Angeles
Tax status of workers	W-2 employees	K-1 owners and some 1099 relievers
Support network	State, via state college system and small business support	Non-profits (worker ownership technical assistance), state (grant)
Wage	$22/hour, limited overtime	$20/hour, plus overtime
Schedule	Mostly voluntary part-time; full-time owner	Split by full-time, part-time, and occasional relievers, as well as zero-hour owners
Key business challenge	Hiring W-2 employees	Attaining full-rate clients who match with worker availability (scheduling and geographic)

On the whole, SplenDoor and Courage are fairly similar on a number of important organizational dimensions – they are small LLC agencies, primarily staffed by immigrants and serving private-pay clients in the LA area. Almost all of the owners and workers are involved with the Pilipino Workers' Center. Yet while SplenDoor is owned by one person who hires W-2 employees, Courage is owned by 17 workers and incubated by the PWC. Further, each company has a different locus of support: SplenDoor heavily relies on public help, while Courage has more diverse institutional supports.

LLC: Cooperative VS Individual

One primary distinction is the LLC cooperative structure of Courage. Courage is part of a cohort of California companies piloting "Rapid Response Cooperatives," pioneered by the Democracy at Work Institute (DAWI) to support new LLC cooperatives. A California grant program for immigrant entrepreneurs has supported this pilot cohort.[338] By promoting this model, DAWI aims to help integrate "excluded workers," which they define as individuals with work challenges "due

[338] Hoover, Melissa. 2023. "Employee Ownership: A Pathway to Economic Resilience." Asset Funders Network. At https://assetfunders.org/resource/employee-ownership-a-pathway-to-economic-resilience/

to their immigration status or other significant barriers to employment."[339] All of the initial pilot LLC cooperatives are in low-wage industries, such as child care, taxi driving, and home care. DAWI has provided a toolkit and ongoing technical assistance to these companies.

In contrast to Courage's model, SplenDoor is an LLC, but not a cooperative. The CEO decided to be an LLC and pay workers as W-2 employees based on what she'd learned in local classes on small business law. Starting in the United States in 1977, LLCs helped limit the risk to a business owner in cases of litigation, so their personal assets would be protected.[340] Further, W-2 employment helps protect workers. Similar to Courage, the main frustrations expressed by the owner and workers related to taxation. Workers preferred 1099 taxation, so they could take deductions. And one evening, I spoke to the CEO after she had pulled an overnight shift – to have her mention that she was personally wrestling with her taxes. Yet on the whole, the CEO mentioned that locally-provided small business supports were generally adequate for helping her with any LLC-related questions, suggesting she is a fairly typical case.

Institutions of Support: The State VS Broader Institutional Network

SplenDoor, the traditional LLC model, primarily relied on the state and local university system for support, such as certification and additional training. Further, SplenDoor administrative staff attended events through the local worker center in efforts to network and recruit new workers and clients. In general, SplenDoor's relationships to the institutions of support was on an individual basis – with the owner primarily driving the relationships. Moreover, the relationships were mostly limited in scope to specific obligations or needs, rather than co-produced efforts.

By contrast, Courage had a number of key institutional partners, largely through the initiative of PWC Director Aquilina Soriano-Versoza. These relationships developed into partnerships and collaborations, with deep staff engagement and co-produced initiatives. Next, I share information on the key partners – many of whom engaged in cross collaborations.

- *Democracy at Work Institute (DAWI).* DAWI, led by Co-Directors Vanessa Bransburg and Julian McKinley, is a nonprofit organization to support and improve cooperative development. It spun out of the U.S. Federation of Worker Cooperatives as a self-described "movement-based think-and-do tank" Democracy at Work Institute 2021. In addition to innovating approaches such as the Rapid Response Cooperative model, DAWI provides technical support and conducts original research to support cooperative developers. Several DAWI leaders and staff support Courage by providing technical assistance on strategy and data collection, and by helping to apply for grants.
- *The ICA Group.* The ICA Group, led by David Hammer, is the oldest national nonprofit organization dedicated to the advancement of democratic worker ownership. Its mission is to build businesses and institutions that center worker voice, grow worker wealth, and

[339] Chung, Christina, Julian McKinley, and Melissa Hoover. 2023. "Seeding Equity: A New Community-Based Model of Public Investment in Worker Cooperatives for Excluded Workers, An Examination of California's SEED Initiative." Berkeley Law Center for Law and Work, Democracy at Work Institute. At https://www.law.berkeley.edu/wp-content/uploads/2024/01/Seeding-Equity-12.2023.pdf, accessed March 25, 2024.
[340] Hoover, 2023.

build worker power (The ICA Group 2020). Central to ICA's theory of change is industry-focused cooperative development. One such initiative is ICA's home care program, which supports the creation of new home care cooperatives, provides resources and technical assistance to operational cooperatives, and facilitates training and networking through webinars and an annual Home Care Cooperatives Conference. In March 2024, ICA launched Elevate Cooperative, a national membership-based secondary cooperative developed specifically for the home care sector. Courage has been an active participant in ICA's programs and received technical support for over five years, and is an early adopter of the Elevate Cooperative.

- *National Domestic Workers Alliance (NDWA).* The National Domestic Workers Alliance (NDWA), led by Ai-Jen Poo, targets a paradigm shift in the care economy – with a policy agenda, leadership training, tech development, and political and media engagement. Innovative strategist Palak Shah has supported the Courage cooperative model as one possible strategy to improve care work. In her role at NDWA, she collaborates with DAWI and The ICA Group on supporting Courage as a pilot for a broader, scaled model. As another connection, one Courage member-owner is also an NDWA representative, which means that she represents local home care workers as an advocate and helps NDWA to collect information from the network. Finally, the NDWA provides a collaborative network and platform for WC, inviting them to share their work at CareFest, a broader event to celebrate and envision the future of care work.
- *California Domestic Workers Coalition (CDWC).* The California Domestic Workers Coalition (CDWC) launched in 2006 as a "domestic worker-led, statewide alliance of community-based organizations, domestic employers, worker centers, labor unions, faith groups, students, and policy advocates" California Domestic Workers Coalition 2023. They are supporting the broader strategy team of DAWI, The ICA Group, and NDWA in providing feedback on the envisioned Elevate Cooperative and bringing in more domestic worker voices to the conversation. Courage members participate with the CDWC through their relationship to the Pilipino Workers Center.

In collaboration and supported by consultants, these groups aim to help Courage succeed as a pilot cooperative and to use it as a model to scale through the Elevate Cooperative (see box). This ongoing conversation underscores the orientational difference between SplenDoor and Courage. SplenDoor is a relatively local effort to provide quality home care and quality jobs, through building a successful business. By contrast, Courage is part of a more system-oriented vision, as a demonstration project for a paradigm shift in care work. A direct comparison would be inappropriate for both organizations – because SplenDoor has received much less institutional support, while the backers of Courage are taking a longer-term view that depends on systemic change.

Spotlight on Elevate Cooperative: A Co-op of Co-ops

The Opportunity

In its work in the home care industry, the ICA Group found that low margins and systemic challenges limit cooperatives' ability to improve job quality working alone. In 2019, they started work on a national secondary cooperative: Elevate Cooperative ("Elevate").

ICA began piloting Elevate services with group purchasing of PPE during the pandemic, when supplies were scarce and costs high. Since then, ICA has tested various products and services, culminating in a soft-launch at the 2024 National Home Care Cooperative Conference.

At its launch, Pilipino Workers Center Executive Director and Elevate advisory board member Aquilina Soriano-Versoza called Elevate Cooperative "the shared infrastructure we need to grow," citing opportunities to leverage buying power and learnings across cooperatives.

The Model

Once incorporated (anticipated late 2024), Elevate Cooperative will invite home care cooperatives to become members. Members will make a one-time equity investment in Elevate and pay membership dues based on a percentage of annual revenues. In return, Elevate will provide a suite of benefits, including: marketing support, business coaching, preferred rate loans, and access to Elevate Community – an online platform to share best practices and access resources and training content. Elevate plans to leverage shared purchasing power of members to save co-ops money on operational costs like accounting and care management software, and eventually, on worker benefits like health insurance. Finally, Elevate will uplift caregiver voices and needs to policymakers and the public.

Member cooperatives will participate in Elevate's governance, as they will make up a majority of the board. Members will select representatives from their own cooperative to run for the board and elect board members from among those candidates. As with worker cooperatives, the board will oversee management and ensure Elevate Cooperative's fiscal health.

As Elevate grows, it plans to help seed more home care cooperatives in strategic partnerships with "core" organizations like worker centers or other nonprofits. Core organizations will help to identify and attract potential worker-owners, and Elevate will support with feasibility analysis, training, marketing, and branding. Longer-term, Elevate aims to launch an acquisition fund to help acquire and convert traditional home care agencies into worker-owned cooperatives. (Box continues below.)

Strengths and Resources

The ICA Group, the incubator of Elevate Cooperative, has deep relationships and experience in cooperative development. Its Advisory Board includes leadership from home care cooperatives that adopted early Elevate services: Cooperative Home Care Associates, Cooperative Care, Courage, and Home Care Associates of Philadelphia. These relationships and collective experience translate into credibility and trust, as well as rich information to inform value creation opportunities.

The team has also put significant resources into developing Elevate Cooperative, including the equivalent of a full-time staff person and over $200,000 in investment, largely supported by the Cooperative Development Foundation and the USDA Rural Cooperative Development.

Potential Challenges

As a new model, Elevate Cooperative still needs to prove its value-add to home care cooperatives, and it will likely take time to scale. One potential challenge is that home care tends to be a low-margin industry (as discussed in this chapter), and it's not yet clear whether Elevate can sustain itself through dues or will require outside funding. Reaching Elevate's goal of financial stability within five years will require significant scaling of the sector.

Lessons Learned

This section presents lessons learned from the cases of SplenDoor, the LLC led by a Filipino entrepreneur, and Courage, the member-run LLC cooperative.

1. Lack of Equitable Services Across Models

The public sector does not provide equitable services to worker-owned companies, relative to capital-owned companies.

First, multiple conversations and experiences revealed that public sector employees are designed to support capital-owned companies rather than worker-owned companies. As one instance, grant metrics tend to focus on job quantity rather than job quality. While the State's grant program provided critical supports to immigrant-led cooperatives, the requested metrics incentivized Courage to bring on new members without supporting demand. When policymakers face pressures to evaluate scale of impact, they may prioritize quantitative measures over qualitative depth or proof-of-concept – potentially a poor fit for experimental models and organizational innovation.

Policy intervention: The state grants could develop flexible criteria that may better take into account local market conditions and business needs.

Second, economic development initiatives often do not include worker ownership as a solution. In speaking with former public officials in the City of Berkeley, CA, they also spoke to their need to bring in educators from Project Equity in order to have adequate public support for co-op conversions.

Policy intervention: The City of Berkeley and Project Equity could provide a roadmap to help bring worker ownership to the table at the local level, and the State could support some of that infrastructure work.

And third, Courage member-owners reported that the issue of taxation for LLC cooperatives is complex, relative to what W-2 workers reported at SplenDoor. Nonprofit leaders working on LLC cooperatives report that frontline home care workers in a cooperative LLC face a higher tax burden than in a typical LLC or in a typical cooperative.[341]

[341] Hammer, 2015.

Policy intervention: An Employee Ownership Hub could play more of a translational role between the state and cooperative development and help to provide technical assistance across the system, as well as partner with tax and budget think tanks to evaluate policy opportunities.

2. Co-op Development Remains Relatively Unsupported

Cooperative development remains experimental and inadequately supported, relative to small business development.

Cooperative developers aim to help newly-formed worker cooperatives to take shape, embody cooperative culture, and scale. Yet at this point, there's almost no research into what makes for an effective cooperative developer. In their report on the "Cooperative Growth Ecosystem," practitioners and experts Melissa Hoover and Hillary Abell call cooperative developers "essential" and list qualities they perceive as key – including business acumen, mission orientation, and social skills.[342] They also describe common tasks of co-op developers, including "technical assistance, direct support [for] co-op governance, management services, and administrative support."[343] And yet, this role also poses the risk of enabling member-owners to shirk responsibility onto the developer and for institutional support organizations to blame the developer for any performance issues.

For background research, I spoke to three developers in various cooperatives who expressed the challenges inherent to the role – with one revealing that they never felt full belonging with either member-owners or with the institutional support system.

Policy intervention: One role the Employee Ownership Hub could play is to develop a set of best practices for cooperative developers through research and experimentation, in order to better ease transitions to worker ownership culture.

3. Mutual Benefit of Financial and Voice Benefits

Financial and voice benefits are mutually important, especially for immigrant owners.

Given anti-exploitation rhetoric, it may seem surprising that worker cooperatives generally expect some degree of unpaid work from their member-owners. On the one hand, these opportunities can promote buy-in and constitute a form of "sweat equity," or up-front investment of time in exchange for an ownership stake and chance of future compensation. On the other hand, when targeted at low-wage workers, unpaid time may be particularly difficult. Lower-wage workers experience relative time poverty and may have multiple jobs and family care responsibilities. Transportation and secure Internet connection may not be taken for granted. And yet, in background conversations with multiple worker cooperatives, I heard stories of people expected to volunteer their time – particularly for sales and marketing, but also for cooperative meetings.

[342] Hoover and Abell, 2016, p. 18.
[343] Hoover and Abell, 2016, p. 17.

Cooperative meetings are perhaps a special case, because it is critical to establishing managerial control – an important distinction for people with barriers to standard employment. Therefore, excluded workers face greater incentive to give their time to meetings and ownership-related activities. While this level of involvement may be empowering, it does put these workers at a relative disadvantage in low-margin sectors like home care, where profit-based pay may never be enough to justify unpaid activities.

Policy intervention: An opportunity for the State to support participatory workplaces is to provide stipends to home care organizations for workers' administrative time, conditional on developing a channel for worker voice. The State will need to be thoughtful about how this funding may shape incentives and avoid tying it to company growth metrics without market support.

4. Limited Evidence for Sustainability

At current wage rates, it is not yet clear whether worker-owned models in home care are sustainable without external supports.

The margins of the home care industry are relatively low, leaving private-pay agencies to compete for a small number of clients who have the ability to afford care.[344] In this case study, a critical challenge for Courage is to find and enroll clients, resulting in a number of worker-owners who have democratic rights but no work. When Courage and SplenDoor do match workers to clients, those workers often calculate whether the low hourly rate makes up for the costs of transportation – particularly for workers who cannot write off the costs based on their tax status. A number of workers decide to reduce their home care hours or to refuse jobs because the cost does not make sense.

Courage has managed to supplement their administrative costs through strategic partnerships and grant funding, with help from its Special Member the Pilipino Workers Center.

Policy intervention: The State and/or Association could subsidize demand for worker-owned service providers in low-wage markets, to help cover workers' transportation costs and to increase margins for profit-sharing.

Conclusion

To help answer the questions posed in AB 2849, this study reviews and compares the journeys of SplenDoor In Home Care LLC ("SplenDoor") and COURAGE LLC ("Courage").

SplenDoor is an immigrant-led small business, of the kind typically encouraged and supported by the State, and Courage is an immigrant-led workers' cooperative that has benefited from state entrepreneurship grant funds.

Both companies represent efforts by home care workers to offer an alternative to low-road agencies and direct care arrangements, and each contributes different strengths. At SplenDoor, a well-intentioned CEO with significant care experience helps create W-2 employment for her

[344] Osterman, 2017.

fellow workers – even if not all of the workers would prioritize labor protections over cash in the short-term. Courage explicitly focuses on worker voice and dignity, although they are still working to attract sufficient clients to employ their members.

Ultimately, this case study supports efforts to increase available comparative case studies of companies with different ownership models, in order to help inform efforts to promote high-road business models.

Article 4: Case Studies of Worker-Owned Labor Contracting in Agriculture and Healthcare: California Harvesters, Inc. and AlliedUP

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June 6, 2024

Summary

Workers in low-wage sectors such as agriculture and allied healthcare face challenges such as labor shortages and high turnover. At the same time, a small number of staffing agencies dominate each sector and continue to generate substantial profits while labor violations continue to persist despite attempts at regulation and penalties.

This paper presents two case studies of worker-owned labor contractors: California Harvesters, Inc. (CHI), a farm labor contractor with an employee-owned trust, and AlliedUP, a healthcare staffing cooperative. These organizations are relevant and useful for examining possible advantages of worker ownership because they both have visions and models aimed at providing workers with high road employment and raising labor practices in their sector, are relatively large-scale initiatives that have placed over 1,000 workers in roles, and represent a collaborative effort with a range of labor, philanthropy, and other partner organizations.

This paper finds that both CHI and AlliedUP face similar challenges: securing market share (securing long-term clients and recruiting talented workers), managing tight business margins in competitive sectors, and engaging a supportive ecosystem of partners. While both organizations are relatively new, having launched within the last five years, their capacity for leveraging worker voice and decision-making in their respective ownership and governance models remains slow to come online as both are prioritizing stabilizing their business operations. Despite these challenges, both CHI and AlliedUp have demonstrated success; CHI has ensured good working conditions for workers even though pay is still at the $16 minimum wage rate, and AlliedUP has increased wages for some workers but has only 15 members as of 2023.

The findings of this case study suggest that improving job quality through worker-owned labor contracting in competitive, low-wage sectors with tight labor markets has clear advantages but major challenges. Overcoming these challenges may gain from business assistance with securing clients and workforce partnerships to recruit workers, but more targeted support may be necessary to enable success, such as stepping up regulation and inspection that might address labor violations in these sectors, as well as creating an “umbrella” organization and coordinating a support ecosystem to reduce administrative, legal, and HR costs and benefit from economies of scale in back-office services and other pooled resources.

Overview

Contingent workers finding work through a labor contractor are a growing part of the US economy, especially in high-turnover fields like agriculture and segments of the healthcare industry like nursing homes and allied medical assistants. About 15% of agricultural workers report securing work through a labor contractor while a 2022 survey of 1,005 health care providers found that 30% of workers in allied health professions (those assisting, facilitating, or complementing the work of physicians and other specialists, such as phlebotomists and medical record specialists) were temporary contract workers.[345] Reliance on contract labor in the healthcare system has grown substantially over recent years, with health care providers spending 258% more for a rapidly growing number of contract laborers between 2019-2022.[346] These temporary employees are typically provided by a labor contractor to a client employer on a short-term basis to perform spot labor like harvest work or filling gaps in hospital staffing. Unfortunately, most of these contingent contract employees are low paid, lack vacation or health benefits, have little prospect for career advancement, and have minimal voice or decision-making power over their working conditions.[347]

These dynamics helped prompt recent passage of California's 2022 Promote Ownership by Workers for Economic Recovery (POWER) Act, which has funded research into how a federated association of worker-owned cooperative labor contractors might mitigate workplace exploitation by encouraging the expansion of democratically-run, high road cooperative businesses, owned by and managed for the benefit of temporary, contract employees.

Part of that research was defined as case studies of the challenges and successes of existing employee-owned labor contracting enterprises, to help determine if employee-ownership might help improve workplace conditions for contingent employees. In response to that call, this report provides case studies of two recently formed California employee-owned labor contracting companies: California Harvester, Inc. (CHI), a farm labor contracting company with a worker-owned trust, and AlliedUP, an cooperative healthcare staffing agency.

These two cases were chosen for two key reasons:

- They are both large, well-publicized, ambitious efforts to address the twin challenges of labor shortages and labor exploitation in core California industries: agriculture and health care. As the labor challenges in these industries are well documented – including the challenge of low pay – these two employee ownership initiatives both emerged with

[345] National Center for Farmworker Health. Agricultural Worker Demographics. 2018. https://www.ncfh.org/agricultural-worker-demographics.html, accessed March 15, 2024; Bailey, V. 85% of facilities are facing allied healthcare professional shortages. Recycle Intelligence. 2022; October 22. https://revcycleintelligence.com/news/85-of-facilities-are-facing-allied-healthcare-professional-shortages, accessed April 24, 2024.

[346] American Hospital Association. Hospitals' contract labor costs surge amid workforce shortages. 2023. https://www.aha.org/news/headline/2023-03-08-hospitals-contract-labor-costs-surge-amid-workforce-shortages, accessed March 15, 2024.

[347] This general pattern is not true for all contract employees. Some contract workers with advanced training, such as traveling nurses, receive high pay and have more control over their own working conditions.

millions in startup funding (much of it grant money) and widespread press attention. They provide useful case studies on the challenges and opportunities facing serious and well-funded employee ownership solutions in labor-troubled industries.

- Both these cases are examples of situations in which the organization itself, and not the worker, is responsible for lining up jobs with clients (hospitals, farms, etc.). The worker-owned staffing company is not an employment agency, trying to place workers as independent employees of other clients, but is the employer of record itself – with a goal of providing good compensation and wealth building opportunities to everyone who works for the business.

A core question motivating these case-studies is to identify the challenges facing employee-ownership initiatives in realizing their goals of dignified work, better compensation, and wealth-building opportunities for traditionally poorly paid workers. The reality is that cooperative efforts seeking a high-compensation, high-road strategy have to succeed in a competitive marketplace, which means these efforts must win job contracts from paying clients. These clients are, of course, price sensitive, and many have long-established staffing relationships with other companies that can be hard to replace. What has been the experience of new employee-owned staffing agencies like CHI and AlliedUP in dealing with these challenges, winning market share, and sustaining high wages? What advantages might cooperative staffing companies bring to the table to win market share? And are there state-level actions – such as creation of a federated association of worker-owned cooperative labor contractors – that could facilitate the success of high-road labor contractors?

These case studies suggest that embedding employee ownership into the agricultural and health care labor contracting industries has advantages for both contract workers and the enterprises that rely on them. Potential advantages include increased wages and benefits, as well as increased training, productivity, and employee reliability.

However, employee-owned cooperatives face substantial challenges of winning market share, tight business margins, and labor shortages. Both CHI and AlliedUP face general labor shortages, and in agricultural work, CHI also depends on transient, migratory workers.

Farm Labor Contracting

Farm Labor Shortages

California Harvesters, Inc. (CHI) was launched to address enduring labor scarcity in agricultural work. California is “the largest producer of food in the US, responsible for over 400 commodities and two-thirds of the nation’s fruits and nuts.”[348] Valued at nearly $50 billion, California is the largest agricultural exporting state in the US, shipping more than 44% of produce to over 60 countries.[349] However, a recent NPR special report on the nation’s farm labor shortage shared

[348] Bauer, R. Sustaining the future of California agriculture. Farm Together. 2022; June 8. https://farmtogether.com/learn/blog/sustaining-the-future-of-california-agriculture-a-vital-industry, accessed March 15, 2024.
[349] Ibid.

how “farmers say they cannot find enough workers to bring in the harvest. They say it’s their top concern.”[350] The California Farm Bureau similarly reports that 56% of California farmers have been unable to find enough workers to harvest their crops.[351]

One reason for scarce labor is that farm wages are substantially behind wages of non-farm occupations. Also, agricultural work is notoriously difficult and characterized by extensive standing, bending, and lifting of heavy tools and crops.[352] In fact, US farm jobs are among the top ten most dangerous and strenuous jobs due to the workers’ exposure to machinery, pesticides, and environmental risks of heatstroke.[353] Though these jobs are very demanding, US Bureau of Labor Statistics 2023 data shows that farm and agricultural occupations are the third-lowest paying of 22 occupational categories, paying just slightly more than both food preparation/service and personal care occupations.[354]

For such reasons, there are typically more job needs than job seekers in agriculture, and the seasonal spikes involved in production and harvesting create times of even stronger labor demand. The inability to meet this labor demand results in crop loss when produce is left in the fields. A study by the Natural Resources Defense Council attributed 25% of annual crop losses (equal to $140 million) to labor shortages.[355] Similarly, a 2016–2017 California study of food loss for 20 hand-harvested crops in 123 fields found that 34% of edible produce remained unharvested and goes to waste each year, largely due to labor scarcity.[356]

Such dynamics have fostered a demand for intermediaries capable of recruiting and dispatching workers on demand – a demand often met by Farm Labor Contractors (FLCs).[357] Farm labor contractors serve as staffing agencies, responsible for recruiting laborers for agricultural

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[350] National Public Radio. As these farmworkers’ children seek a different future, farms look for workers abroad. 2023; July 28. https://npr.org/transcripts/1189476655, accessed March 15, 2024.
[351] California Harvesters, Inc. The Story Behind California Harvesters. 2020; February 5. https://www.facebook.com/watch/?v=812684679159202, accessed March 15, 2024.
[352] US Bureau of Labor Statistics. Agricultural Workers. 2022. https://www.bls.gov/ooh/farming-fishing-and-forestry/agricultural-workers.htm#tab-1, accessed March 15, 2024.
[353] Colorado Legal Services. The plight of farm workers. N.d. https://www.coloradofarmworkers.org/the-plight-of-farm-workers/, accessed March 15, 2024.
[354] US Bureau of Labor Statistics. National employment and wage data from the Occupational Employment and Wage Statistics survey by occupation, May 2023. https://www.bls.gov/news.release/ocwage.t01.htm, accessed April 24, 2024.
[355] Gunders D. Wasted: How America is losing up to 40% of its food from farm to fork to landfill. National Resources Defense Council. 2012. https://www.nrdc.org/sites/default/files/wasted-food-IP.pdf, accessed March 15, 2024.
[356] Baker, G., et. al. “On-farm food loss in northern and central California: Results of field survey measurements.” Resources, Conservation and Recycling. 2019. 149: 541-549; National Public Radio. America’s farms are facing a serious labor shortage. 2023; July 30. https://www.npr.org/2023/07/27/1190476628/americas-farms-are-facing-a-serious-labor-shortage, accessed March 15, 2024.
[357] USDA Economic Research Service. Farm Labor. 2023. https://www.ers.usda.gov/topics/farm-economy/farm-labor/#size, accessed on March 15, 2024; US Bureau of Labor Statistics. Agricultural Workers. 2022. https://bls.gov/ooh/farming-fishing-and-forestry/agricultural-workers.htm#tab-1, accessed March 15, 2024.

production and harvesting. FLCs handle recruitment, language barriers, and employment paperwork while transporting, paying, and sometimes supervising workers in the field.[358]

In 2019, at the Summer Conference of the California Winegrape Growers Association, the consensus was that farm labor contractors eased the burden of finding skilled and timely labor, helping farmers to maintain a focus on operations in a complex and physically demanding profession.[359] A 2019 survey of 1,071 farmers by the California Farm Bureau similarly reported that over 40% of respondents were unable to find all the workers needed over the past five years, and 61% relied upon FLCs to find their needed contract workers.[360] Another study from the California Institute for Rural Studies revealed that, despite the possibly higher per hour hiring costs (services of FLCs are sometimes more expensive per hour than directly hiring workers), farmers accepted the trade-offs because of the advantages offered by contracting services, such as cost savings on workers' compensation or payroll tax costs.[361]

One of these advantages is that agricultural producers can avoid the bureaucratic burdens associated with hiring employees. Hiring workers comes with regulatory compliance documentation, together with payroll management issues, and mistakes can lead to costly litigation.[362] Helping an agricultural employer to minimize these difficulties, a labor contractor may save the farm from the substantial complications of recruiting, hiring, and paying individual workers. This middleman system can work well for farm owners as they can seek to avoid the responsibilities of recruiting or trying to claim they are not the direct employer of workers.[363] These advantages have helped farm labor contracting enterprises grow to now provide about 40% of all California crop workers, and the US Bureau of Labor Statistics predicts continued rapid growth (5–8% a year) in the farm labor contracting industry through 2032.[364] Though these

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[358] Gale Business Insights. Farm labor contractors and crew leaders. 2024. Encyclopedia of American Industries.

[359] Hooker, B. "Labor Contractors can Reduce Burden on Growers." Agri–Pulse. 2019. https://www.agri-pulse.com/articles/12359-labor-contractors-can-reduce-burden-on-growers, accessed March 15, 2024.

[360] Daniels, J. "California Farmers increasingly turning to mechanization due to labor shortages, says survey." CNBC. 2019; May 1. https://cnbc.com/2019/05/01/farmers-turning-to-mechanization-due-to-labor-shortages-says-survey.html, accessed March 15, 2024,

[361] Strohlich, R. "Toward a more socially just farm labor contracting system In California." California Institute for Rural Studies. 2010. https://centralvalleypartnership.org/wp-content/uploads/2020/05/Toward-a-More-Socially-Just-Farm-Labor-Contracting-System-in-California-2010-.pdf, accessed March 15, 2024. See also Labor Management Decisions. 1991. Growers decisions to hire farm labor contractors and custom harvesters. https://are.berkeley.edu/~howardrr/pubs/lmd/html/fall_91/GrowersDecisions.html, accessed May 7, 2024.

[362] Ibid.

[363] Though agricultural employers of contract labor often claim they are not the actual employer, in order to avoid some workplace obligations, California law classifies these farmers and agricultural producers as employers, even when they contract for their workers. Farmworker Justice. Subcontracted workers. 2024. https://farmworkerjustice.org/advocacy_program/sub-contracted-workers/, accessed March 15, 2024.

[364] Martinez, F. "Examining the intricacies of farm labor contracting." KCBX. 2021; August 30. https://www.kcbx.org/podcast/beyond-the-furrows/2021-08-30/beyond-the-furrows-examining-the-intricacies-of-farm-labor-contracting, accessed April 24, 2024; O-Net Online. Farm labor contractors. https://www.onetonline.org/link/summary/13-1074.00, accessed April 24, 2024.

labor contractors are filling an important market need for agricultural employers, one reason for their recent substantial growth is the continued reality of low wages, physically demanding work, and often exploitative workplace conditions faced by workers, which leads to predictable labor shortages.

History of Worker Treatment

While the farm labor contracting industry is large and growing, the industry has an unfortunate history of worker exploitation by FLCs. Industry observers decry an array of illegal and/or unethical labor practices by farm labor contractors, including:[365]

- Paying less than minimum wage
- Driving workers into debt through exorbitant recruitment fees
- Extracting profit by sometimes charging workers for tool rentals, transportation, and lodging
- Exposure to pesticides and other dangerous working and lodging conditions
- Inadequate protection against hazards such as dehydration or excessive heat
- Providing unsafe or inadequate drinking water
- Physical, verbal, or sexual abuse
- Threats of deportation when workers raise grievances
- Discrimination
- Fraudulent practices like debt bondage, false advertising of job conditions, and confiscating documents such as passports and personal identification cards. [366]

Unfortunately, the fear of retaliation may force workers to remain at their position despite the abuse.[367] The current FLC model may contribute to this exploitative system because the relationship between the farmer and the worker is fissured by the FLCs as an intermediary. According to advocates, this fissure results in both legal and moral distance of the farmer from the hired worker, which leads to higher incidences of employment law violations and lower wages for workers, as compared to directly hired workers (a large part of what the farmer pays for labor costs goes to the FLC as a labor intermediary, not to the worker).[368]

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[365] Gale Business Insights. Agriculture." National Human Trafficking Hotline. Agriculture. N.d. https://humantraffickinghotline.org/en/labor-trafficking-venuesindustries/agriculture, accessed March 15, 2024.

[366] Perez, M. "What led to a migrant worker's death from heatstroke?" USA Today. 2021; December 17. https://usatoday.com/in-depth/news/investigations/2021/12/17/migrant-guest-workers-risks-farm-labor-contractors/8808652002/, accessed March 15, 2025; Lenhard, E. "How farm and food facility employees can fight back against sexual harassment." Oregon Tilth. 2019; May 21. https://tilth.org/stories/culture-shift/, accessed March 15, 2024; Yeung B. In a day's work: The fight to end sexual violence against America's most vulnerable workers. The New Press. 2018.

[367] Colorado Legal Services, n.d.

[368] Costa, D. "EPI comments on DOL's proposed changes to the Adverse Effect Wage Rate methodology for H-2A visas for temporary migrant farmworkers. Economic Policy Institute." 2022. https://www.epi.org/publication/epi-comments-on-dols-proposed-changes-to-the-adverse-effect-wage-rate-methodology-for-h-2a-visas-for-temporary-migrant-farmworkers/, accessed March 15, 2024.

The Wage and Hour Division of the US Department of Labor conducted over 31,000 investigations of labor law violations by agricultural employers between 2000 and 2019, ultimately demanding $76 million in back wages for 154,000 farmworkers and evaluating civil penalties for violations amounting to $63 million.[369] About 70% of these Department of Labor investigations on farms discovered a labor violation, with farm labor contractors being the worst violators.[370] In fact, while FLCs account for just 14% of the nation's total agricultural employment, they accounted for one-quarter of the labor law violations committed in the agricultural settings between 2005 and 2019.[371] Moreover, 75% of the investigations of FLCs detected violations, with a large share of the investigations (36%) finding five or more violations. Infractions committed by FLCs accounted for 48% of the total violations in California between 2005–2019, though they provided only about 28% of all agricultural workers during that period.[372]

California Harvesters, Inc.: An Employee-Owned FLC

California Harvesters, Inc. is an FLC with an Employee Ownership Trust (EOT). Its mission is to operate its labor contracting services to the maximum benefit of workers themselves, while also providing workers with paths into business management. The original idea of creating a labor contracting employee ownership trust stemmed from the leadership of Renewable Resource Group (RRG), an impact investment firm focusing on sustainable agriculture, rational water management, and renewable energy.

RRG purchased Sun World in California, one of the world's largest producers of table grapes. Sun World needed between 1,500 and 7,000 workers, depending on the season. As a social impact investment firm, RRG's leaders were personally committed to protecting vulnerable workers, even while pursuing a reasonable return on their investment. Rupal Patel, a manager at RRG, was responsible for exploring ideas to create a better management system that could benefit both Sun World and its workers. Patel, a former labor organizer, had a passion for protecting farm workers. Patel brought together many community partners – including co-op developers (i.e., The Democracy at Work Institute, Working World) and philanthropic foundations (i.e., Ford Foundation, Workers Lab) – to explore ideas to benefit both Sun World and its workers. Initial funding of $200,000 was mobilized to conduct field trips to learn from experts in the agricultural sectors and to produce a feasibility study on a better way to provide labor to growers like Sun World.

One of the places the team visited was the Farmworkers Institute of Education and Leadership Development (FIELD), a nonprofit organization dedicated to educating farmers "to inspire farmworkers & the rural workforce to gain self-sufficiency through employee-owned social

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369 Ibid.
370 Ibid.
371 Costa, D, Martin, P, and Rutledge, Z. "Federal labor standards enforcement in agriculture." Economic Policy Institute. 2020. https://files.epi.org/pdf/213135.pdf, accessed March 15, 2024.
372 Ibid; JBS International. California Findings from the National Agricultural Workers Survey (NAWS): 2015-2019. 2022.
https://dol.gov/sites/dolgov/files/ETA/naws/pdfs/NAWS%20Research%20Report%2015.pdf.

enterprises.” The organization is run by the youngest daughter of the late farm worker organizer Cesar Chavez, Elizabeth Chavez Villarino. She shared the story that “my father had a regret of not using a cooperative as a model to organize farm workers on his deathbed and told me that co-op models might have been a better strategy to protect farm workers.”[373]

Following field visits and completion of a feasibility study suggesting likely positive impacts of an employee-owned business model in farm labor contracting, the future founders of CHI decided to form a labor contracting Employee Ownership Trust (EOT), with a perpetual purpose to protect the interests of its contract farm labor employees. The group considered forming a worker cooperative in which farm workers would directly own and manage their company, but “an EOT model was better aligned with the need of a massive farm workforce for us,” stated Patel. Such an EOT model allows for a professional trust committee to manage an enterprise in the interests of its current and potential future employees, which works better with large and transient workforces, whose members may have limited management experience.

The CHI EOT was launched in 2018 with $1.8 million in startup capital from various funding sources, most of it in the form of foundation grants. Initial Funders of California Harvesters include the Catholic Center for Human Development, The Heron Foundation, the JM Kaplan Fund’ Renewable Resources Group, The Woodcock Foundation, and The Working World.

The CHI Vision: A Worker-Owned, High-Road Labor Contractor

Ongoing farm labor shortages and widespread labor abuses in the FLC industry prompted the founders of California Harvesters, Inc. (CHI) to imagine how a high-road model of democratic worker ownership might transform the farm labor contracting industry. As described by Carmen Rojas, former CEO of the Workers Lab which helped launch CHI,

> “The fact that conditions for farmworkers in California remained unchanged despite years of philanthropic investment, services, and organizing was staggering… For generations, people have been toiling in the fields in some of the worst working conditions in our country. And we’ve not done much more than tinker around the edges in figuring out how to fix that… We knew something needed to be done, and that [CHI] had as good a chance as anyone to recreate labor standards in the industry.”[374]

CHI board member Rupal Patel describes how the initiative was founded on a powerful value proposition “that there isn’t a shortage of available workers, but a shortage of quality jobs available for workers.”[375] Similarly, Jerry Ramirez, CHI director of Human Resources, describes CHI’s commitment to “providing higher wages, access to year-round work, valuable training, and leadership opportunities.”[376] This CHI vision holds that with less profit-taking by a traditional

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[373] Rupal, P. “Personal Communication.” March 11, 2024.
[374] Rojas, C. “The California Harvesters.” N.d. https://jmkfund.org/awardee/carmen-rojas, accessed March 15, 2024.
[375] Patel, R. “Growing with the Board.” Leading Harvest. 2021. https://leadingharvest.org/rupal-patel, accessed February 3, 2024.
[376] Rodgers, S. “How will organic maintain a strong labor force?” CCOF Certified Organic. 2019. https://www.ccof.org/blog/how-will-organic-maintain-strong-labor-force-find-out-2019-ccof-annual-meeting-and-conference, accessed March 15, 2024.

labor contractor, agricultural employers could benefit from more reliable access to well-trained labor, even as workers enjoyed better wages, safety, and dignity in the workplace.[377] The mission of CHI is to address two common failures of the farm labor contracting industry:

1) Even with traditional labor contracting services, shortages of farm labor remain.
2) Contract farm laborers face workplace challenges such as inconsistent employment, unsafe working conditions, low pay, no benefits, limited training, few opportunities to advance, and inadequate access to proper tools, housing, or childcare.[378]

To address both these problems, CHI emerged in 2018 as a new kind of farm labor contractor dedicated to providing high-quality jobs to farm workers, while delivering a growing pool of skilled and dedicated workers to regional farmers.

Governance: the CHI Employee Ownership Trust

CHI is not a typical farm labor contractor maximizing profits for a private owner but is structured as a mission-driven Employee Ownership Trust, with an obligation to operate the company in the best interests of its employees, the farm workers. The Trust is governed by a board of directors, with a legal obligation to guide business decisions in the best interest of all CHI employees – current and future. The Trust makes decisions such as what percent of profits should be reinvested into the company, what percent should help provide benefits like child-care or healthcare, and what percent should be distributed to employees as higher compensation.

In an Employee Ownership Trust (EOT), the business is not owned and managed by individual workers directly, but is owned by a Trust, established with a perpetual purpose to maximize benefits to all employees. In an EOT, employees do not have to submit an equity investment or other fee to become beneficiaries of the trust – every employee is defined as a beneficiary just by working at the company. Also, employees do not have direct ownership or governance decisions in the EOT, because the trust itself owns the company and the trust is governed by a board of directors which includes outside supporters (e.g. foundation staff) as well as workers.

Like other EOTs, California Harvesters is governed by a Trust Agreement, which defines its core purpose, its governance structure, and its profit-sharing principles. The CHI EOT is managed by its board members, who have a legal obligation to serve the stated purposes of the trust – which includes advancing employee interests. At CHI, all employees are beneficiaries of the trust, but workers can also become a full member of the trust, with voting rights, after logging a certain number of work hours (originally set at 1,000). Once they are full members of the trust, workers may serve on the board of the Directors, and have voting rights for the nine-member board, which has a goal of including five workers.[379] This board votes on major business decisions

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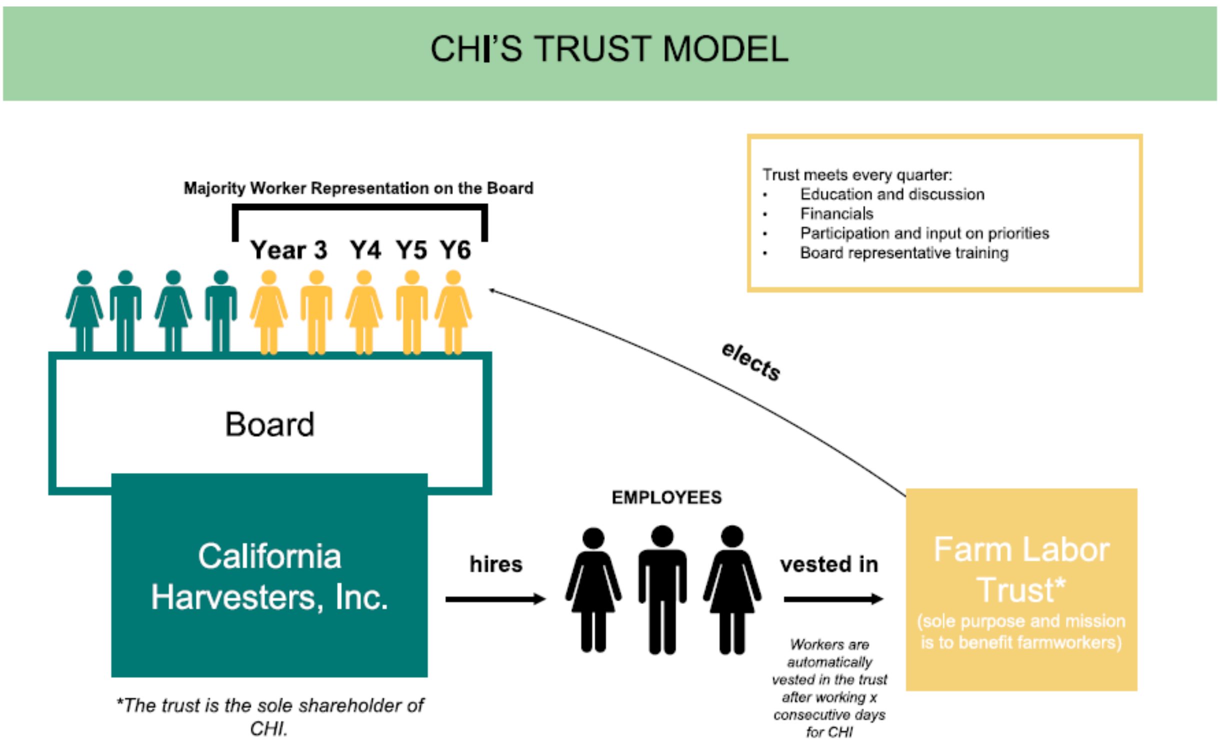
[377] California Partnership for the San Joaquin Valley. California Harvesters: An employee benefit company. 2019. http://sjvpartnership.org/wp-content/uploads/2019/09/CHI-Summary-Deck-1.pdf, accessed March 15, 2024.
[378] Ibid.
[379] Wartzman, R. "How a small worker-owned trust could transform agricultural labor for decades." Fast Company. 2018; July 21. https://fastcompany.com/90205860/how-a-small-worker-controlled-farm-collective-could-transform-labor-for-decades, accessed March 15, 2024.

(such as distribution of net revenues), provides overall organizational leadership, and oversees CHI's management team.[380]

Although the goal of CHI's board of directors was to feature a worker-member majority, this is not a requirement of the EOT model. CHI has faced difficulties in ensuring workers are a majority of the board. CHI has not yet been able to fully implement this governance model and has not been able to fill intended worker board member seats due to farm labor transience. Although CHI had an anchor client, Sun World, which agreed to regularly hire workers, it has been challenging for CHI to secure large contracts from other agricultural growers, which has resulted in less-than-optimal job availability and continued transience in CHI's labor force. This dynamic makes it hard to identify and mentor potential worker leaders for the CHI board.



Source: California Harvesters: An Employee Benefit Company.[381]

Benefits of an Employee Ownership Trust

Though CHI charges its agricultural clients similar rates as other farm labor contractors, the CHI vision is that surplus revenues earned from these fees (typically about 5–8% profit, after accounting for all expenses) would not be pocketed by a private business owner, but would be reinvested back in the workforce, through higher wages, better training and benefits, or investment in business operations of the EOT.[382] Ultimately, if CHI earned substantial profits, there would be room for wealth-building by individual workers, who would benefit from

[380] California Partnership for the San Joaquin Valley.
[381] Source: http://www.sjvpartnership.org/wp-content/uploads/2019/09/CHI-Summary-Deck-1.pdf
[382] Ibid; Wartzman, 2018

profit-sharing distributions. However, CHI has to win clients from cost-conscious farmers while competing with many low-wage labor contractor competitors, so the company has not yet been able to charge the kinds of higher fees that might result in robust revenues and profit-sharing distributions to workers.[383] Facing this kind of competition, CHI has only been able to pay its workers $16.00 per hour in 2024, which is California's minimum wage, including for those in agricultural occupations.

Though CHI has not yet been able to realize its vision of significantly higher compensation for its workers as compared to competitors, it still has generated other positive outcomes, such as:

- **Benefits**

  CHI offers a robust health care plan, with dental and vision benefits, and the ability to enroll family members at reasonable cost; 54% of eligible CHI employees have enrolled in this health plan.[384]

- **Workers' Compensation Case Resolution**

  CHI is committed to resolving workers' compensation cases (e.g., worker injury cases) fairly, including advocating for improved workplace safety conditions. Since its founding, CHI has resolved 73% of its workers' compensation claims without litigation, through reasonable awards to workers and a commitment to consistently improving workplace conditions. California's State Insurance Compensation Fund lauded this record in an official letter of recognition, which noted that CHI has an "incredibly low number of litigated claims," and that "the best thing about California Harvesters is that they will take almost every [injured worker] back at modified work, which is remarkable for this type of employer. This is saving money not only in temporary disability benefits, but helping the injured workers heal faster."

- **Job Ladders**

  CHI's training protocols naturally build skills and advancement opportunities for workers, whether at CHI or elsewhere. CHI has job ladder possibilities in that line workers can move up to become "crew assistants" and "crew bosses," and from there become a "field supervisor." They can also become CHI administrative staff, or an elected board member. In its first year, five CHI employees moved on to supervisory positions who had never had such responsibilities before. "I'm moving up," reported one CHI worker. "If I show I'm doing a good job, they'll see I'm capable of doing more."[385]

- **Dignity and Respect**

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[383] Rupal P. Personal Communication. March 11, 2024.
[384] California Partnership for the San Joaquin Valley
[385] Wartzman, 2018; State of California Employment Training Panel, 2019; March 29. https://etp.ca.gov/wp-content/uploads/sites/70/2019/07/FINAL-March-2019-Panel-Minutes.pdf, accessed on March 15, 2024.

CHI's director of human resources claims that treating workers with respect "is part of our culture. It's part of our initial onboarding training."[386] One journalist report on CHI notes that many field work managers with other FLCs try to force work speed-ups through yelling, hounding, and intimidation – but CHI trains its supervisors "to always communicate courteously – no yelling allowed – and persuade people through positive reinforcement."[387] The following quotes, taken from an audit of CHI by the Fair Food Standards Council and Coalition of Immokalee Workers, suggest that the CHI atmosphere of worker dignity and respect has made a difference.[388]

- "I like working here because workers are treated well. They treat you like a human. At other places, they'll talk to you like you're less than human, yell at you, and offend you."
- "Here, I see a change. Women are respected, and they pay attention [to workers]."
- "This is the first company that cares about us."
- "They are different. They are kinder and more understanding of our work."

This list of outcomes from adoption of the CHI employee ownership trust model helps explain CHI's rapid growth, from its very opening days. Within one month of CHI's launch, 250 workers had signed up with the company. By year's end, CHI had 875 workers.[389] CHI also reports a 45% annual retention rate (much higher than industry average) and a 52% increase in worker productivity after one year of work, although it's not clear how they calculated these figures.[390] This large number of dependable and increasingly productive workers helps CHI be a reliable partner to its agricultural clients.

Challenges of a Farm Labor Contracting EOT

Though CHI strives to benefit its agricultural labor force, the EOT has faced a challenge of not always being able to secure enough workers to meet demand. While the EOT had hoped to hire local farm workers and provide them with long-term jobs with growth ladders, the reality was quite different. While CHI was successful in getting up to 1,000 members in the beginning stage, those workers did not stay for a long term. Transience is very normal in this field, and just offering workers the benefits of an EOT could not alter the natural migration, transience, and constantly shifting workplaces of contract farm laborers. Due to CHI's inability to locate and secure a domestic workforce, almost all workers provided to large anchor clients – such as Sun

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[386] Lenhard, 2019.
[387] Wartzman, 2018.
[388] California Partnership for the San Joaquin Valley, op. cit; California Harvesters, Inc.
[389] Pure Strategies. Connecting to the farm: How companies are engaging in agriculture to build regenerative and thriving supply chains. 2018. https://purestrategies.com/downloads/connecting-to-the-farm, accessed March 15, 2024.
[390] It's unclear how this very large productivity increase was measured. These numbers are reported here: California Harvesters: An Employee Benefit Company. 2018. http://sjvpartnership.org/wp-content/uploads/2019/09/CHI-Summary-Deck-1.pdf, accessed May 7, 2024.

World – soon came to be foreign H-2A visa holders, who are allowed to work in positions from three months to one-year, with two one-year extensions possible.

The reasons for not being able to find enough domestic, long-term farm workers are complex. First, American farm workers are aging. As "American farm workers are, on average, in their 50s and 60s. Larger agricultural farms prefer young workers from Mexico who are able to work [longer hours every week] and Americans do not want to do that," states CHI's Patel.[391] Merrill Dibble, manager at CHI, adds that "there used to be immigrants who came to the US in the 1960s and the 1970s and they were very productive because they worked long hours like 10 hours every day. As they aged out, there was no replacement, because their children and grandchildren do not want to work on the farm… Only one out of thousand American workers are willing to work those long hours."[392]

Even if the price for getting H-2A visa workers can be higher – as farms are required to provide these workers with housing and transportation, and pay visa program fees – it is still often more affordable and productive for farms to go with H-2A visa workers because (as CHI's Patel notes) "American workers (with alternative job options) will often quit after working demanding agricultural jobs for one week."[393] But H-2A visa holders cannot easily quit a job and move to another opportunity, as once they are employed they are tied to this employer by contract for six months.[394] Thus, from the standpoint of obtaining a stable and reliable workforce, it is often less expensive for farms to go with H-2A visa workers.

On top of the challenge of finding reliable, long-term domestic workers, agricultural producers often find that the cost of hiring H-2A visa workers can be very similar to the price for domestic workers, even when considering additional costs such as housing. This is largely due to the lower turnover and more predictable ability to harvest all crops on time. For example, one University of California agricultural study found average H-2A wages in 2021 (including costs for visa, housing, etc.) to be $14,400 for approximately 26 weeks of work, while a US farm worker earned $13,541 for the same period of work. This slight difference in pay, even after considering extra costs for the H-2A visa worker, is made up for in decreased turnover for H-2A visa workers.[395]

These challenges meant that CHI has not been able to employ as many domestic workers, nor grow its contracts and revenues, as quickly as intended. With a serious labor shortage, the owner of Sun World (RRG) in 2020 sold much of the company to Sun Pacific, the largest table grape grower in the US. Now, Sun World is "genetics and a great breeding company that creates new varieties of grapes."[396]

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[391] Ibid.
[392] Dibble, M. Personal Communication. March 14, 2024
[393] Patel, R. Personal Communication, February 1, 2024.
[394] Martin, P. Proposed changes to the H-2A program would affect labor costs in the United States and Canada. Ca Agric. 2022; 75(3):135-141.
[395] Ibid.
[396] Dibble, M. Personal Communication, March 14, 2024.

A few years later, RRG purchased another farm in Arizona that grows dates and employs hundreds of workers in Yuma and Coachella.[397] Following that acquisition, CHI came to employ about 150 H2A Visa workers associated with this company and living in Blythe, CA. CHI also works with many foreign-born workers without H-2A visas and who are undocumented or green card holders, living much of the year in Mexico but crossing the border during the growing season. A massive number of these kinds of workers (between 1,500 and 2,000) will arrive in late August to stay on the farm until the end of harvest and then go back to Mexico or move to other farm states like Florida for work. For these reasons, the number of CHI workers fluctuates throughout the year, and only 200–300 workers out of 1,000 come back to CHI for a second year or more of work. Low retention makes it difficult for CHI to set up a sustainable worker leadership structure under the EOT model.[398]

At this point, about six years after launch, CHI still owes $2 million in debt to cover original business loans. With a recently hired new manager who comes from a strong labor management experience with Sun World, the hope is that CHI can operate more efficiently, grow its client base, and build a more stable workforce to normalize the business.

According to board chair Rupal Patel, the current objective of CHI is to “get work and pay down the debt. We have been operating for the first 5–6 years of the company going through growing pains. We are putting out fires all the time, but we are trying to do the right thing.” [399]

Starting in 2023, CHI made a profit of about $1.1–1.2 million, with $20 million in revenues. The business itself has a thin profit margin, about 4–5% a year, but CHI is on the right track to pay down all debts and turn consistent profits. Merrill states that “We are close to paying it all back.”[400]

Although CHI has faced an ongoing struggle from its start with external challenges such as the lack of labor, lack of clients, and thin margins, Merrill Dibble states that “the biggest success, despite all troubles, was to be able to provide workers with better wages and good working conditions.” Also, all board members continue to be optimistic about next steps in terms of continuing the CHI vision of sustainable growth over the long run.

Allied Healthcare Staffing

California’s health care system is facing a profound labor shortage.[401] Though the problem has been intensified by the pandemic, health care shortages predate Covid. Between 2008–2018, local and state public health staffing levels, years before the pandemic, public health staff nationwide declined about 20%, and research suggests that public authorities alone need to

[397] Ibid.
[398] Ibid.
[399] Patel, R. Personal Communication, February 1, 2024.
[400] Merrill, D. Personal Communication, March 14, 2024.
[401] Shen, K, Eddelbuettel, J, Matthew, D, and Eisenberg, M. “Job Flows into and out of health care before and after the COVID-19 pandemic.” *JAMA* 2024; 5(1): e234964.

increase their staffing by 80% to meet national health care needs (this is not counting staffing needs in the private health care system).[402]

The decade-long growing crisis in health care staffing escalated after the pandemic. One national study of the private health care sector found that 333,942 healthcare providers dropped out of the workforce in 2021 due to retirement, burnout, and pandemic-related stressors, while other research has found an “alarmingly high” two–year turnover rate among clinicians and staff of 53%.[403] The Bureau of Labor Statistics data shows that the healthcare industry quit rate is about 12% higher than the average quit rate for all industries.[404] A nationwide survey (2023) of 106 hospital and health system executives showed that 66% said their organizations weren’t always running at full capacity due to staffing shortages; 70% said patients sometimes could not be admitted to a bed due to inadequate staff.[405]

These nationwide problems are replicated in California. Staffing shortages in California hospitals have been connected to a substantial rise in frustrated patient violence against caregivers, workplace protests by healthcare staff, and declining quality of care.[406] A respiratory therapist with San Francisco’s Dignity Health says that they are so short-staffed, they “only have time to see the sickest of the sick.”[407] In the winter of 2022, California’s health labor shortage grew so severe during a Covid upsurge that the Governor had to call out the National Guard for interim health care staff and walk-in assistance.[408] This incident was followed by a bipartisan letter signed by 200 members of Congress (including 26 members of California’s delegation) raising

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[402] Leider, J, et. al. “Staffing up and sustaining the public health workforce.” JPHMP. 2022; 29(3): E100-E107.
[403] Condon, A. Health systems see internal staffing agencies as a path to solving labor challenges. Becker’s Hospital CFO Report. 2023; February 20. https://www.beckershospitalreview.com/finance/health-systems-see-internal-staffing-agencies-as-path-to-solving-labor-challenges.html, accessed March 15, 2024; Willard-Grace R. Burnout and health care workforce turnover. Annals of Family Medicine. 2019. 17(1): 36-41; Popowitz E. Addressing the healthcare staffing shortage. Definitive Healthcare. 2023. https://www.definitivehc.com/resources/research/healthcare-staffing-shortage, accessed March 15, 2024.
[404] US Bureau of Labor Statistics. Quits levels and rates by industry and region, not seasonally adjusted. 2024. May 1. https://www.bls.gov/news.release/jolts.t11.htm, accessed on May 7, 2024.
[405] Southwick, R. “Hospitals continue to wrestle with staffing shortages.” Chief Healthcare Executive. 2023; October 25. https://www.chiefhealthcareexecutive.com/view/hospitals-continue-to-wrestle-with-staffing-shortages, accessed March 15, 2024.
[406] Baustin, N. “San Francisco nurses blame workplace violence on staffing shortage.” *The San Francisco Standard.* 2023. September 26. https://sfstandard.com/2023/09/26/ucsf-hospital-nurses-protest-violence-staffing/, accessed July 16, 2024; Kayser, A. “California nurses sound alarm on staffing: 6 recent cases.” Becker’s Hospital Review. 2023; March 20. https://beckershospitalreview.com/hr/california-nurses-sound-alarm-on-staffing-6-recent-cases.html, accessed March 15, 2024.
[407] Kayser, A., op. cit.
[408] Tapp, T. “California calls out National Guard to increase Covid testing amid record-breaking surge. Deadline.” 2022; January 7. https://deadline.com/2022/01/california-covid-national-guard-1234906718/, accessed March 15, 2024.

urgent concerns with health care shortages and requesting executive action from the Biden administration.[409]

Allied Health Care Worker Labor Shortage

Allied health professions are somewhat ill-defined, but are distinct from physicians or nurses, playing a supportive role in the work of these highly trained specialists. The American Medical Association's Committee on Allied Health Education and Accreditation (CAHEA) defines "allied" health professions as "a large cluster of health care related professions and personnel whose functions include assisting, facilitating, or complementing the work of physicians and other specialists in the healthcare system, and who choose to be identified as allied health personnel."[410]

These allied health professions include dental hygienists, EMTs, diagnostic sonographers, dietitians, lab technicians, occupational therapists, physical therapists, radiographers, perfusionists, phlebotomists, cardiovascular technologists, respiratory therapists, speech therapists, home health aides, counselors, pharmacy assistants, health insurance/finance specialists, and medical record specialists.

Making up 60% of the nation's health care workforce, these allied health professions are in high demand but short supply. A 2022 survey of 1,005 healthcare providers nationwide found that 85% reported a shortage of workers in allied health roles, while an AMN health staffing agency survey of 159 hospitals, and other healthcare facilities found that 96% of health care providers relied upon temporary allied healthcare staffing agencies for spot labor in 2022.[411] In California alone, a 2021 study estimates that there will be 184,000 to 296,000 unfilled allied health jobs through 2029,[412] and 83% of all surveyed California healthcare workers in 2022 agree that their facilities were understaffed.[413]

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[409] Coyle, C. "Work to address staffing agency concerns advances. California Hospital Association." 2022; January 27. https://calhospital.org/work-to-address-staffing-agency-concerns-advances/, accessed March 15, 2024.

[410] National Library of Medicine. Allied health services: Avoiding crisis. N.d. https://www.ncbi.nlm.nih.gov/books/NBK218850/, accessed March 15, 2024.

[411] AMN Health Services, Inc. AMN healthcare survey: 85% of healthcare facilities face shortages of allied healthcare professionals. GlobeNewswire. 2022; October 20. https://www.globenewswire.com/news-release/2022/10/20/2538448/0/en/AMN-Healthcare-Survey-85-of-Healthcare-Facilities-Face-Shortages-of-Allied-Healthcare-Professionals.html, accessed March 15, 2024; BusinessWire. AMN Survey: Respiratory therapists top list of most in-demand temporary allied healthcare professionals. 2021. December 29. https://www.businesswire.com/news/home/20211229005045/en/AMN-Survey-Respiratory-Therapists-Top-List-of-Most-In-Demand-Temporary-Allied-Healthcare-Professionals/, accessed May 7, 2024.

[412] California Competes. Meeting California's demand for allied health workers. 2021. https://californiacompetes.org/wp-content/uploads/2022/12/CA-Competes-Allied-Health_Final.pdf, accessed March 15, 2024.

[413] SEIU-UHW. California legislature passes historic bill to give healthcare workers a fair wage and improve patient care. 2023; September 15. https://www.seiu-uhw.org/press/california-legislature-passes-historic-bill-to-give-healthcare-workers-a-fair-wage-and-improve-patient-care/, accessed March 15, 2024.

Growing Presence and Profits of Allied Health Staffing Agencies

When health care providers need temporary allied health workers, they often turn to a temporary staffing agency to deliver short-term lab technicians, home health aides, or other specialists: 96% of health care facilities hired such temporary workers in 2021 and 75% reported regularly looking for such workers.[414] Relatedly, job postings for allied health care workers increased 41% between 2020–2022.[415] In fact, healthcare is America's most contingent worker-dependent industry, with more than double the rate of contingency in the professional and business services industry.[416]

With chronic labor shortages being addressed by healthcare staffing agencies, some of the largest agencies are posting record revenues. In 2022, the top 103 healthcare staffing agencies (making up 90% of the market) generated $61.7 billion in revenue, a 57% revenue increase from the previous year.[417] Many of these healthcare staffing agencies are very large and lucrative. Though the temporary staffing agency industry in general is fragmented, the health care staffing agency industry in specific is more concentrated, with the 10 largest firms making up about 70% of the entire US market (led by companies like AMN, CHG, and Cross Country Healthcare, all of which are growing through recent mergers and acquisitions).[418]

America's largest healthcare staffing agencies are reporting robust profits in recent years, partly due to their use of surge pricing beginning in the pandemic era. The California Hospital Association (CHA) notes that labor shortages have fostered a trend of staffing agencies "vastly inflating [labor] prices, by two, three, or more times pre-pandemic rates, and then taking 40% or more of the amount being charged to the hospitals for themselves in profits."[419] In fact, allegations of price gouging have led CHA to push state legislation requiring greater transparency of staffing agency labor rates, including a public reporting of the share of those labor rates that go to temporary health care staff versus going to the agency itself. The CHA suspects that much of the increased labor costs have actually been pocketed by staffing agency

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414 AMN Healthcare. Survey of temporary allied healthcare professional staffing trends. 2021. https://amnhealthcare.com/siteassets/amn-insights/surveys/amn-survey-of-temporary-allied-healthcare-professional-staff-trends-2021.pdf, accessed March 15, 2024.

415 American Hospital Association. Data brief: Workforce issues remain at the forefront of pandemic-related challenges for hospitals. 2022. https://www.aha.org/issue-brief/2022-01-25-data-brief-workforce-issues-remain-forefront-pandemic-related-challenges, accessed March 15, 2024.

416 Kosanovich K. A Look at Contingent Workers. U. S. Bureau of Labor Statistics. 2018. https://www.bls.gov/spotlight/2018/contingent-workers/home.htm, accessed March 15, 2024.

417 Staffing Industry Analysts. Largest U.S. healthcare staffing firms generate $61 billion in revenue. 2023; July 11. https://www2.staffingindustry.com/Editorial/Healthcare-Staffing-Report/July-13-2023/Largest-US-healthcare-staffing-firms-generate-61-billion-in-revenue, accessed March 15, 2024.

418 University of Illinois Chicago Center for Healthy Work. Overview of the temporary healthcare staffing sector. 2019. https://healthywork.uic.edu/wp-content/uploads/sites/452/2019/08/Temporary-Healthcare-Staffing-Fact-Sheet.pdf, accessed March 15, 2024; Precedence Research. U.S. healthcare staffing market. 2023. https://precedenceresearch.com/us-healthcare-staffing-market, accessed March 15, 2024.

419 California Hospital Association. Work to address staffing agency concerns advances. 2022; January 27. https://calhospital.org/work-to-address-staffing-agency-concerns-advances/, accessed March 15, 2024.

profiteering, as these "agencies seemingly seized the opportunity [of Covid] to increase their bottom line."[420] Though the pandemic related explosion in surge pricing has since somewhat abated, industry observers predict that the profit-motivations of many private equity firms that are so heavily invested in health care staffing agencies will inevitably lead to more "surge pricing" or "dynamic pricing" to increase prices and profits whenever an acute labor shortage emerges in a given area.[421]

Temporary Allied Health Workers: Pay and Working Conditions

Although profits can be high in the industry, allied health workers have not experienced commensurate wage gains or other workplace improvements. Some temporary healthcare workers, like travel nurses or locum tenens (temporary) physicians, can command income substantially above what is paid to permanent staff at hospitals,[422] but most allied health workers are not in this strong market position. Though temporary or travel allied workers can sometimes earn higher than average hourly pay for their position, due to high demand and market "surge pricing," temporary staffing positions are irregular and rarely come with health, vacation, or retirement benefits.

Moreover, even though some temporary/traveling allied workers might earn more than regular staff, the average pay in the industry is in general quite low. The Bureau of Labor Statistics reports 2022 annual salaries for full-time positions such as dental assistants, EMTs, home health aides, health educators, nursing assistants, medical records specialists, pharmacy/lab technicians, phlebotomists, and massage/speech/occupational/physical therapists to all be in the $30,000–60,000 range – some of the lowest pay of all medical positions.[423] In terms of an hourly wage, the US Department of Health and Human Services reports a national median pay of $13.00–15.00 per hour for direct care health workers, who are primarily nursing aides, home health aides, or personal care aides providing long-term care and personal assistance to the elderly and those living with disabilities or other chronic conditions.

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[420] Ibid.

[421] See, for example, Kacik A and Hellmann J. Beyond the byline: Providers accuse staffing agencies of price gouging. Modern Health Care. 2022. March 17. https://modernhealthcare.com/labor/beyond-byline-providers-accuse-staffing-agencies-price-gouging, accessed May 7, 2024; Bellard K. Wait till health care tries dynamic pricing. The Health Care Blog. 2024. March 12. https://thehealthcareblog.com/blog/2024/03/12/wait-till-health-care-tries-dynamic-pricing/, accessed May 7, 2024.

[422] Bowblis J, et. al. Nursing homes increasingly rely on staffing agencies for direct care nursing. Health Affairs. 2024; 43(3): 327-335. Glatter R, Papadakos P, Shah Y. American health care faces a staffing crisis and it's affecting care. Time. 2023. https://time.com/6291392/american-health-care-staffing-crisis/, accessed March 15, 2024; Picard A. Nurses are fleeing the health system to work for private staffing agencies. Who can blame them? The Globe and Mail. 2023; October 19. https://www.theglobeandmail.com/opinion/article-nurses-are-fleeing-the-health-system-to-work-for-private-staffing/, accessed March 15, 2024; Marselas K. Bill puts nurse agency staffing in GAO's crosshairs. McKnight's Long-Term Care News. 2022; June 9. https://www.mcknights.com/news/bill-puts-nurse-agency-staffing-in-gaos-crosshairs/, accessed March 15, 2024.

[423] US Bureau of Labor Statistics. Healthcare Occupations. 2022. https://www.bls.gov/ooh/healthcare/home.htm, accessed March 15, 2024.

or living with disabilities or other chronic conditions. Typically low pay leads 45% of the direct care workforce to live below 200% of the federal poverty level and about 50% to rely on public assistance.[424]

In addition, securing temporary placements through a staffing agency typically gives workers little voice in their working conditions, low levels of occupational prestige, and dim prospects for career advancement. Research shows that doctors and nurses enjoy the highest levels of occupational prestige in the industry, while health care support, service, and direct care workers suffer from the lowest levels.[425] Unsurprisingly, such contingent health workers report higher anxiety, depression, and financial stress than workers in most other occupations. One industry study reported 46% of health care workers reporting they felt “clinically depressed,” while the CDC reports that nineteen percent of overall health care workers actually have diagnosed depression, a significantly higher rate than in non-health professions.[426] A large nationwide survey by the Centers for Disease Control in 2021 found that 53% of health care workers reported at least one mental health condition, including PTSD (37%), depression (31%), anxiety (30%), or suicidal ideation (8%).[427] Unsurprisingly, these mental health challenges are only exacerbated in a situation of temporary or precarious employment.[428] Besides being a crisis for the workers themselves, anxiety and depression of healthcare workers undermine the quality of patient care.[429]

All of these challenges fall most heavily on women of color, due to serious race and gender-based inequalities that have long plagued the healthcare profession. A recent PHI study found that 87% of direct care workers are women, 61% are people of color, 27% are

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[424] US Department of Health and Human Resources. Wages of direct care workers are lower than other entry-level jobs in most states. Issue Brief. 2023; August 2. https://aspe.hhs.gov/sites/default/files/documents/7a611d901c615e5611ea095b1dcf8d08/wages-dcw-lower-ib.pdf, accessed March 15, 2024; Hallet N. Wage theft and worker exploitation in health care. Medicine and Society. 2022; September. https://journalofethics.ama-assn.org/article/wage-theft-and-worker-exploitation-health-care/2022-09, accessed March 15, 2024; American Progress. Direct care worker pay and benefits are low despite high demand for services. 2023; December 8. https://www.americanprogress.org/article/direct-care-worker-pay-and-benefits-are-low-despite-high-demand-for-services/, accessed March 15, 2024.
[425] Hallet, 2024.
[426] Staffing Industry Analysts. Healthcare workers facing stress, depression and violence. Healthcare Staffing Report. 2024. March 14. https://www.staffingindustry.com/healthcare-workers-facing-stress-depression-and-violence, accessed July 14, 2024. Silver, S. et. al. Pre-pandemic mental health and well-being of healthcare workers. NIOSH Science Blog: Centers for Disease Control. 2022; August 29. https://blogs.cdc.gov/niosh-science-blog/2022/08/29/hcw-mental-health-prepandemic/, accessed July 14, 2024.
[427] Fullilove, Crystal. “Addressing mental health in healthcare temporary staffing.” SIA, October 9, 2022. https://www.staffingindustry.com/Editorial/Healthcare-Staffing-Report/Oct.-13-2022/Addressing-mental-health-in-healthcare-temporary-staffing; Courage, KH. “America isn’t taking care of caregivers.” Vox. 2021; August 4. https://www.vox.com/22442407/care-for-caregivers-mental-health-covid, accessed March 15, 2024.
[428] Bhattacharya, A. Precarious work, job stress, and health-related quality of life. American Journal of Industrial Medicine. 2021; 64(4): 310-319. https://doi.org/10.1002/ajim.23223.
[429] Hall L, et. al. Healthcare staff wellbeing, burnout, and patient safety: A systematic review. PLoS One. 2016; 11(7): e0159015. https://ncbi.nlm.nih.gov/pmc/articles/PMC4938539, accessed May 7, 2024.

immigrants, and 44% live in or near poverty.[430] At the same time, women of color hold only about 5% of healthcare leadership positions.[431]

In such a situation, it is not surprising that turnover among overstressed and underpaid health care workers is high (the industry has an annual quit rate of about 23%). Growing reliance on such contingent staff means that the average hospital turned over 90% of its workforce between 2016 and 2021.[432] The BLS reported a loss of 500,000 healthcare workers between 2020 and 2022, with the result that demand for new workers is substantially outstripping supply.[433]

These trends appear likely to continue, as an Ultimate Medical Academy survey of 1,000 allied health workers in 2022 found that 60% of these workers expect to leave their current job within five years, and that 39% say they plan on leaving the health profession entirely. The top reason given for leaving the profession was a desire for better pay (69%). The second most cited reason was to avoid high levels of stress in an understaffed profession, while the third cited reason was "not seeing career path and growth opportunities."[434] These numbers are especially alarming when considering that an aging US population will only balloon the need for quality healthcare workers in the years ahead, and 80% of Americans already report difficulty in scheduling care without delays due to acute healthcare staffing shortages.[435]

Concerns Over Staffing Agency Profits

Though allied health workers have not seen significant income gains, health care providers are paying increasingly higher costs to secure these workers from staffing agencies. The American Hospital Association reports that contract labor costs for hospitals escalated 258% from 2019 to 2022, as the median labor rate paid to the staffing agency rose nearly 60%.[436] Though the labor rate billed by staffing agencies has escalated dramatically during and since the pandemic, a large portion of this billed revenue is not given to health care workers, but is profits for staffing agencies. The American Hospital Association (AHA) has reported that rates charged by staffing

[430] PHI. PHI Launches Institute to Address Inequities in the Direct Care Workforce. 2021. http://phinational.org/news/phi-launches-institute-to-address-inequities-in-the-direct-careworkforce/, accessed March 15, 2024.
[431] Stewart M. Women of Color Continue to Be Shut Out of Leadership Positions in Health Care. Insight Into Diversity. 2021; April 19. https://insightintodiversity.com/women-of-color-continue-to-be-shut-out-of-leadership-positions-in-medicine-and-health-care-but-one-school-is-working-to-change-that/, accessed March 15, 2024.
[432] ROAR for Good. The cost of nurse turnover in 2022: How the Great Resignation impacts your organization. 2022. https://roarforgood.com/blog/cost-of-nurse-turnover, accessed March 14, 2024.
[433] Herrera M. New job opportunities for Hispanic communities in the health sector. Al Dia. 2022; May 16. https://aldianews.com/en/leadership/advocacy/job-opportunities-latins, accessed March 15, 2024.
[434] Ultimate Medical Academy. Sounding the alarm on healthcare staffing. 2023; June 21. https://prnewswire.com/news-releases/sounding-the-alarm-on-healthcare-staffing-new-study-reveals-60-percent-of-all-healthcare-support-workers-expect-to-leave-their-job-in-the-next-five-years-301857064.html, accessed March 10, 2024.
[435] Advisory Board. How health care's labor shortage is affecting patients. 2022. https://www.advisory.com/daily-briefing/2022/03/14/health-care-shortage, accessed March 1 2024.
[436] Lagasse J. Hospital's labor costs increased 258% over the last three years. Healthcare Finance. 2023; March 10. https://healthcarefinancenews.com/news/hospitals-labor-costs-increased-258-over-last-three-years, accessed March 10, 2024.

agencies have increased 213% between 2019 and 2022. However, “these agencies are not passing along a comparable increase in wages to travel nurses… During pre-pandemic levels in 2019, the average margin retained by staffing agencies for travel nurses was about 15%. As of January 2022, the average margin had grown to an astounding 62%.”[437] Though similar data is not available for allied health occupations, the pattern likely is replicated. These practices have led to enormous profits for staffing agencies – often over 20% of revenue.[438] According to data reported by the Private Equity Stakeholder Project:[439]

> “AMN Healthcare Services reported its gross profits were $434 million in the fourth quarter of 2021, up 109% from a year prior, according to an annual earnings report. Its net income, which takes into account all business-related expenses and taxes it had to pay, was $116 million, a 1100% increase. Another healthcare staffing agency, Cross Country Healthcare, saw its revenue increase 93% between the third quarters of 2020 and 2021. It also reached $1 billion in annual revenue for the first time in the company’s history in 2021… AMN Healthcare (NYSE:AMN) saw its Nurse and Allied Solutions segment revenue in 2021 increase 76% to $2.99 billion from 2020, with Travel Nurse revenue, specifically, increasing 136%. Cross Country Healthcare (Nasdaq: CCRN) saw its Nurse and Allied Healthcare segment revenue in 2021 increase 212% to $620.4 million.”

These kinds of figures have fostered a growing number of mergers and acquisitions in the healthcare staffing industry, including private equity firms starting to acquire healthcare staff agencies at a rapid pace. Since the pandemic, three of the nation’s largest staffing agencies were purchased by private equity firms, and many other deals have followed suit.[440]

Beyond these private equity deals, a record number of mergers and acquisitions have also consolidated the industry. Apparently, the big industry players and private investors alike are confident that substantial profits will continue in the healthcare staffing industry.

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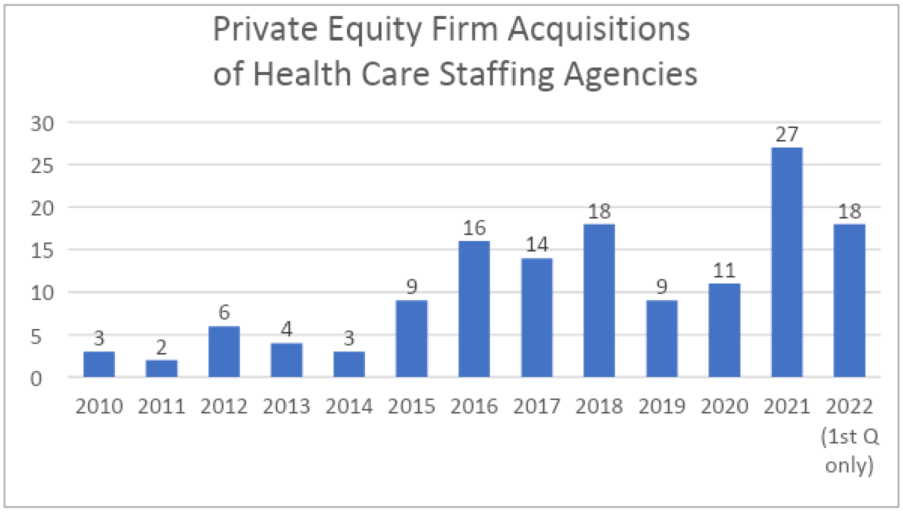
[437] Bugbee, M. Profiting in crisis: Exploring private equity’s investments in travel nursing amidst a critical nursing shortage and a pandemic. Private Equity Stakeholder. 2022; September. https://pestakeholder.org/wp-content/uploads/2022/10/PE_travelnursing_FINAL-1.pdf, accessed March 14, 2024.

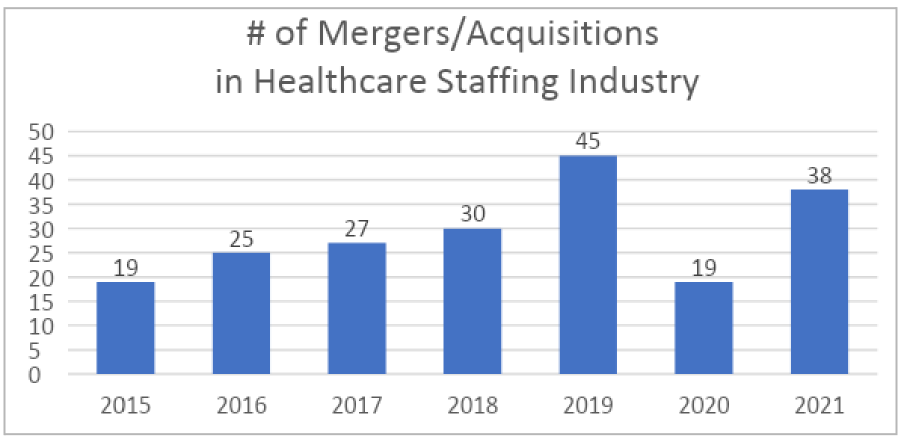
[438] Vesoulis A, Abrams A. Contract nurses are making big money in the age of COVID-19. Are they “exploiting” the pandemic? Time. 2022; February 23. https://time.com/6149467/congress-travel-nurse-pay/, accessed March 13, 2024.

[439] Private Equity Stakeholder, 2022.

[440] Vesoulis and Abrams, 2022.



Source: Pitchbook Data, Inc.[441]



Source: Capital IQ, FactSet, PitchBook, and Capstone Partners[442]

The increased prices, escalating profits, and torrent of private equity and merger/acquisition money pouring into the healthcare staffing industry is prompting growing concern over profiteering and workforce exploitation. In one case, the private equity owners of CHG healthcare staffing (one of America's largest such firms) have paid investors more than $1.5 billion in dividends, while providing minimal income gains for health care workers and while piling up so much acquisition-related debt that Moody's has reduced their company outlook from stable to negative. In another case, the private equity acquired Medical Solutions staffing company settled a worker lawsuit in 2020 for $1.15 million, based on charges that the staffing company did not pay complete or accurate wages, did not pay minimum wage, did not pay for all reimbursable worker expenses, and violated labor laws by refusing to authorize meal and rest periods.[443]

441 https://pestakeholder.org/wp-content/uploads/2022/10/PE_travelnursing_FINAL-1.pdf
442 https://www.capstonepartners.com/insights/article-healthcare-staffing-industry-ma-update/
443 Bugbee, 2022.

It is in this context of increasing reliance on contract allied health care workers, together with rising markups by healthcare staffing agencies amid persistent low pay and poor working conditions for allied healthcare workers, that the employee owned AlliedUP cooperative concept was born.

AlliedUP: An Employee Ownership Partnership with Community Stakeholders

The formation of AlliedUP was an effort among various community stakeholders that took more than a year's preparation from research to launch. As the first unionized staffing cooperative for allied health professionals, AlliedUP provides a unique model of employee ownership and benefit. In particular, three community stakeholders are important in the building of the foundation of AlliedUP: 1) the SEIU-UHW labor union, 2) Futuro Health, a healthcare worker educational program, and 3) the employee ownership ecosystem of nonprofit developers.

SEIU-UHW

SEIU-UHW (Service Employees International Union-United Health Workers West) was critical in the formation of AlliedUP. SEIU-UHW is one of the largest healthcare unions in the US, with a membership of nearly 100,000 healthcare workers and patients.[444] For years, SEIU- UHW has been actively engaged in policy change to benefit healthcare sector workers. In 2022, SEIU-UHW was critical in substantially increasing the minimum wage for healthcare workers statewide, by mobilizing support for California's Senate Bill 525, which established a $23-per-hour minimum wage starting in 2024 for health care workers in large health care systems California cities and tiered this wage downwards, depending on facility type.[445]

Beyond increasing the minimum wage, SEIU-UHW had worked for some time with its community partners to conceptualize enduring, institutional solutions to the problem of vulnerable healthcare workers. One innovative idea that SEIU-UHW and its partners developed was the concept of a Cooperative Labor Contractor (CLC), as a "new type of labor market intermediary." A CLC would offer workers "full employment security and protections, enhance workers' control of their own labor, and allow them to share in the profits their labor creates."[446] Under the model of CLC, workers would be also designated as "W2 employees who also own and govern the business"[447] In this regard, the conception of AlliedUP as a CLC became a solution to the problem of labor protection from what the union perceived as exploitative labor contractors in the healthcare sector.

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[444] SEIU-UHW. Join as a healthcare worker : Frequently asked questions. N.d. https://www.seiu-uhw.org/join-healthcare-worker/join-union-faq questions/, accessed March 1, 2024.
[445] California SB 525. 2023-2024 Regular Session. https://pluralpolicy.com/app/legislative-tracking/bill/details/state-ca-20232024-sb525/2218001, accessed March 14, 2024.
[446] The Cooperative Economy Act Proposal by SEIU-UHW. Internal Document. Forwarded by Ra Criscitiello.
[447] Ibid.

Such a CLC would give precarious workers more democratic control of their workplace, self-empowerment, and a sense of ownership. Building a worker-owned staffing agency would allow allied health workers to advance their own interests through a collectively owned staffing agency, even without waging union organizing campaigns against health care providers. It would advance the concept of collective power, in collaboration with union support, but wouldn't require bitter unionization campaigns waged against health care providers. As the board chair of AlliedUP, Rebecca Miller, states, "a co-op is a very innovative way to think about how to grow unions and also takes away the pressure from the employer to have to fight the union all the time."[448]

To launch this CLC idea, SEIU-UHW played a key early role by dedicating substantial staff time to researching and presenting the concept to union officials, impact funders, foundations, and health care providers like Kaiser. Months of SEIU-UHW staff time preceded AlliedUP's launch. Training with workers, staff research time, and consultations with securities attorneys, developer consultants, and tax experts all cost substantial resources, running into the hundreds of thousands of dollars. Additional start-up capital was needed to sustain salary and other business expenses upon co-op launch, while the business sought out enough clients and cashflow to reach a breakeven point. In short, AlliedUP would likely not have existed without SEIU-UHW's efforts to address the problem of healthcare worker exploitation through a collectively owned labor staffing agency.

Futuro Health

Futuro Health is a nonprofit organization that provides training and education for healthcare sector workers. The organization was launched after receiving $130 million in support from Kaiser Permanente as part of a labor agreement reached with SEIU- UHW, which aimed to grow the allied health workforce by "investing in allied health education, skills training, and retraining." [449] Some of the training programs included medical assisting CNAs, respiratory technicians, phlebotomists, pharmacy technicians and related health care workers. According to a 2023 annual report, Futuro Health committed $13.3 million in scholarships to support "Futuro health scholars and their aspiration to pursue in-demand healthcare credentials." There are 8,415 people who completed their Futuro health scholarship program in 2020 and over 6,000 people graduated in 2023.[450] Once they graduate, graduates can move to the Career Coaching Group and about 50% of people who complete the coalition services will be placed within the healthcare industry.

As Futuro Health launched, AlliedUP founders conceptualized this training program as a way to feed future workers into the AlliedUP labor contracting co-op in a "training-to-placement" pipeline project. AlliedUP is one of many healthcare labor contractors that workers can select to

[448] Miller R. Personal Communication, July 18, 2022.
[449] SEIU-UHW. Futuro health receives commitment of 100 million to expand nationwide as solution to address healthcare workforce shortages. Press release. 2023; November 20. https://www.seiu-uhw.org/press/futuro-health-receives-commitment-of-100-million-to-expand-nationwide-as-solution-to-address-healthcare-workforce-shortages/, accessed March 14, 2024.
[450] Futuro Health. 2023 annual report. 2023. https://futurohealth.org/wp-content/uploads/pdf/FH-2023-Report.pdf, accessed March 14, 2024.

work with, and AlliedUP's founders assumed that with a high wage, high road model, AlliedUP would be very attractive to the trained graduates of Futuro Health.

Community Employee Ownership Ecosystem

The formation of AlliedUP depended on broad support from a network of nonprofits and foundations who together constitute a growing ecosystem of cooperative support in California. Initial support came from the Irvine Foundation that awarded AlliedUP $750,000 over two years to help pay for technical support and other necessary services from supportive organizations.[451] Several other foundations also stepped up with low-interest loans or multi-million-dollar grants to help sustain AlliedUP in its critical early stages.[452] With this support, AlliedUP was able to launch and sustain operations over its first few years.

Vision and Governance Structure

AlliedUP was launched in March of 2021, as an allied health care staffing co-op with a mission of providing excellent healthcare to patients, high-quality service to clients, and meaningful employment and ownership to workers. One industry report summarized the aspirational goals of the co-op: "through its combination of quality jobs, ongoing training opportunities, and cooperative ownership structure, AlliedUP expects to increase worker retention, improve patient outcomes, and raise living standards for thousands of women of color, including single parents, who dominate this workforce."[453]

Confronting an allied health industry largely made up of poorly-paid and long-exploited women of color, AlliedUP describes a core goal as "overcoming workforce inequalities across race, gender, age and sexual orientation."[454] Although realizing this vision presumably might cost health care employers more – in terms of supporting better wages and training for temporary employees – AlliedUP's founders believed this model of dependable, well-trained workers could be embraced by hospital and health care managers. "AlliedUP could say to an employer that this solves your problem too," notes Ra Criscitiello, one of SEIU-UHW's staff dedicated to this project. "In theory, you should want vacancies filled with good, trained people in these health jobs. Theoretically, it should be a win-win."[455]

AlliedUP is an employee-owned cooperative, meaning it has a dual mission to serve not only as a profitable, revenue-generating business, but also as an enduring agent of worker empowerment, providing good wages, democratic decision-making to its worker-owners, and an organizational structure that will protect workers' rights over the long run. In terms of workplace

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451 Raja V. Irvine Board of Directors Approves $19 Million in Grants on June 16, 2021. June 21, 2021. https://irvine.org/insights/irvine-board-of-directors-approves-19-million-in-grants-on-june-16-2021/, accessed March 11, 2024.
452 AlliedUP Cooperative. Trusted believers. N.d. https://alliedup.com/about/fundingpartners/, accessed March 15, 2024.
453 Alternative Staffing Alliance. AlliedUP combines quality staffing jobs with worker-ownership. 2021. https://altstaffing.org/news/AlliedUP-combines-quality-staffing-jobs-with-workerownership, accessed March 10, 2024.
454 See AlliedUP website at https://www.alliedup.com/.
455 Criscitiello R. Personal Communication, December 4, 2023.

empowerment, all employees of AlliedUP are eligible to become cooperative owners of the business (e.g., voting on board members and sharing in profit distributions) after completing 350 required work hours in their healthcare job classification, within one year. The equity buy-in required of such a candidate is set at a low level of $250, but even this amount can be waived for struggling workers or paid in five installments. Workers have rights to choose their board of directors, participate in an annual meeting, and enjoy other governance rights as an owner of the cooperative.

To support this democratic governance vision, AlliedUP developed various educational programs to teach co-op governance, providing education about the roles and responsibilities of business managers, worker owners, and the board of directors. AlliedUP also set up a cultural committee to ensure that workers, especially women of color, “are thrilled to actually be making decisions and will soon be serving as the majority of the board of directors.”

The board of directors started with two people in 2021, four people in 2022, and five people by the end of 2023. SEIU-UHW was heavily involved in choosing these initial board members, working with a consultant in the union-co-op field. In 2023, AlliedUP held its first board election to choose three worker board members in December 2023, as its bylaws state that the majority of board members must be worker members.[456] This worker-majority board is now responsible for hiring and overseeing the work of co-op managers, such as the company CEO and administrative staff.

Governance with a Union-Co-op Alliance

The governance structure at AlliedUP has another layer because it is a unionized cooperative. While a worker cooperative has a board of directors that governs the cooperative in the best interests of its employees, a labor union can still play an important role in this institution. One of the roles of a labor union, even in a worker-owned co-op, can be collective bargaining. As a board member Miller states, “A collective bargaining agreement [CBA] is crucial to ensuring that workers’ rights to negotiate a fair wage and benefits are protected. Often, the negotiation of a CBA can be more collaborative in a union co-op than in a traditional firm, as both the management team and union committee are composed of worker-owners and the parties are more inclined to be aligned.”[457]

In the case of AlliedUP, a collective bargaining agreement has been structured to occur every three years. In general, workers who work a minimum of 30 hours per week over a 90 day period can join the AlliedUP labor union and gain the right for a union-negotiated benefit package, including 100% employer-paid medical, dental, and vision coverage, as well as $50,000 in life insurance at no cost to the employee.[458]

Also, the AlliedUP collective bargaining agreement established a joint labor-management committee, in accordance with the Labor-Management Cooperation Act of 1978, with a goal of improving “labor-management relationships, job security, organizational effectiveness,

[456] Miller, R. Personal Communication, July 18, 2022.
[457] Ibid.
[458] Collective bargaining agreement forwarded by SEIU-UHW.

enhancing economic development, and improving communication."[459] The agreement also addressed operational strategies to "Deliver high-quality care and service to clients and their patients; Continuously improve service delivery; Involve unions and frontline healthcare workers in decisions about how to deliver the best care; Develop AlliedUP as the premier employer for new graduates and allied healthcare professionals; [and] Preserve and improve upon industry-leading benefits and working conditions for employees."[460]

Through this labor-management committee, union staff meet with AlliedUP management weekly to discuss how to improve operations. Although SEIU-UHW is not directly engaged in operating the business itself, it has provided other assistance – such as co-op education, creating a union-co-op curriculum, and providing anti-racism workshop materials – to encourage members to consistently build a more equitable and supportive workplace.

Benefits and Challenges of the Worker Co-op Model

From the start, AlliedUP set high goals for itself. The co-op intended for all of its healthcare jobs to pay $3–5/hour above industry average (roughly 15% above average wages for most non-nursing allied jobs) and to offer robust health care, vacation, and sick-pay benefits. AlliedUP began by benchmarking its wages to Kaiser Permanente wages in Southern California, which is the second highest paying health care provider in the state and pays far above the national average. As an example of how meaningful this wage benchmarking can be in improving workers' income, AlliedUP's CEO shares how one medical assistant originally came to AlliedUP to enjoy a wage gain from the $17.50 she was earning from other staffing agencies. This new AlliedUP worker immediately found her Kaiser-benchmarked pay increased to $33 an hour: a 64% increase just by changing her labor contractor employer.[461]

AlliedUP also offers free or low-cost training and education programs to all workers, so that they can enhance their business skills, build their healthcare credentials, and climb career ladders. As entry-level workers became owners of the AlliedUP co-op over time, the hope is that they will also receive an equity stake in the business, able to earn annual dividends and build wealth in their patronage account if the company posts reasonable profits.[462]

Achieving and sustaining these goals ultimately depends on the ability of AlliedUP to win clients and enjoy robust revenues. Though AlliedUP has struggled to win market share (see "Market Share" section, below), it has had some success in securing clients for its high-road model. "They like our mission," says AlliedUP's Carpineta. "They love the benefits of retention that we're experiencing with our workers…[Our workers] are staying on, whereas turnover in the traditional staffing business can easily reach 50%, monthly. But we're experiencing just 10.7%,

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[459] Federal Mediation and Conciliation Service. Labor Management Cooperation Act of 1978. 2006; June 29. https://www.federalregister.gov/documents/2006/06/29/06-5831/labor-management-cooperation-act-of-1978-pub-l-95-524, accessed March 15, 2024.
[460] Collective bargaining agreement forwarded by SEIU-UHW.
[461] Tech Zone with Paul Lane. Transformational Employment Ecosystem. N.d. Episode 224-01. https://spreaker.com/episode/ep-224-01-transformational-employment-ecosystem--49762984, accessed March 10, 2024.
[462] Criscitiello R. Personal Communication, December 4, 2023.

annually."[463] Through robust advertising, strategic marketing of their high-road employment model, and a record of dependable, quality employees, AlliedUP is finding some success. AlliedUP's first contract was for providing services to a federally qualified health center in L.A., and several others followed.[464] In its first year of operations (2021–2022), the co-op placed about 1,000 new workers, and announced aims to hit 3,000 placements in subsequent years.[465]

However, following this first year of reasonable success, AlliedUP has run into difficulties securing larger clients, which means that job placements are limited, and workers have become less likely than originally hoped to stay with AlliedUP for the long term. The dilemma is that skilled and trained workers who get placed for a job often end up getting a full-time job at a hospital or clinic. When that happens, the worker does not need to stay with the AlliedUP staffing cooperative, and early projections of robust AlliedUP retention rates seem overly optimistic. Another difficulty has to do with the fact that most contingent healthcare workers are seeking jobs regardless of intermediary, so if there is no job offered at AlliedUP, they move onto the next job at a different staffing agency. In this situation, AlliedUP's members will likely struggle to build a strong sense of collective identity and ownership over AlliedUP, as their personal living reality is more precarious and informal, after all.

If AlliedUP cannot secure multiple and sustainable clients, many workers may leave AlliedUP for competing staffing agencies in pursuit of contingent jobs or for permanent jobs with clients. Already there is some evidence of this challenge. When AlliedUP started, there were 40–60 workers who signed on quickly.[466] However, there were only about 15 full co-op members by the end of 2023.[467] The vision of AlliedUP is to empower workers with business ownership and better wages, but this vision struggles against the facts of competitor staffing agencies, clients unwilling to pay high wages, and potential co-op members who are likely to accept a full-time position when it is offered.

Case Study Lessons

Although California Harvesters, Inc. and AlliedUP are in different industries, they have the same mission to provide precarious workers with better wages, improved working environments, and salutary ownership opportunities. However, these aspiring social impact business models must confront many challenges, as described below.

[463] Carpineta C. Personal Communication, July 18, 2022.
[464] Federally Qualified Health Centers must meet numerous criteria defined by the federal Health Resources and Services Administration, including: serving an underserved area or population, qualifying for Medicare and Medicaid reimbursement, offering a sliding fee schedule, provide a wide range of health services, having a quality assurance program, and having a governing board of directors. See https://www.fqhc.org/what-is-an-fqhc.
[465] Political Cortadito. New approach to growing healthcare worker crisis offers opportunities for Hispanic And Black workers In California & Nationwide. 2022; May 12. https://politicalcortadito.com/noticias-newswire/?l=AlliedUP-opportunities-for-latin-workers, accessed March 11, 2024.
[466] Miller R. Personal Communication, September 2022.
[467] Criscitiello R. Personal Communication, December 4, 2023.

Securing Market Share

Before launching CHI, the feasibility study stated two conditions had to be met to be successful: winning a reasonable market share and having a large number of workers ready to provide to growers. CHI has faced obstacles in achieving both these conditions. According to CHI founder Patel, gaining market share has been very difficult when large corporate buyers – such as Walmart and Costco – are the ones who control the price of agricultural products. As a result, there is not much room for labor contracting companies to build market share with a high-wage model. According to Patel, in this competitive market reality of behemoth buyers like Walmart, neither growers nor intermediaries such as labor contracting firms have much room to sustain higher wages.[468]

Healthcare is a similar situation wherein AlliedUP's high-minded goals depend on robust business revenues, which ultimately depend on the ability of AlliedUP to break into the industry and win contracts from healthcare providers who are willing to partner with a staffing agency providing good wages and benefits to their employees. Currently, the health care labor contracting business is dominated by large national companies like AMN and Cross Country Staffing, which have strong market power and long established relationships with health providers that allows them to follow a lower-wage/low-benefit model that often offers temporary staff at lower prices than AlliedUP. It is hard to compete with those market realities, even when offering a high-road model of dependable, well-trained staff. Even when competing staffing agencies charge high prices for their workers (and post record-breaking profits), it can be hard for a local startup company to break into the established relationships that the big staffing agencies have with health care providers.

The pilot project that preceded AlliedUP, a small group of Licensed Vocational Nurses who created a nursing and caregiving co-op in 2018, faced this challenge. This small nurse-owned co-op sought to win contracts from health provider systems to offer perinatal visits to low-income Medi-Cal patients in their homes. In 2018, this group won a contract from St. John's Well Child and Family Center to offer nutrition information, health education, and psychosocial services to pregnant women in their homes. Ultimately 22 bilingual LVNs provided 300 home visits. By year's end, the nurses, St. John's, and patients all considered the program a success. The co-op recruited LVNs from the communities they served, thus providing culturally competent services. The home visits were more affordable to patients than visiting a doctor, helping patients to deal with transportation costs, work scheduling issues, and childcare challenges. Appointment cancellation rates dropped from 50% to just 10%. And yet, the program was not renewed due to St. John's resource limitations. This nurses' cooperative went into abeyance due to an inability to advertise widely and win market share from resource-strapped health care providers.[469]

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[468] Patel, R. Personal Communication, March 11, 2024.
[469] State of California Employment Training Panel

Tight Margins

Even with a supportive anchor client, CHI has struggled financially with very tight profit margins in the industry. Contract farm labor is a notoriously challenging business sector, pressured on one side by farmers who struggle to make their own ends meet even with low farm wages and on the other side by the presence of approximately 1,400 competing farm labor contractors in California.[470] Farm labor contracting therefore is a highly competitive, unstable market that doesn't support consistent revenue or profits. Trying to operate a high-wage, high-road contracting business in this environment is challenging. "Business ethics simply don't exist in these low wage industries," Rupal Patel observes.[471]

Because of these dynamics, CHI was overly optimistic in its original revenue and profit-sharing estimations. In fact, CHI's early revenues were only about half of what was originally projected ($11.5 million in actual revenues vs. $19 million projected; 800,000 in billable hours vs. 1.2 million projected).[472] In addition, these smaller-than-expected revenues have been entirely consumed by sizable expenses like the Costs of Goods Sold (mainly due to reasonable wages paid to workers) and a bit of administrative overhead. As a result, CHI has not been able to provide any profit-sharing distributions to workers – there simply have been no profits. CHI has also not been able to pay much more than minimum wage, although they have provided other benefits to workers (health insurance, workplace dignity, etc.).[473]

In the case of AlliedUP, the company has had to choose what kinds of benefits to provide to workers when the business has a tight margin. AlliedUP's first CEO, Carey Carpineta, admits that sometimes the co-op faces business challenges when clients don't want to pay high wages. She describes how managers at clients can be "100% on board with union scale wages, right up until the clients push back and say 'but we're not going to give you the business if we have to pay those sort of bill rates.'"[474] In that moment, the pressure is high to accept a lower wage in order to earn income to help the business thrive. If a client maintains that they won't pay AlliedUP's standard bill rate, the only choice for AlliedUP management is either to turn down the client, or to take the lower billing rate in the interest of generating business revenue and jobs. But in that case, AlliedUP's collective bargaining employment contracts state that the organization must still pay the worker the full benchmarked wage, covering the difference between that wage and the client's bill rate as a company operating expense. Of course, subsidizing the low wage payments of some health provider clients cannot be sustained over the long run, unless AlliedUP earns sizable profits with other clients.

Tight business margins have also reigned in other high road aspirations of AlliedUP. Originally, AlliedUP proposed family health benefits and an employee retirement plan. However, first-year negotiations between AlliedUP management and employees were unable to secure full health care benefits for family members of employees, or win a wage differential for bilingual speakers,

[470] Wartzman, 2018
[471] Patel R. Personal Communication, February 1, 2024; Wartzman, 2018
[472] California Partnership for the San Joaquin Valley
[473] Patel R. Personal Communication, February 1, 2024.
[474] Carpineta C. Personal Communication, July 18, 2022.

or establish a retirement plan for employees. AlliedUP is ultimately a new business with limited resources, and such goals have been financially out of reach for the time being.

Persistent Labor Shortages

The goal of CHI and AlliedUP as intermediary businesses is to address labor shortages by providing reliable and high-quality workers to farms or healthcare providers. Both sectors suffer from persistent labor shortages that startup cooperatives cannot easily solve. When the new cooperatives cannot reliably mobilize the kind of skilled spot labor needed by a particular client, market share and profit opportunities are lost, which undermines workers' confidence in the cooperative, thus fueling a cycle of inadequate labor and anemic market share.

In the case of CHI, the problem had to do with a long-term, structural problem of local workers simply not being interested in long-term, demanding agricultural work, leading CHI to have to seek out H-2A visa workers just as traditional farm labor contractors have done. These visa workers are, by definition, temporary and are not well-suited to the CHI's vision of providing wealth-building opportunities to the members of the employee ownership trust.

AlliedUP has also faced similar difficulties obtaining good workers. Although AlliedUP launched around the same time as a partnering nonprofit intermediary organization for training and education in healthcare jobs (Futuro Health), the actual numbers of workers who graduated from Futuro Health was lower than predicted, and many of them did not choose to use AlliedUP at all, or for the long run. Well-trained healthcare workers have alternatives in a scarce market, and AlliedUP has struggled to compete for both contracts from health care providers and long-term loyalties from potential worker-owners.

In summary, both businesses have suffered from the inadequate supply of workers relative to demand, such that their model of high-road intermediary labor contractors has been unable to attract enough dedicated, long-term employees to fully realize the original cooperative vision.

Building an Ecosystem of Support

Despite all their business challenges, CHI and AlliedUP have both continued to build out their support system in the community. As CHI's Rupal Patel notes, "The success of this work is enormously dependent upon creating an ecosystem of support from both state and local governments, philanthropic communities, impact investors, and NGOS… in order to deliver on the promise of CHI."[475] Similarly, SEIU-UHW's Research Director, Ra Criscitiello, observes that labor contracting cooperatives like AlliedUP face immense startup challenges which could be mitigated with access to more support services (e.g., connections to possible funders, marketing assistance, legal assistance) from the start.[476] The reality is that the substantial resources necessary for startup are profoundly difficult to mobilize for most new cooperative launches. Enhancing access to a high-level network of cooperative support agencies and funders – such as through a state association of labor contractors – could help open the door to financial and

[475] Patel, R. Personal Communication, March 11, 2024.
[476] Criscitiello R. Personal Communication, December 4, 2023.

technical support networks on a statewide and national level, helping future cooperative visions to get off the ground.

Startup needs for both businesses include sophisticated marketing campaigns, client outreach, worker recruitment, financial and business training, and development of a network of philanthropic or official support. There are also important workforce education challenges, in terms of dedicating the time required to educate co-op worker-members in such things as precepts of co-op governance, the details of business management, and the proper roles and responsibilities of board members. All these demands could be met more easily by an ecosystem of support surrounding a cooperative project. Cooperative technical assistance and incubation services from nonprofit support agencies can play a supportive role, as can services to help with marketing, client referrals, worker education, and board training. Perhaps an underdeveloped ecosystem of support explains the puzzle of why both CHI and AlliedUP have not taken off as much as projected, even though there is clearly a large unmet demand for farm and healthcare workers.

One support service would be an “umbrella” organization to provide a pooled resource network for common administrative expenses like payroll management, insurance, or legal assistance. Numerous labor contractor cooperatives could share both the expenses and the expertise of this single umbrella organization. Similarly, shared web and informational technology services, as well as marketing assistance, and connections to funding and political networks could all be facilitated by an umbrella technical assistance organization, saving all labor contractor cooperatives from individually investing in creating and leveraging this kind of common and potentially shared infrastructure.

Article 5: Case Study of a Unionized ESOP: Pavement Recycling Systems

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June 1, 2024

Summary

This case study shares the story of a road construction company in California, how it came to be 100% worker-owned, and how its Employee Stock Ownership Plan (ESOP) relates to governance, management, and work at the company. This company, Pavement Recycling Systems, Inc., provides a strong model of worker ownership in California due to its in-state employment figure of more than 500 workers, high union density, and robust market performance that funds generous ESOP contributions. In this case, we identify key contributors to their success:

1. Robust, capital-intensive markets facilitate meaningful shared gains;
2. Institutional labor protections for public contracts and tax incentives help make competitive a high-road strategy with better compensation for frontline workers;
3. A shared ownership culture helps support: internal promotions, high autonomy, and employee input and innovation;
4. Employee ownership is largely excluded from job quality metrics – but it can be a differentiating factor and increase -sharing within the firm.

Relative to non-worker-owned peers, the firm has broader wealth-sharing in the compensation structure due to its high-performing ESOP and reportedly reduced executive compensation. At the same time, headwinds for the company include concerns about leadership succession and buy-in of younger employees who are perceived as less oriented to building retirement wealth.

[477] I am grateful to Steve Concannon and the team at Pavement Recycling Systems, Inc. for generous access and discussions. I thank David Levine, Doug Hirsch, and Daniel Spitzberg for substantial support and coordination of the report, as well as Minsun Ji and Adria Scharf for extensive and thoughtful reviews. This report benefited from many expert practitioners who shared their insights. Kelly Peterson provided diligent transcription services. In part, this research was made possible by funding from the State of California to David Levine. I am also indebted to my advisers Erin Kelly, Tom Kochan, and Susan Silbey, as well as MIT Sloan for their support. The conclusions expressed herein are my own, and I am accountable for any errors. This report has been reviewed to ensure no confidential information is disclosed.

Industry Context: Why Worker Ownership in Road Construction?

California is making historic investments in the state's infrastructure of $180 billion over the next ten years.[478] The Governor's Office estimates that this investment will create 400,000 job opportunities across the state. In anticipation, Governor Newsom set forth key policy objectives of "meaningful work and opportunity" and "benefits to disadvantaged communities."[479] Consistent with California State objectives, this report focuses on a company performing road repair and pavement recycling activities, critical activities to the state's infrastructure economy.[480,481,482,483]

The construction industry is relatively well-represented among US ESOP companies, comprising 16% of privately-held ESOPs.[484] Even within this industry, the case study firm, Pavement Recycling Systems (PRS), stands out for its strong market performance, inclusion of union members as ESOP participants, and strong internal labor market practices of providing workers with autonomy and opportunity for promotion.[485]

This case study shares the story of Pavement Recycling System (PRS), how it came to be 100% worker-owned, and the company's structure and management practices.

Research Process

To develop these observations, the case researcher conducted and analyzed: 18 interviews with workers, managers, and executives; six background interviews of competitors, clients, and key industry players; and roughly three weeks of on-site observation, including one week of supervised visits to active work sites in southern California. The firm also contributed internal data, which was combined with publicly available information to contextualize and help verify interviewee statements, where possible.[486]

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[478] Governor Gavin Newsom's Office, "California Governor's Budget Summary, 2024-2025: Infrastructure" (State of California, January 2024), https://ebudget.ca.gov/2024-25/pdf/BudgetSummary/Infrastructure.pdf.
[479] Governor Gavin Newsom's Office.
[480] Federal Highway Administration, "Table HM-260 - Highway Statistics 2021," XLS, 2021, https://www.fhwa.dot.gov/policyinformation/statistics/2021/hm260.cfm.
[481] "Where the Rubber Meets the Road: Pavement Damage Reduces Traffic Safety and Speed," Working Paper, Working Paper Series (National Bureau of Economic Research, August 2021), https://doi.org/10.3386/w29176.
[482] The Bureau of Transportation Statistics rates 1 in every 3 road-miles in California as in "poor" condition. Bock et al find that the state of California's roads has led to increased collisions and reduced traffic speeds, both of which contribute to safety issues and greater road congestion.
[483] California passed AB 661 to expand the State Agency Buy Recycled Campaign to encourage the use of sustainable materials, setting the standard for recycled asphalt pavement (RAP) at 25% of recycled aggregate by weight.
[484] NCEO, "Employee Ownership by the Numbers," National Center for Employee Ownership, February 2023, https://www.nceo.org/articles/employee-ownership-by-the-numbers.
[485] P.B. Doeringer and M. Piore, *Internal Labor Markets and Manpower Analysis*, 1971.
[486] For context, researcher field visits to PRS headquarters took place in December 2023 through February 2024, with a focus on the longest-standing team in the company: PRS South. Interviewees in the longest-running firm location and headquarters are over-represented; time in field included 2 days of training observations and participation in a three-day strategy off-site retreat with top company leadership

Pavement Recycling Systems (PRS)

Pavement Recycling Systems, Inc. started in 1989 as a milling company with a few small milling machines, a handful of employees. In 1990, it initiated an ESOP. Today, PRS has six California locations, over 600 employees across three states, and has expanded into products that cover the full pavement cycle – from readying a road for new pavement to extending the life of roads in need of repair. Throughout its evolution, PRS has remained an employee-owned company through its ESOP structure. This case reviews the broader market perspective, how regulations and institutions matter in supporting the ESOP model, the governance of PRS in the ESOP context, and an overview of the worker experience at PRS, before summarizing key considerations for policymakers.

ESOPs in Context

California played a special role in developing ESOPs, as lawyer and economist Louis Kelso pioneered the first ESOP transaction at Peninsula Newspapers in San Francisco.[487] At the time, the intent was to help employees buy out their struggling employer and save their jobs. While ESOPs were far from the first worker ownership models in the United States, they gained momentum when the Federal government passed supportive legislation in 1974 that codified ESOPs in retirement plan law as defined contribution retirement plans. Largely thanks to these and subsequent tax advantages, ESOPs today are the primary form of worker ownership in the United States.[488]

In practice, ESOPs are often used to transition the ownership of all or part of a business to employees. That is, an ESOP "trust" takes out a loan on behalf of workers to purchase the company. Then, it repays the loan over time using proceeds from the company. As the trust gets ownership of the company, it allocates company shares across individual accounts for each of the eligible workers ("ESOP participants") (i.e. workers over 21 who have worked at least 1,000 hours in the previous year). When a worker retires or exits the firm, he or she gets access to the shares, which are then paid out according to the firm's assessed valuation. In this way, ESOPs are a helpful strategy to transition ownership from an owner to employees. More rarely, they are used to grant shares to workers in start-up firms.

PRS started as an ESOP in a strong product market and has maintained profitability and growth; it included unionized members from its founding; and despite being a unionized ESOP, the ESOP structure and decision process came from the initial financial backers and entrepreneurial executives. As a result, it has a fairly management-driven decision structure, yet allows some opportunities for employee input and offers strong opportunities for upward mobility in the company.

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and consultants. Firm-provided data includes organizational structure, performance metrics, safety, and workforce composition.

[487] Louis Kelso and Patricia Hetter Kelso, *Democracy and Economic Power* (Cambridge, MA: Ballinger Pub Co, 1986).

[488] Joseph Blasi, Richard Freeman, and Douglas L. Kruse, *The Citizen's Share* (Yale U Press, 2014), https://yalebooks.yale.edu/9780300209334/the-citizens-share.

Market Forces: A Prerequisite

A persistent, pernicious critique of ESOPs is that they may shift the risk of difficult market conditions onto workers. At the root of this view is a small but visible set of prominent, struggling companies that negotiated partial or full employee buyouts during difficult market conditions of the 1970s and 1980s – occasionally in exchange for wage or benefit concessions.[489] While Rutgers University scholars find that fewer than 5% of ESOPs replace wages or benefits, and this phenomenon is much less common in the past few decades,[490] popular media coverage of these notable examples – such as United Airlines[491] – contribute to lingering skepticism.

Yet PRS is one of many ESOPs that defies this stereotype. PRS started their ESOP journey in 1989 in a strong-performing market: road construction, which is primarily funded by public contracts. This market has some barriers to entry because of the specialized equipment and skills required and because of the high-regulation environment. With the launch of the ESOP in 1990, the company quickly repaid their loans, captured market share, and began making substantial contributions to employees' ESOP accounts. While construction is typically "boom and bust," the company reports only one year in the past few decades of having inadequate profits to make ESOP contributions.

At the same time, the road construction market is not immune from the macroeconomic environment, and the construction industry falls into "boom and bust" cycles. As an example, the 2008 recession led to substantial decreases in private and public infrastructure investments. Prior literature suggests that as an ESOP company, PRS would be less likely to lay workers off.[492] The CEO at the time reports being pressured by a board director to lay off 10% of the workforce, yet also reports that he later hired most of them back. He still considers the layoff decision as one he most regrets. To mitigate risk of similar events, PRS leadership has chosen to extend into multiple business lines, in the hopes that more budget-friendly pavement preservation business lines may succeed when more extensive, expensive road repairs are put on hold. While not all of their acquisitions have been highly profitable, PRS has yet to have a year with negative profit across the firm.

Finally, PRS is not just well-positioned in existing markets, but it is also a market maker and leader in the pavement recycling industry. Under the leadership of co-founder Rick Gove, PRS developed technologies to process recycled asphalt pavement (RAP). Today, they own companies that mill, or remove, the pavement from the road; that truck those road materials back to their own processing facilities; and that process the materials into RAP that can be

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[489] Joyce Rothschild-Whitt, "Who Will Benefit from ESOPs?," *Labor Research Review*, Workers as Owners, 1, no. 6 (1985).
[490] Joseph Blasi, Adria Scharf, and Doug Kruse, "Employee Ownership in the US: Some Issues on ESOPs – Overcoming the Barriers to Further Development," *Journal of Participation and Employee Ownership*, 2023, https://doi.org/10.1108/JPEO-11-2022-0028.
[491] Adam Bryant, "Can Unions Run United Airlines?," *The New York Times*, December 9, 1993, TimesMachine. https://nytimes.com/1993/12/09/business/can-unions-run-united-airlines.html.
[492] C. Rosen, "The Impact of Employee Ownership and ESOPs on Layoffs and the Costs of Unemployment to the Federal Government" (National Center for Employee Ownership, July 2015).

remixed and reused in paving. The benefits from selling the RAP materials contribute to PRS profits that increase the value of ESOP accounts.

Institutions: How Regulations and Unions Matter

Law and regulation at multiple levels enable the growth and success of PRS and result in direct benefits to workers. At the national level, federal tax incentives for ESOPs reduce the tax burden on ESOP companies. In particular, the Taxpayer Relief Act of 1997 eliminated federal income taxes for S corporations where an ESOP holds 100% of company stock. That is, a 100% employee-owned S corporation such as PRS would not have to pay income taxes – a significant savings for the company and advantage over its non-ESOP competitors. Instead, ESOP participants pay taxes when they receive their ESOP distributions. Congress intended this tax provision to incentivize employee ownership by increasing available cash early in an ESOP life cycle.[493] At PRS, the increased cash serves to increase employee pay. Former CEO Rick Gove shared that the company chose to put the “40% tax savings” into employee compensation.

At the state level, “prevailing wage” requirements for public contracts effectively set wages to union benchmarks.[494] As a result, unionized contractors and non-unionized contractors compete on a level playing field, in terms of labor costs. As over 60% of PRS employees are union members, this provision makes it easier for them to compete on public works contracts while still paying high union wages, with over 60% of California workers as union members. Within PRS South and throughout the company’s history, the International Union of Operating Engineers (IUOE) is one of the most important unions, with IUOE Local 12 representing PRS operators in southern California.

Labor relations in this industry operate through industry associations, to which companies hand power of attorney to negotiate collective bargaining agreements with members’ unions. According to a local union leader, the union prefers this arrangement because it increases their bargaining capacity and efficiency. Yet because PRS is a member of United Contractors industry association, which also has non-worker-owned companies, the ESOP is not part of the negotiation process.

PRS is an exceptional ESOP company in that the current ESOP structure at PRS benefits both union and non-union employees and is allocated on top of negotiated union benefits. While PRS could legally exclude union members from the ESOP, it has included them since the start:

> “When I entered the construction industry (1979) the company I was with, Riverside Construction Co., had an ESOP (newly formed) and included its union members. When I joined the company, I was a union member. I think the reason they included union

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[493] Aaron Juckett, “One Key ESOP Taxation Advantage: No Federal or State Income Tax,” *General ESOP Education, ESOP Partners* (blog), April 13, 2021. https://www.esoppartners.com/blog/esop-taxation-rules.
[494] Andria De La Cruz and Jeyoung Woo, “Public/Private Work Contracting: Factors Influencing Contractor Participation in Southern California,” in *Construction Research Congress 2014*, Proceedings, 2014, 124–34, https://ascelibrary.org/doi/epdf/10.1061/9780784485286.013.

> members is that the principal founder, Chuck Harmon, was a union cement mason."
> – Rick Gove, PRS co-founder

Therefore, union members at the case study company effectively get "bonus" retirement accounts, in addition to their union pensions. There is a positive spillover on non-union employee compensation, since the case study company extends additional 401(K) account contributions to roughly equalize their retirement with union employees. Because union negotiations happen at the industry level (as opposed to the company level), PRS has higher employee retirement compensation than any non-ESOP companies in the unionized industry pool. Thus, the ESOP is on top of the industry compensation standard set by the union. At the same time, the organization structure allocates relatively limited formal organizational decision power to non-managerial workers.

In summary, regulations support the ESOP company and benefit its worker-owners. Tax preferences and prevailing wage requirements help support PRS competitiveness as a unionized worker-owned firm. Industry bargaining means that the ESOP parameters fall largely out of the bargaining process, though PRS chooses to include unionized employees regardless. Ultimately, the costs of tax preferences and prevailing wage requirements appear to benefit workers in the form of higher compensation through the ESOP as a secondary retirement account. Next, I look at additional elements of the ESOP structure, which was set by PRS leadership.

The ESOP: Additional Compensation for All and Executive-Led Governance

Federal standards apply to all ESOPs that receive tax incentives. First, the ESOP needs to be broad-based, meaning that almost all employees over the age of 21 must qualify (with a few exceptions, including union members). Second, shares of equity must be granted on a reasonable vesting schedule in exchange for "sweat equity" (as opposed to purchased, like in cooperatives or other stock compensation plans). And third, ESOPs must be paid out in a reasonable timeframe when an employee retires or leaves the firm. At this time, the ex-employee will pay ordinary income tax on their ESOP distributions, with additional taxes if before age 55.[495] Beyond these three standards, ESOPs must conform to numerous other rules, including those related to nondiscrimination, disclosure, and trustee fiduciary responsibility, among others.

Within the legal requirements enforced by the U.S. Departments of Labor and Treasury, companies have significant latitude to structure their Employee Stock Ownership Plans. Three key parameters for workers' standing in the firm are: 1) the proportion of company stock owned by the ESOP trust; 2) the distribution of that stock across employees; and 3) the allocation of governance rights, especially the right to vote stock and participate in firm decisions.[496]

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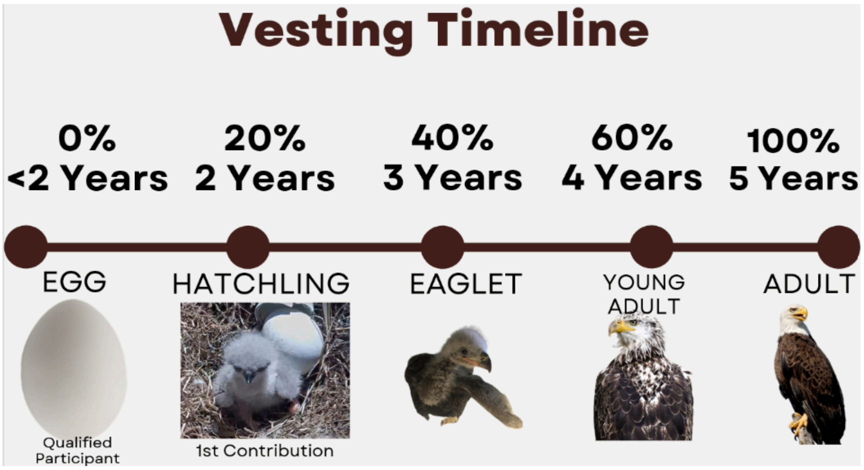
[495] Juckett, "One Key ESOP Taxation Advantage"; NCEO, "Federal Legislation on ESOPs," *National Center for Employee Ownership* (blog), September 2022. https://nceo.org/article/federal-legislation-esops.
[496] Patrick McHugh, Joel Cutcher-Gershenfeld, and Michael Polzin, "Employee Stock Ownership Plans: Whose Interests Do They Serve?," in *Industrial Relations Research Associations Series: Proceedings of*

On these metrics, the ESOP at PRS has the highest possible share of employee ownership, with 100% of stock owned by the ESOP. The company distributes stock according to compensation, which favors higher-paid workers (e.g. union workers and management). The vesting period complies with a stepwise timeline, from 20% after two years to 100% after five years (see Figure for company communication). And governance and voting rights primarily rest with the Trustees, though employees do cast non-binding votes on vested shares to ratify board member selections.



In design, the PRS ESOP is relatively generous to union workers and management in terms of compensation, and it places governance rights largely in the hands of executives.

In the table below, I summarize the PRS ESOP design relative to AFL-CIO Guidelines for ESOPs from around the time that the PRS ESOP started.[497]

	AFL-CIO Guidelines (1987)	PRS ESOP Guidelines (Current)	Match?
Compensation: Pension plans	Avoid ESOPs that replace a pension.	Union members receive ESOP on top of union pension.	Exact
Compensation: Allocation	Do not base stock allocation on compensation alone; allocate stock equitably between management and workers.	Stock allocated based on compensation.	No

the Forty-Ninth Annual Meeting (U.S.A.: IRRA, 1997), 23–37. https://www.researchgate.net/profile/Bruce-Kaufman/publication/284705131_Company_Unions_Sham_Organizations_or_Victims_of_the_New_Deal/links/5656379e08aeafc2aabf15a3/Company-Unions-Sham-Organizations-or-Victims-of-the-New-Deal.pdf#page=35; Rothschild-Whitt, "Who Will Benefit from ESOPs?"

[497] Roger G. McElrath and Richard L. Rowan, "The American Labor Movement and Employee Ownership: Objections to and Uses of Employee Stock Ownership Plans," *Journal of Labor Research* 13, no. 1 (March 1, 1992): 99–119. https://doi.org/10.1007/BF02685454.

Compensation: Vesting	Set a reasonable vesting period.	Vesting period: first contribution after 2 years; 5 years to 100% (meets Federal standard).	High
Voice: ESOP Trustees	Include workers on ESOP board of trustees.	ESOP trustees are PRS executives.	Low
Voice: Participation	Involve employees in decisions and information.	Relatively high financial transparency; executive-driven strategic decisions; high worker autonomy.	Moderate
Voice: Voting power	Let employees vote stock immediately.	Employees ratify board members in nonbinding votes, on vested shares.	Low

Employee Participation and Governance

Within the ESOP structure, there are a few channels for employee participation in decision-making: participation in governance, trusteeship, and voting rights. At one end of the spectrum, Rothschild-Whitt defines ESOP companies that allocate full voting rights along with equal stock distribution as "democratic ESOPs."[498] At the other end of the spectrum, some ESOPs have no mechanisms for worker participation. There are many companies in between, with a small number of US ESOPs having worker representation on the board or other robust governance rights.

Although not a democratic ESOP, PRS does offer substantial autonomy to frontline workers and high financial transparency. The benefits of this approach are that leadership can take calculated risks and move into different business lines, relative to the expertise of frontline workers. Yet employees do not have direct board representation or shared governance rights, instead relying on the fiduciary responsibility of ESOP trustees to represent their interests.

Governance: An External Board that Answers to ESOP Trustees

In terms of governance, PRS has a board of outside executives, selected by the trustees to serve a term of up to seven years. This external board is not unusual in the ESOP context; in January 2024, a panel of three ESOP CEOs at a conference organized by the Rutgers Institute for the Study of Employee Ownership and Profit Sharing shared that they were considering or had already moved to external, professionalized boards.[499] At PRS, board members typically weigh in on decisions such as capital expenditures, which are hugely important in such a capital-intensive sector and the company's strategic priorities. Further, they provide the CEO with regular feedback on his executive performance.

[498] Rothschild-Whitt, "Who Will Benefit from ESOPs?"
[499] Ginny Vanderslice et al, "ESOP Company Panel: The Context for Research Questions" (2024 Kelso Workshop, New Brunswick, NJ, January 13, 2024).

Consequences of an external board can include a dilution of ESOP culture. As one example, a number of studies suggest that ESOPs are more reticent to lay off workers during a macroeconomic downturn. In contrast to that general trend, one executive tells the story of cutting 10% of the staff in 2012, after a bad year:

> "[The board] finally convinced me, okay, fire ten percent of the staff. And I went through this long, involved process and got rid of ten percent of my staff. And within two years, they were [all hired] back. In that case, I sided with [a board member] and did that ten percent. And I've regretted it ever since." – Executive interview

This story demonstrates the potential tension between an external board member perspective and a strong ESOP culture – and how a strong board could cause an ESOP company to behave more like a non-ESOP company. At the same time, it's not a given. Currently, the external board includes an ESOP executive and has supported investments leadership development and the hire of an experienced safety manager. Further, if the Trustees decide the external board does not represent ESOP participant interests, they have the right to fire the board on behalf of those employee-shareholders.

ESOP Trustees and Role

Selected by the board, the ESOP trustees are currently the top two executives in the company: CEO Steve Concannon and his right-hand executive, Kurt Eddy. These trustees have a fiduciary responsibility to the ESOP participants (employees) in managing ESOP assets and compliance. In turn, they also oversee the board to ensure they act in the interest of shareholders, or ESOP members. The trustee also reviews the annual independent valuation required by law, to confirm that the valuation is appropriate to company value. As for the board nomination, the trustee puts forward a board director recommendation for employee-owners to vote at the Annual Shareholders Meeting, which is held every December and sponsored by PRS. Executives estimate that support for trustee recommendations generally ranges from 95 to 99%.

As the current CEO and one of two trustees, Steve compares his two roles to wearing "two different hats," with the trustee role as "interest of the shareholders," versus his day-to-day work overseeing company interests as a whole. This dynamic requires him to continue to be in touch with all of the current company employees and their visions for the company – which requires him to be in close communication with employees. He emphasizes his "open door policy" for all employees, saying, "If there's something legitimate, they'll let me know. They know I want to know. They know I'll address it."

Employee Owner Communications Committee

Though frontline workers play a limited role in strategic firm decision-making relative to European codetermination models or worker cooperatives, employees of all levels engage in the ESOP through the Employee Owner Communications Committee (EOCC). Their central task is to "educat[e] current and future employee owners on our ESOP, while fostering the culture and ownership mentality that aligns our organization to reach our common goals." This objective is particularly important given that a 2023 firm survey found that 1 in 2 worker respondents wanted more information on “ESOP basics.” In response, executives revived the EOCC, which has struggled to retain participation over time. Within the past year, EOCC members put together a range of communications, including Spanish-language videos and materials to reach a large and increasing number of Hispanic workers in the company. In these ways, the EEOC helps share information on the ESOP to workers.

Summary

The ESOP compensation in this company is relatively high, as a high-performing, 100% employee-owned company – with current retirees (including unionized operators) receiving at least $1 million after 20 years of employment. The distribution of ESOP shares somewhat favors union employees, because their share of ownership is proportional to a higher negotiated wage. Yet on the whole, employee engagement in the ESOP structure and company governance is relatively minor. In part, that dynamic reflects the challenge of getting worker participation in existing opportunities to engage, such as the EOCC. Notably, research is inconclusive as to whether including workers in governing bodies effectively changes firm policy. Thus, it is important to look closer at the organization of work, including workers’ opportunities for participation and voice within the company.

Organization of Work: Train-and-Promote, High Autonomy, and Employee Input

In terms of organizational structure, a seven-person executive team oversees all PRS company entities. Across the firm, all operational teams report to the Chief Operating Officer of Contracting Operations, Kurt Eddy, who reports directly to CEO Steve Concannon. In all, the PRS Executive Team comprises seven people, which also includes the Chief Financial Officer, Chief Human Resource Officer, the new Director of Safety and Quality and the Director of Engineering, as well as heads of the materials business lines and the director of fleet and facilities. Of this executive team, five were internal hires. The CEO himself started as an operator in the company and worked his way up to leadership.

PRS integrates not only multiple company entities, but also multiple geographic locations in and around California. For feasibility, I focused much of my analysis of work on the PRS South division.[500] This team was selected as the longest-running line of business in the company. Further, it is co-located with headquarters, providing greater insight into how the team fits into the overall company.

Upward Mobility in PRS

Overall, the field experience of the executive team reflects a strong training and promotion culture, driven by both market competition and the ESOP culture. When it comes to competition for talent, PRS executive packages tend to be lower than capital-owned firms due to pay

[500] For this branch specifically, I sat in on this group’s annual trainings of approximately 50 operators, conducted supervised visits to work sites for milling and restructuring projects, and interviewed head of the group Mike Oppenheimer and 14 members of his team.

compression[501] – a common pattern in worker-owned firms internationally.[502] This difference in pay may make it harder to hire externally, incentivizing internal promotions. Further, the ESOP encourages employees to stay and grow within the company as their stock value grows. And finally, this pattern is consistent with the research finding that worker ownership in combination with internal promotion results in stronger performance than either practice individually.[503] Supporting this reading, the CEO explicitly mentions a preference for training and hiring from within, where possible.

High Autonomy

In focusing on the PRS South team, I heard repeatedly about high levels of autonomy. The regional manager, Mike Oppenheimer, emphasized his focus on autonomy, explaining his view that "people are far more apt to remember things that they've fixed on their own." In his own career after military service, he described how focus and a hunger to learn helped him work his way up from "washing cars" at another firm to his current role overseeing operations in the most profitable region of PRS.

This combination of grit and willingness to learn echoed across multiple interviews throughout PRS, and in PRS South in particular. As one example, a project coordinator shared with me how she and other project coordinators instituted a regular lunch meeting to share best practices – which has resulted in more efficiency and identifying shared bottlenecks. One manager shared that his boss encouraged him to "look to the [PRS] Values Statement" when facing a difficult decision – empowering him with a tool to evaluate different options and make the decision in front of him. A foreman shared that wherever he has to travel for work, PRS South provides "a company credit card, you go grab a hotel, no questions asked," which lets him make decisions around his own safety and needs. And with pride, multiple operators shared that they make the decisions about how to organize their day-to-day work. More than once, employees explicitly associated that autonomy with respect for their work and their expertise.

With Monitoring

To mitigate potential abuses of the high-autonomy work culture, PRS monitors employees across its companies. After uncovering small-scale employee embezzlement in the early years of the company, PRS executives shared that they put more checks in place. One aspect of this monitoring emphasizes real-time data. Project coordinators in PRS South developed a dashboard of key data points, including daily cost data and any workplace safety incidents.

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501 As a note, mid-level managers (including recent hires) did not report any difference to their overall compensation relative to their perceived outside options, when taking into account their ESOP earnings.

502 Gabriel Burdin, "Equality Under Threat by the Talented: Evidence from Worker-Managed Firms," *The Economic Journal*, 2016, https://onlinelibrary.wiley.com/doi/abs/10.1111/ecoj.12272; Gabriel Burdín and Andrés Dean, "New Evidence on Wages and Employment in Worker Cooperatives Compared with Capitalist Firms," *Journal of Comparative Economics* 37, no. 4 (December 1, 2009): 517–33. https://doi.org/10.1016/j.jce.2009.08.001.

503 K. Kim and P. Patel, "A Multilevel Contingency Model of Employee Ownership and Firm Productivity: The Moderating Roles of Industry Growth and Instability," *Organization Science*, 2020. https://doi.org/10.1287/orsc.2020.1404.

Monitoring technologies are also used, on top of what is required by the Department of Transportation. For example, as negotiated with the union, video cameras in company trucks record accidents and are used for training on safe driving behaviors. And finally, there's some amount of management oversight, particularly with remote workers – one manager shared his perspective that "you have to really kind of monitor [virtual employees]. Some people just can't deal with that kind of freedom."

Some of these systems are still evolving, with employee input. In company meetings, executives referenced employee frustrations about paperwork and inputting data in apps. Multiple managers acknowledged substantial burden on operators, and one executive publicly took responsibility for a difficult rollout. He encouraged frontline managers to bring forward their suggestions, saying, "It's not complaining if something's not going right. A lot of times, there's a better way – you guys help solution better ways."

As typical of worker-owned companies, PRS has some level of peer monitoring.[504] This type of monitoring involves co-workers evaluating one another's effort and calling out any work or practices that they view as substandard. It's more common in worker-owned companies, because ownership value reflects the performance of the company as a whole. Some PRS workers shared that they felt "angry" when they perceived peers to not be living up to the firm's values. Executives and workers raised the concern of free riders – a common issue in employee-owned companies, where gains are distributed across all worker-owners irrespective of individual contributions.

At the same time, multiple workers spoke about a recent cultural shift away from "blaming and shaming" and toward inclusivity. As one worker explained,

> "[Years ago,] it was weed out the weak. If you're not willing to, you know, put in the time and put in the effort for this company, you don't belong here. That's plain and simple. And like I'm saying, it does not go like that [now]." – Operator interview

Internal Expertise and Input

PRS actively invites and encourages input from their employees with recognition programs like the annual awards for company innovators. One mechanic with PRS South shared that he'd won the award for modifying truck ramps to improve efficiency. Based on his experience, he reports that management is receptive to ideas to "improv[e] something or help save the company money." He walked me through his process of coming up with the idea, designing a solution, and estimating the cost – before bringing the idea to his supervisor for signoff. His general sense after more than two decades with the company is that cost is a key consideration – but if an idea will improve processes or ultimately save money, he finds that approval generally is forthcoming.

[504] Eugene Kandel and E. Lazear, "Peer Pressure and Partnerships," *Journal of Political Economy* 100 (1992): 801–17. https://doi.org/10.1086/261840.

Summary

Overall, worker ownership at PRS helps support a system of high internal mobility, autonomy, and worker input. These aspects of the company create incentives to invest in employee development and support internal innovations. At the same time, workers experience some level of monitoring, from both management and peers. This monitoring tends to develop information to increase visibility over company performance.

Next, I look at a broader set of work characteristics, to better understand the overall work environment.

PRS workers: Who Are They, and What Do They Do?

Who works at PRS?

Roughly 600 employees work at PRS. Based on workers' self-reported demographics, the ethnic/racial breakdown of the company is roughly 50% Hispanic, 40% Caucasian, and a mix of other racial identifications (see graph). Five in six employees are men. Top management positions are mostly held by white people, and two of eight executive positions are held by women.

Relative to the US construction industry, PRS hires proportionally more women (83%, relative to 90% male in industry as of 2020) and more non-white people (57%, relative to 40% non-white in industry as of 2020).[505] Reflecting California labor regulations, two-thirds of workers are union members. Most workers receive union and/or on-the-job training, and only one in five workers has a college degree.

What do workers do?

Workers can roughly be divided into one of four categories: office workers, site managers, site workers (operators or laborers), and mechanics. To simplify, office workers include people who support the field work by estimating job costs, coordinating projects, and supporting with client communications and management. Site managers are superintendents or foremen who travel to projects, observe and track progress, and support operators with any challenges or on-the-ground needs. Most of the site workers I observed were operators, who operate specialized equipment to grind up or process pavement, though site worker tasks are highly specific to the function of their team. And mechanics are responsible for tracking and fixing the trucks and equipment, which are increasingly complex and customized.

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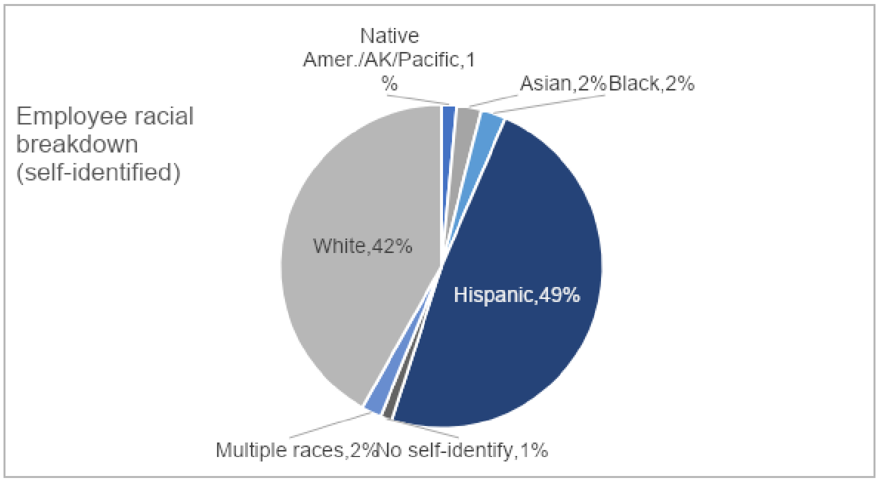
[505] Claire McAnaw Gallagher, "The Construction Industry: Characteristics of the Employed, 2003–20," *Spotlight on Statistics: U.S. Bureau of Labor Statistics* (blog), April 2022. https://www.bls.gov/spotlight/2022/the-construction-industry-labor-force-2003-to-2020/home.htm.



Employee racial and ethnic demographic breakdown; calculations using company data

Job Quality

Until fairly recently, trends such as technological change and globalization disproportionately reduced job opportunities for non-college workers in the United States – the modal demographic at PRS.[506] Since the COVID-19 pandemic, a strong labor market has meant more job opportunities and higher wages, particularly for younger non-college workers.[507] Building on this momentum, the California Future of Work Commission has set forth a target to “raise the standard and share of quality jobs.”[508] In light of this goal, I will briefly discuss aspects of job quality at PRS.

Job Satisfaction

While job satisfaction is not equivalent to job quality, it indicates how a job relates to a worker’s expectations.[509] Many workers I encountered were eager to share how much they liked their jobs. One operator said, “I love my job. I would never leave it for anything else. I’ll be here ‘til I retire.” He elaborated,

> “[PRS will] take care of you. I talk to a bunch of construction guys, day in and day out. And I don’t know how many times I’ve been asked, ‘Is [PRS] hiring?’ I guarantee it’s at least three times a week.” – Operator interview, February 2024

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[506] David H. Autor, “Work of the Past, Work of the Future,” *AEA Papers and Proceedings* 109 (2019): 1–32. https://doi.org/10.1257/pandp.20191110.
[507] David Autor, Arindrajit Dube, and Annie McGrew, “The Unexpected Compression: Competition at Work in the Low Wage Labor Market,” Working Paper, Working Paper Series (National Bureau of Economic Research, March 2023). https://doi.org/10.3386/w31010.
[508] Future of Work Commission, “Future of Work in California: A New Social Compact for Workers” (California: California Future of Work Commission, March 2021). https://www.labor.ca.gov/wp-content/uploads/sites/338/2021/02/ca-future-of-work-report.pdf.
[509] Paul Osterman, “Introduction to the Special Issue on Job Quality: What Does It Mean and How Might We Think about It?,” *Industrial and Labor Relations Review* 66, no. 4 (2013): 739–52. https://doi.org/10.1177/001979391306600401.

In casual conversations and interviews, I heard this perspective reiterated throughout PRS South. Multiple people cited the prevalence of family and friends now working at PRS as evidence that people believe in the company and recommend it as a great place to work throughout their networks. In a 2023 PRS company survey of 193 respondents, roughly 8 in 10 respondents agreed (strongly or somewhat) that “our company has a positive and collaborative culture.” On the whole, the PRS employees I spoke with seem to consider their job to be good – and better than their outside options.

The ESOP came up multiple times as a key factor in job satisfaction. Even in casual conversation, a number of employees shared with me how their ESOP gave them the confidence to help pay for their kids’ college and reduced financial stress. And operators shared how they perceive more interest in supporting newly hired operators, because new operators’ performance directly affects the bottom line.

One limitation of the case study is that it focuses on current employees, which misses the perspectives of people who did not stay with PRS. To counteract this bias, I explicitly sought to observe and speak with recent hires and younger employees. In general, workers across PRS reported that new hires and particularly younger workers were less invested in the ESOP – which they chalked up to youth and a stronger preference for work-life balance. Though I did not hear any strong dissatisfaction from worker interviews, a new hire at PRS in 2023 had only a 5% chance of still being there a year later. In part, this figure could reflect some seasonal hires – but executives acknowledged they saw it as a “failure” of their onboarding and training processes. It may also reflect an increase in labor market competition for young workers today, relative to previous generations.

Compensation and Benefits

For union members, compensation and benefits are negotiated with the union. Therefore, companies that are members of the United Contractors industry association pay employees consistent with the collective bargaining agreement. PRS South operators are largely members of IUOE Local 12, and their negotiated pay is well over $100,000 per year in wages plus overtime. Moreover, unionized workers have negotiated pensions and quality healthcare plans.

Non-unionized workers had more variation in pay and benefits, as they are negotiated individually. One high-level executive affirmed that most executives had lower compensation packages than those in similar roles at other companies. Mid-level managers shared mixed perspectives but generally agreed the pay was at least competitive with similar roles when factoring in ESOP contributions. And non-union frontline workers generally reported receiving less compensation than unionized workers in similar positions, though acknowledged generally total compensation relative to a non-union job at a non-ESOP company. On the whole, non-unionized workers also received 401(k) contributions to improve parity with the pension plans offered to unionized employees.

Scheduling

Relative to many jobs, scheduling in the road construction industry can be hard to predict, and PRS is no exception. While some PRS employees report consistent schedules, most report working extra hours and overtime during the industry's busy season. Operators also report working inconsistent hours, with one saying,

> "There is no schedule… I've [started at] two o'clock in the morning. I've [started at] three o'clock in the morning. I've [started at] seven, ten o'clock in the mornings. (Laughs) You just adapt. I mean, that's the way it's always been."

Last-minute weekend and night-time jobs tend to fall disproportionately on younger, less experienced workers, whom coordinators perceive as more likely to be interested in extra overtime than older, more seasoned operators. Yet even among the senior operators, the common ethos was that as an owner, the job was to show up when and where there was work.

Among office staff, who are mostly non-unionized, schedules tend to vary depending on function. Interviewees were disproportionately weighted toward employees in operations, due to the emphasis on frontline workforce and field operations – among this group of office employees, there were a number of reports of late nights and challenges with balancing work and life. At the same time, there was a strong sense of cultural value in people who were willing to put in the work. One manager shared that he drove for hours out to a work site to personally pick up an operator who reported feeling dizzy, based on his concern for that employee's health and safety. The other side of that dedication is that some office employees voiced skepticism toward workers who they perceived as unwilling to go the extra mile, questioning their fit with the company culture.

A common refrain across teams is that younger workers have been shifting the norm of putting in extra time at work. A number of people mentioned that the new generation tends to want to leave on time and have more work-life balance. There were mixed opinions on these changes among longer-tenure worker-owners, with some praising the new generation for being more involved in their families, and others being concerned about a lack of dedication to the work and the future of the company. While this story is not unique to PRS South, it did take on extra and more personal meaning in this context, as longer-tenure employees are depending on the future company value and growth for their retirement.

Workplace health and safety. PRS has made extensive efforts to promote safety culture and performs at least as well as peer firms on workers' compensation costs. At the same time, interviewees mentioned safety as an ongoing area of concern and priority. In general, one manager mentions that safety keeps him up at night because "a lot of the [operators] run doubles," which can lead to fatigue and mistakes.

Summary

Overall, PRS employees appear to have strong job satisfaction based on interviews, observation, and company surveys. In terms of compensation, PRS has less unequal compensation than executives report as typical at peer, non-ESOP firms. They supplement union-negotiated compensation for frontline workers with a generous ESOP, and executives receive somewhat less than they might make at a capital-owned firm. Yet on other typical measures of job quality such as scheduling and workplace safety, PRS faces the same risks and challenges as peer firms in their industry.

On the whole, this case begs the question of whether current job quality measures fully account for the value of worker-owned firms.[510] At present, the most commonly cited job quality measures do not include consideration of worker ownership. This gap is a missed opportunity to measure ownership as a contributing factor to job quality.

Key Takeaways

This section explores what we can learn from this case study that might be relevant for policymakers who are interested in how employee ownership can supplement job quality.

Two current policy proposals to support worker ownership in California are: 1) the Employee Ownership Hub, as yet unfunded, and 2) the Association of Cooperative Labor Contractors.

1) For the Employee Ownership Hub, this case study would suggest two key roles:

- *Developing market feasibility analyses*

  This case study demonstrates the value of having a market with high revenue per worker, in terms of generating meaningful shared wealth. Following Colorado's approach, it may be helpful for the Employee Ownership Hub to help guide Californians interested in worker ownership to strong market opportunities, e.g., by conducting market feasibility analyses and projecting expected earnings per worker.

- *Sharing best practices around developing meaningful ownership culture*

  This case study company has made substantial efforts to generate a strong employee ownership culture. A California Employee Ownership Hub could be a repository for these case studies and lessons learned, and facilitate connections among worker-owned firms.

2) In terms of the Association of Cooperative Labor Contractors, this case study also has important implications, such as:

- *A key role for unions and worker advocates*

  The presence of unions supports this model by raising effective compensation of the workers in PRS, which then increases their ownership stake. This case study illuminates how unionization can not only complement but strengthen workers' benefits under employee ownership. Further, union density and California law raised the compensation floor across the industry, setting a high benchmark for competitors. California's labor and

[510] The Aspen Institute, "Section 1: Understanding Job Quality," The Aspen Institute, 2023. https://www.aspeninstitute.org/longform/job-quality-tools-library/section-1-understanding-job-quality/; US Department of Labor, "Job Quality Check List," DOL, 2022. http://www.dol.gov/general/good-jobs/job-quality-check-list.

procurement laws tend to protect unionized workers by enforcing a prevailing wage even for nonunion public contractors. Thus, California's support for worker power mechanisms like unions is not inconsistent with worker ownership.

- *An opportunity to develop shared values*

  Even though the case study company is large and does not have workers closely involved in governance decisions, it articulates a clear set of firm values. This exercise of developing a shared mission statement and values could help primary cooperatives in the ACLC model connect more with one another and with the secondary cooperative.

When it comes to supporting worker ownership in infrastructure-related industries, we offer one additional observation:

- *Including broad-based employee ownership models in preferred procurement*

  To the extent that broader wealth-sharing is a chief objective of contracting preferences, California could consider requesting guidance or a Federal waiver to clarify that Disadvantaged Business Enterprise status may apply to worker-owned companies in which a majority of employee-owners would otherwise qualify.

Conclusion

This study, supported by the State of California, builds up a snapshot of this interesting company at a point in time and documents how it came to be such a strong-performing ESOP.

On the whole, PRS exemplifies a California company that has been resilient in the face of challenge, competitive in its market, oriented toward growth, and responsible to its longest-serving workers.

At the same time, no company is perfect – PRS openly acknowledges challenges such as attracting youth talent to an ESOP, educating a growing and diversifying workforce on what it means to be a worker-owner, and further strengthening its safety culture.

Ultimately, this case study supports efforts to document the current reality of one worker-owned company, inform best practices in ESOP companies, and shape conversations around opportunities to support worker-owned companies statewide.

Article 6: Case Studies of Worker Ownership Conversion: Proof Bakery and Firebrand Artisan Breads

Minsun Ji, PhD, Executive Director, Rocky Mountain Employee Ownership Center

June 6, 2024

Summary

Converting existing businesses into cooperatives is a strategy to preserve jobs and wealth when an owner wishes to sell or close their business. Conversions typically seek higher compensation, a better working environment, and to create a democratic culture. However, little empirical research exists on the benefits and challenges for owners and workers across different models of employee ownership.

This paper presents two case studies of businesses that completed employee ownership conversions, adopting two different models. Proof Bakery in Los Angeles converted to a worker cooperative in 2021, while Firebrand Artisan Breads in Oakland was converted to a steward-ownership company in the form of a perpetual purpose trust in 2020. Both cases are based on interviews, field visits, and document reviews, and include details on experiences before, during, and after the conversion, as well as specific outcomes for workers and firms.

The paper finds that as a worker co-op, Proof Bakery experienced increased revenues, higher wages, and improved job satisfaction among its worker-owners. As a perpetual purpose trust, Firebrand Artisan Breads, maintained its social mission of hiring marginalized populations while achieving financial stability with the support of value-aligned investors. Additionally, Proof Bakery's worker co-op model gives direct ownership and control by workers to generate specific outcomes like raising prices and tripling revenues, while Firebrand's steward-ownership model does not give direct control to workers but operates with a similar purpose to improve wages and working environments for employees.

The findings suggest that both Proof Bakery and Firebrand Artisan Breads enhanced job quality and business stability through their respective ownership conversion models. Additionally, these cases offer lessons on the importance of founder vision in exploring and initiating a conversion; the considerations for company size for selecting different ownership models; and the importance of ecosystem players in enabling the conversion processes.

Motivation for Co-op Conversions in California

Growing inequality

California is marked with a problem of growing inequality. The US Census Bureau (2019) reports California has the highest level of "functional poverty" of all 50 states, at 18.2%, after "adjusting for the cost of essentials such as housing, gas and electricity."[511] Furthermore, hard work has not proven enough to move out of poverty. According to the 2022 California Future of Work Commission report, about 45% of Californians living in poverty are in a household where at least one person works full time.[512] In particular, workers in the hospitality, retail, and care sectors are vulnerable to poverty and most low-wage workers are people of color and/or immigrant workers. [513] In California, "more than 2 out of 5 Latinx workers (42%), one-third of black workers (33%), and 35% of immigrant workers were paid low wages, compared to 30% of all workers."[514] This low wage workers' reality is not predicted to improve over the next decade, as California's Economic Development Department predicts that "eight of the ten occupations with the most job openings pay a median income of less than $30,000 a year."[515]

In this light, employee-owned businesses are increasingly suggested as a way to address these economic statistics. As summarized in a recent motion by Los Angeles city council:

> "For workers, studies have shown that a greater percentage of employee-owners have better pay and benefits. A study by the National Center for Employee Ownership found that worker-owners in an ESOP have a 92% greater household net worth, 53% higher median job tenure, and 33% higher median income from wages. Worker-owners can build wealth through profit-sharing, retirement savings, and shared business ownership. Another study found that median patronage (surplus profit paid to workers in addition to wages) distribution among the cooperatives surveyed was $2,300 per worker-owner annually. For businesses, evidence shows that aligning financial incentives of workers and business owners increases company performance through lower employee turnover, faster growth, greater productivity, greater profitability, and longer firm survival. Worker

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511 Fitzsimons, T, Abell H, Moriarty J. California embraces employee ownership: Will other states follow? Nonprofit Quarterly. 2022, Nov. https://nonprofitquarterly.org/california-embraces-employee-ownership-will-other-states-follow/, accessed March 1, 2024.

512 Institute for the Future. Future of Work in California: A new social compact for work and workers. 2021. https://www.labor.ca.gov/wp-content/uploads/sites/338/2021/02/ca-future-of-work-report.pdf, accessed March 1, 2024.

513 Ibid.

514 Kimberlin, S and Anderson, A. A job does not guarantee economic security. California Budget Center. 2022. https://calbudgetcenter.org/resources/a-job-does-not-guarantee-economic-security-in-california/, accessed March 2, 2024.

515 California Employment Development Department (EDD). Employment Projections. 2021. https://labormarketinfo.edd.ca.gov/data/employment-projections.html, accessed March 15, 2024.

cooperatives across all industries had an average profit margin that was almost 8.5% higher than the average private firm (6.4% vs. 5.9%)."[516]

Exodus of the Baby Boomers

Another problem in the economy has to do with the massive exodus of baby boomer business owners who are facing retirement. Nationwide, retiring Baby Boomers own about 41% of all businesses[517] and are set to sell, transfer or close about 12 million businesses in the coming 10–20 years – upwards of 500,000 businesses are predicted to change hands every year. This "Silver Tsunami" of mass retirements will transfer $10 trillion in assets over the next ten years.

Unfortunately, most of these retiring business owners do not have a business succession plan, and business experts predict that "over 86% of businesses that have been in operation for more than 25 years [will] end up being closed down without any sale,"[518] meaning the wealth created in a stable business will disappear.

In California, these Baby Boomers own approximately 359,000 businesses, employing 3.9 million people. With 85% of business owners lacking succession plans, many of these businesses may simply cease operations upon the retirement of their senior owners. [519] Others will be sold to the highest bidder, without creative thinking about how the legacy and social impact of the business could perhaps be preserved by converting the business to employee-ownership.

With the "Silver Tsunami" of Baby Boomer retirements there will be an increasing need for good information on how they might pursue employee-owned conversion as an alternative to closing their business or selling to an outsider. The record of cooperative businesses in paying good wages and being a conduit of job creation for vulnerable populations – such as immigrants, the previously incarcerated, or the disabled – make co-op conversions a potentially useful tool to pursue social and economic equity in California.

Already, 50% of all existing worker cooperatives have formed as a conversion of an existing company.[520] While a start-up worker cooperative takes a long time to make profits and has a high chance of failure, established companies have a higher chance of success after conversion to employee ownership. Most such conversion occurs for companies with 20–100 employees, though conversion of companies with fewer than 20 employees occurs with some frequency as

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[516] Revised Motion by Supervisors Holly J Mitchell and Lindsey P. Horvath, Los Angeles City Council. 12, 2023. "Launching a 'Worker Ownership Initiative' to Build Wealth, Retain Quality Jobs, and Stabilize Businesses. https://file.lacounty.gov/SDSInter/bos/supdocs/183921.pdf, accessed March 1, 2024.
[517] Guidant, Boomers in Business: 2020 Trends. https://www.guidantfinancial.com/2020-small-business-trends/baby-boomer-business-trends/, accessed May 7, 2024.
[518] The Shelhamer Real Estate Group. California's silver tsunami boom. Blog. N.d. https://shelhamergroup.com/californias-silver-tsunami-boom/, accessed March 10, 2024.
[519] Abell, Coontz, Nunez, op. cit.
[520] Ibid.

well.[521] Larger companies with more than 100 employees tend to be more attracted to conversion through an Employee Stock Ownership Plan (ESOP).

Direct Worker Control vs. Perpetual Purpose of Employee Benefit

To enhance understanding of what employee ownership conversion looks like in practice, this paper considers two California examples: Proof Bakery (converted to a worker co-op) and Firebrand Artisan Breads (converted to a perpetual purpose trust). Before providing case study details, the paper provides an overview of the differences between a worker cooperative (Proof Bakery) and a steward-ownership model (Firebrand). A key difference between these models relates to their ownership and governance structures. A workers cooperative is both owned and governed directly by workers themselves. In contrast, a steward-ownership business is owned by "perpetual purpose trust" and governed by a stewardship committee that is obliged to see that the social mission purpose of that trust is adhered to over time. While employees are defined as the intended beneficiaries of a steward-ownership company formed in their interest, these employees do not directly own or manage the company in the way they would do in a worker cooperative.

Direct Worker Ownership and Control Through a Worker Cooperative

A worker cooperative is a business that is directly owned and governed by workers themselves. Worker cooperatives have grown rapidly across the United States since the economic crisis of 2008. Between 2011 and 2019, there were 195 new worker cooperatives formed in rural communities, while 750 cooperatives were formed in urban areas.[522] Between 2019 and 2023, worker cooperatives grew another 30% in the US.[523]

Increasingly, immigrants and people of color have used worker cooperatives as an economic development strategy and to have more control over their working terms and conditions. Workers as owners have direct control of their workplace, which is one reason why workers in low-wage sectors such as house cleaning or food services have been particularly attracted to the model. By joining a worker cooperative and owning their own business, even in low wage sectors like restaurants and retail, worker-owners can receive better wages, support capacity-building, and avoid a "circular labor trap" where "low wage service jobs are structured with little room for growth or skill development."[524]

Recognizing such benefits, government policies at national, state, and municipal levels have increasingly been adopted to promote worker cooperatives, fueling growth of the movement.

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[521] ICA Group. "Case study: Firebrand Artisan Breads: How local bakery is building inclusive wealth and transforming a community." 2019. https://icagroup.org/wp-content/uploads/2019/04/Co-op-Conversions-At-Scale.pdf, accessed March 10, 2024.
[522] Berner, C. "Where are new co-ops Emerging? The changing map of co-op development." Nonprofit Quarterly. Jan. 19, 2022. https://nonprofitquarterly.org/where-are-new-co-ops-emerging-the-changing-map-of-co-op-development/.
[523] Ibid.
[524] Reyes-Valarde, op. cit.

Many cities have initiated new funding support mechanisms, creation of co-op development offices, and implementation of preferred procurement policies to support the growing cooperative movement. For example, the national Main Street Employee Ownership Act of 2018 directs the US Small Business Administration to make more loans to worker-owned cooperatives, New York City Council has dedicated millions to worker co-op development, and the city of Berkeley has adopted a preferred procurement policy to channel city contracts and purchases towards locally owned worker co-ops.[525]

Currently, two types of worker cooperatives can be formed in California: a Limited Liability Company (LLC) or a worker-owned cooperative corporation. An LLC is a pass-through entity, treated as a partnership with no existence outside of its member-owners (so the business must distribute all net income to individual owners as patronage). In other words, an LLC is not allowed to maintain a permanent business capital account; all of its net revenues every year must be allocated to individual owners, for accounting and taxation purposes. In contrast, a cooperative corporation has a business existence of its own, beyond its individual owners, and is allowed to maintain it and to distribute annual profits into those accounts. This corporation will be taxed independently on any annual profits that it maintains in a business account, rather than allocating to individual owners.

The LLC Co-op Model

A Limited Liability Company (LLC) is a flexible form of business that allows workers to form and own their own business as partners, rather than being treated as employees of a business. The LLC model allows multiple workers to come together as partners to form a cooperative LLC, simply by agreeing to whatever core business principles are laid down in the LLC operating agreement among members. Because they are owners rather than employees of their business, an LLC does not need to validate citizenship or immigration status for partners the way most companies do for employees. The LLC model also gives the worker-owners flexibility to adjust their own wages and benefits to meet economic conditions.

The LLC is a flexible and popular strategy for worker ownership. Using the LLC form, a worker cooperative can adopt a hands-on worker management approach, wherein worker-owners themselves directly manage their business through committee, or can adopt a professional manager approach, hiring a non-worker owner to manage the LLC under the broad oversight of a worker-ownership committee. Also, an LLC can form a worker-led board of directors or a hybrid model that includes community organizations and outsiders as part of a board to expand the cooperative's supportive social network.

There are different ways that worker-owners can receive income through an LLC. The LLC can be organized to pay workers regular wages each pay period, and to distribute any remaining profits to worker-owners at the end of the year. Alternatively, the LLC can choose to have no employees at all (only owners) and can distribute all its income as profits to its worker-owners, rather than as regular wages. The LLC does not pay corporate income taxes, nor withhold income taxes for its owners, nor does it match owners' Social Security or Medicare taxes. All

[525] Sutton, S. Cooperative cities: Municipal support for worker cooperatives in the United States. *J Urb Aff.* 2019; 41(8): 1081-1102.

income earned by the LLC must be passed through to worker owners or investors in the form of wages or profits, and these individuals are responsible themselves for paying taxes on these wages or profits.

The Incorporated Worker Co-op

Worker co-ops can also incorporate. Before 2015, worker cooperatives in California were formed as cooperative corporations under the state's consumer cooperative statute. But the passage of The California Worker Cooperative Act in 2015 redefined a worker cooperative as "a corporation… that includes a class of worker-members who are natural persons whose patronage consists of labor contributed to or other work performed for the corporation." This Act also expanded worker cooperatives' access to capital by allowing these co-ops to issue shares and raise capital through members' equity buy-in, from $300 to $1,000 each, without going through full securities registration.[526]

One important benefit of such cooperative corporations is that they have a corporate existence separate from their individual members. Thus, they can accrue equity in a permanent business capital account, saving cash for business expansion, major equipment purchases, or as a reserve fund against economic downturn. Another important characteristic of worker cooperatives has to do with worker control. At least 51% of membership shares in a California worker cooperative must be controlled by workers themselves, as these co-ops "aim to provide workers with full democratic control over their places of employment."[527]

According to this principle of worker control, member-owners are the final decision makers of a cooperative in the form of their controlling membership on the board of directors (and their voting rights on choosing these directors). In smaller worker co-ops, all workers may constitute the board of directors, collectively discussing and managing all major business decisions.

Advancing Worker Interests and Social Purpose via Steward Ownership

Steward ownership is a new phenomenon in the US, and it is often called a "perpetual purpose trust" (PPT). While there are many steward ownership companies in Europe (such as Novo Nordisk, Carlsberg, and IKEA), there are very few steward ownership companies in the US. Examples of steward-ownership companies in the US include Patagonia (an outdoor clothing and gear company that was converted to steward ownership in 2022) and Oregon's Organically Grown Company (OGC) (a company of organic vegetable growers who converted to a PPT in 2017).

Steward Ownership and Social Purpose

Steward ownership converts a business away from ownership by individual persons and into a form of "steward ownership" by a Trust, with a legal obligation to advance the social purpose

[526] Sustainable Economies Law Center. CA Worker Cooperative Act. N.d. https://www.theselc.org/ca-worker-cooperative-act, accessed March 15, 2024.
[527] The Politics Shed. Workers Control. https://sites.google.com/site/thepoliticsteacherorg/home/a-and-as-politics-2017/unit-1-politics-in-the-uk-year-12--13/year-13-a2-core-political-ideas/workers-control, accessed March 1, 2024.

defined in the Trust documents. Under steward ownership, a business is not owned by individual persons or remote investors, but by a Trust, with a legal mission to advance the company's social purpose. As described by ImpactTerms, steward-ownership instills a core principle "into the legal DNA of a business," namely the principle that "profits serve purpose."[528] This social purpose – articulated in the founding documents of the Trust – can be such things as a dedication to hiring from vulnerable populations like the formerly incarcerated, a commitment to local sourcing of materials, or adhering to environmentally sustainable practices. Steward-ownership requires that the assets and net profits of a business must be stewarded in a way that advances that defined public purpose, rather than being used primarily to benefit private investors or owners.

That is, for steward owned businesses, protecting the social mission of the organization is the goal, even if that means reducing profits due to such practices as paying higher wages or using only ethically sourced materials. For steward-owned companies, "profits are a means to an end, not an end in and of themselves." Thus, all the profits can be "either reinvested in the business, used to repay investors, shared with stakeholders, or donated to charity."[529]

Steward Ownership and Trustee Governance

A steward ownership business is not owned by employees directly, nor by any group of individuals – rather, it is owned and governed by the Trust itself, which has a legal existence separate and apart from any individual. In this way, steward ownership separates control of the business from individual, economic self-interest,[530] with a belief that those stewards without any stake of ownership or economic interests are best suited to manage the company to advance its social mission. Stewards do not personally benefit from profit distributions and have oversight power to govern the business and distribute its profits in accordance with their obligation to ensure the advancement of the perpetual purpose of the company.

The steward ownership company is also called a PPT. When the company's core purpose is partly defined as providing benefits and growth opportunities to the employees of the business it is often called an "Employee-Ownership Trust" (EOT). Such a company is governed by a Trust Agreement, which defines its core purpose(s), its governance structure, and its profit-sharing principles. Creating an PPT or EOT requires governing documents (e.g., a charter) to define the purpose of the trust, which (in the case of an EOT) would include operating a business in the interest of employees and maximizing the engagement and commitment of employees to the health of the organization. Beyond this broad definition of purpose in advancing employee interests, EOTs are very flexible in being able to define employee roles in the trust, and in establishing additional purposes in the business charter, such as protecting local community resources, operating sustainably, or advancing other social goals.[531]

[528] Impact Terms. Steward ownership. n.d. https://www.impactterms.org/steward-ownership/, accessed March 1, 2024.
[529] Ibid
[530] Kuijpers, S., S. Velden, and L. Velden. "A social structure: steward-ownership." BVDC Advocaten & Fiscalisten. 2023; March 14. https://bvdv.nl/en/a-social-structure-steward-ownership/, accessed March 15, 2024.
[531] National Center for Employee Ownership. An introduction on Employee Ownership Trusts. 2023; March. https://nceo.org/article/introduction-employee-ownership-trusts, accessed March 15, 2024.

A steward managed PPT is managed by trustees and trust protectors, who have a legal obligation to serve the stated purposes of the trust. As defined in the Trust Agreement, this trustee stewardship committee can be elected by employee-members of the business and/or can include other stakeholders, such as community leaders or local officials. The Trust Agreement can also specify expectations for stakeholder governance (such as requiring employee participation and votes on major business decisions) and can define procedures to allocate net income through which both employees and the social mission of the Perpetual Purpose Trust benefit.

Employees don't necessarily have to play an active role in selecting or advising these trustees, but an EOT's governing documents can clarify governance roles or other important roles for employees in business decisions. For example, an EOT can be set up with the requirement that employees serve in a governance role on the trust or have a role in selecting the trustees or trust protectors. Trustees at an EOT do not engage in day-to-day management of the business, but they do oversee important business decisions and they strive to ensure that business management remains attentive to employees' interests.

Financially, employees typically do not have to purchase an equity investment to become beneficiaries of the trust – every employee is equally defined as a beneficiary just by working at the company. Though employees do not have to purchase an equity investment, most EOTs do require that the company allocate a portion of its annual profits as cash payouts in a profit-sharing pool for employees.[532] This annual profit distribution is different than in an ESOP, through which participants receive company shares that are only cashed out upon retirement or leaving the company. That is, employee-beneficiaries at an EOT do not purchase a share when they are hired (unlike many co-ops) and the company does not purchase any shares when they leave the firm (unlike an ESOP). Rather, they receive a percentage of ongoing profits, in accordance with a formula, throughout the duration of their employment."[533]

Steward Ownership and Perpetual Purpose

A steward ownership company is typically established as a PPT, meaning that the company must be held in perpetuity by the trust, with an ongoing commitment to its stated public purposes. This designation means that a steward ownership "perpetual purpose" company can't be sold. In contrast, worker cooperatives and ESOPs can be sold to outside parties to benefit employee-owners. In order to prevent any sale that does not advance the social purpose, steward-owned companies sometimes establish a foundation that owns "golden shares" in the trust, such that the foundation has a veto right, if there is any intention of sale.

There is evidence that this long-term commitment to social purpose can help company longevity. One study of thousands of mostly European companies finds that a steward-owned company is

[532] In general, if the EOT provides benefits (such as cash dividends) to individual employees, it must generally do so equally to all eligible employees (this is called the "equality requirement"), though amounts can differ according to such relevant factors as hours worked or length of time with the company.
[533] Michael, Christopher. Employee Ownership Trusts: A new model of employee ownership? EOT Advisors. 2017. https://eotadvisors.com/employee-ownership-trusts-eot-a-new-model-of-employee-ownership, accessed March 15, 2024.

six times more likely to survive over 40 years than non-steward companies.[534] Ideally, steward ownership companies grow a positive reputation with their customers, pay higher wages to employees, and have higher employee retention rates, which all contribute to their longevity.

The Perpetual Purpose Trust vs. Worker Cooperatives

Perpetual Purpose Trusts are different from worker cooperatives in several important ways. First, worker cooperatives are owned by individual workers themselves (rather than by a trust), and worker co-ops typically require some sort of equity buy-in from the worker-owners of a business. Employees each become an owner of the co-op and acquire individual ownership shares in exchange for their equity buy-in and the level of their ongoing work with the business. Perpetual purpose trusts (such as employee ownership trusts or EOTs), on the other hand, do not require individual worker equity buy-ins, since individual workers are not the "owners" of the business – rather the trust itself owns the business, as a corporate entity, apart and distinct from any individual worker.

Second, and related to the principle that worker cooperatives are directly owned by workers, it is typically the case that worker cooperatives feature the active engagement of most or all workers in actually governing the workplace and voting equally on any important work decisions. Workers themselves serve as a collective board of directors for the organization and are expected to have high levels of active engagement in workplace affairs. Worker cooperatives are governed through democratic procedures, in which every worker's vote is equal and workers collectively discuss and decide on important business decisions.

EOTs, on the other hand, are less of a direct democracy and more of a representative system in which employees' interests are represented and advanced by trustees. Though these trustees may be elected by workers (and may include employees as trustees), the EOT need not attempt to create workplaces where most workers are highly engaged in workplace management and decision-making. Rather the EOT system assumes trustees will be most actively involved in providing high-level oversight of the business, while employee benefits (such as a share of annual profit distributions) are distributed equally to all employees and without an expectation of active engagement of most workers in managing business affairs. Though an EOT is not required to prioritize democratic governance or worker participation in management, such goals could be embedded in an EOT charter if the company wished.

A third difference is that worker cooperatives are owned by individual workers and governed by direct democratic processes, such that worker cooperatives could vote at any time to sell a company to outside investors or otherwise change the social mission of an employee-owned company. Similarly, ESOPs are governed by trustees who have an obligation to sell the business if an offer arrives with strong pecuniary benefits to ESOP shareholders. For example, New Belgium Brewery was the first and largest craft brewery to become ESOP in the United States (setting up the ESOP in 2000 and becoming fully ESOP-owned in 2012). After seven years of full ESOP ownership, New Belgium Brewery sold out entirely to a private for-profit

[534] Børsting C., Kuhn J., Poulsen T., and Thomsen S., 2017). Industrial Foundations as Long-Term Owners. *Corporate Governance: An International Review*. 2018. 26: 180-196.

company in 2019, in order to maximize short-term pecuniary interests of its employee owners.[535] Such a sale or transformation (sometimes called "demutualization") is a common occurrence with profitable employee-owned cooperatives and ESOPs. But an employee ownership trust (like all perpetual purpose trusts) can be established with perpetual goals like social mission and employee benefit – goals that cannot be changed because most existing employees find it profitable to sell or transform the company. For this reason, an EOT (or Perpetual Purpose Trust) may be an attractive strategy to maintain the ongoing legacy and social purpose of a business and ensure the perpetuity of employee ownership.[536]

An EOT might also work best for a business in which employees aren't seeking maximal investment gains (such as by selling the business to an outside party down the road). Because individual employees do not own shares of the business in an EOT, they would be unable to maximize individual profits by selling the business, and do not automatically have an investor's right to an annual share of profit distributions (though such principles might be embedded into a Trust's governing documents).

Because of its representative/trustee nature, an EOT system may also be more appropriate than worker cooperatives in larger workplaces with many employees, or in situations where employees as a whole wish to sustain a mission-driven business but aren't necessarily desirous of taking on the burdens of regular, active supervision of all aspects of the workplace. As one founding member of a Cambridge Design Partnership EOT described this flexible mode, "Employee ownership through an employee ownership trust provides us with a stable and equitable structure that has the flexibility to scale and adapt to whatever the future brings…It means we can continue to grow without the involvement of external shareholders so we can maintain full control over the direction of the business and our creative culture."[537]

Worker Co-op Conversion Case Study: Proof Bakery

There are about 19 food and bakery worker cooperatives in California, most of which are located in the Bay Area. Some notable food cooperatives – such as Rainbow Grocery and Alvarado Street Bakery – have been in the co-op business for more than 50 years, with combined annual "revenues of over $100 million and more than 350 worker-owners."[538] Another notable California bakery cooperative is Arizmendi. The 1995 formation of the Arizmendi Association of Cooperative, resulted in the formation of six Arizmendi bakeries in different parts of the Bay Area with more than 120 worker owners, generating $18 million annually.[539]

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[535] National Center for Employee Ownership. The end of employee ownership at New Belgium Brewing. Newsletter. 2020; March. https://www.nceo.org/article/end-employee-ownership-new-belgium-brewing, accessed March 1, 2024.
[536] Michael, op. cit.
[537] FieldFisher. Employee Ownership Case Studies. 2018. https://res.cloudinary.com/fieldfisher/image/upload/v1574346756/PDF-Files/PDFs%20from%20old%20website/eo-case-studies-eo-day-2018_gfi8q8.pdf, accessed March 15, 2024.
[538] Abell, Coontz, Kim, Nunez, op. cit.
[539] Ibid, p.33.

To explore the Proof Bakery experience, this case study relied upon: 1) a review of public information, published journalism and reports regarding the bakery; 2) a review of foundation reports and some limited internal business reports provided by Proof Bakery; 3) a field visit to Proof Bakery to view operations and meet employees in person; and 4) interviews with four key stakeholders, including the founding owner of Proof Bakery, who led the way to employee-ownership conversion.

Pre-Conversion: Owner's Vision

Proof Bakery's co-op conversion process was led by the owner, Nayoung Ma. Ma was a progressive and professional chef who started a local bakery in Los Angeles in 2010. Although she was aware of other co-op bakeries such as Arizmendi and was interested in the concept, Ma had no employee ownership goals when she opened her own small bakery.

As a chef and small business owner, Ma focused on baking fresh home-made bakery products, and grew rapidly. Ma did not focus much on advertising or social media as she loved the idea of "staying small" and being a locally based neighborhood bakery shop. Proof bakery did not even have a sign on its bakery shop, but did grow its reputation over time. In fact, in 2020 Ma was named a James Beard Foundation Award semi-finalist for Outstanding Baker.[540]

However, as her business grew and hired more employees, Ma began to feel the need to transition from the exhausting demands of sole ownership and change the way that the business was run. She began to explore ideas for a worker cooperative. She attended a worker co-op conference and met up with a key cooperative developer in California, Project Equity. Ma was convinced after contacting Project Equity that "transferring my business to workers was the right time and the right thing to do."[541]

Ma looked at various options to exit her business. She considered selling her business to employees to be the best option to gain personal reward for her business success, while also providing opportunities to her long-time employees. The values of a worker cooperative matched her values as a progressive business owner. "I really wanted the business itself to carry on the values that I started," noted Ma. "It was so important for me also to make sure that if I left that people who had been working there would not leave and continue to have a job."[542]

When she decided to explore transferring ownership to employees, Ma opened the discussion and most workers who had been there for a long time were excited about becoming owners of the bakery shop. Already, under Ma's leadership, workers had long retention rates of over 3 years (bakeries commonly face 60%+ employee turnover rates every year),[543] and the idea of a worker-owned business helped workers imagine what could be possible by sticking with the

[540] Hawkins N. This founder sold her business for $1.4 Million, but she didn't sell out. *Inc*. Oct 21, 2023. https://inc.com/nick-hawkins/this-founder-sold-her-business-for-14-million-but-she-didnt-sell-out.html, accessed March 2, 2024.
[541] Ma, N. Personal Communication, January 21, 2024.
[542] Hawkins, op. cit.
[543] Just Food. 2022. Companion Baking: Workforce retention initiatives as a recipe for success. https://just-food.com/sponsored/companion-baking-workforce-retention-initiatives-as-a-recipe-for-success/, accessed on May 7, 2024.

business for the long run.[544] A group of employees quickly solidified behind the idea of employee ownership, and the conversion process began.

Proof Bakery Co-op Conversion Process

Converting a business with more than 10 potential new owners can be a complicated and time-consuming process. In the case of Proof, the conversion process began in 2018 and wasn't completed until May of 2021. Normally, co-op conversion can take 6–18 months, but the Proof Bakery conversion took longer than expected due to the Covid-19 pandemic.

To help with this complicated process, Ma selected Project Equity to provide technical assistance to help start and complete the co-op conversion process. Project Equity provided a feasibility study which focused in part on the financial condition of a company and recommended a sales price to the owner. Project Equity also organized and mentored a transition committee with employees, formed an employer buyer group to help educate Proof's workers on the transition, provided a series of educational workshops for initial board members, and provided post-conversion education. All these services can cost $40,000–$50,000 for a business the size of Proof, in addition to legal fees for assistance in navigating the final purchase and conversion to co-op status.[545]

An important part of the employee ownership conversion process is arriving at a purchase price and helping potential worker-owners to mobilize capital to make the purchase. In this case, although one business valuation put Proof Bakery at $1.7 million, Ma agreed to reduce the selling price to $1.4 million, to make the transition easier for workers. The agreement was that the new worker-owners would pay the $1.4 million loan over five years. Ma carried two-thirds of this loan herself (as an owner-carry), and the other third was provided by a lender in Project Equity's network of community development financial institutions. This arrangement of a business owner carrying part of the loan that allows employees to buy the business is common in employee ownership conversions, as it provides workers with necessary capital while also benefiting the original owner as the full purchase price is paid over time. For their part, each new worker-owner (11 of them, in Proof's first year as a cooperative) contributed a personal equity buy-in of $2,500, either as a lump sum or deducted from their paychecks incrementally.[546]

Post-Conversion

Collective Governance Relieves Management Burden

After Proof Bakery's conversion was complete in 2021, Ma stayed with Proof Bakery as a board member to smooth the transition. She finished her board term in December 2023. Proof began with eleven worker owners and twelve non-owner employees. By winter of 2024, Proof featured 19 worker-owners and six employees, who were about to be voted on as full members of the Proof Bakery co-op in Spring, 2024.

[544] Hawkins, op. cit.
[545] Ibid.
[546] Hawkins, op. cit.

During this time, the bakery quickly grew, tripling revenues within two years of the transition. Ma attributes this success partly to the collective wisdom of worker-owners, who helped relieve the burdens of sole ownership while also coming up with good business decisions. “When I was the sole owner, I felt the burden of making all decisions by myself,” Ma says. “But workers make good collective decisions – they know how to improve the taste of the baked goods, know how to try new things, etc. I am happy to hear that they are doing so well, and I was also surprised to know how fast they grew.”[547]

Much of this management success is because the governance structure of Proof Bakery has been well organized. One of many challenges of a cooperative has to do with confusion over different roles and responsibilities of worker members, managers, and board members. Many cooperatives (whether startups or conversions) experience confusion over the different roles and responsibilities of a board of directors, a management team, and regular employees. Although workers are owners in coop, the idea that worker owners should make every decision is not correct, as there should be a clear separation of duty and authority between day-to-day business management and overall business governance.

To maximize business success, there should be clearly defined, and separated, systems of management and governance in a cooperative. The management system should be focused on day-to-day business operations and “carrying out the regular business of the firm,” while the governance system should address only broad “matters of organizational direction and policy.”[548] In this regard, the governance system (often made up of an elected board of directors, and which might include votes of all workers) addresses broad issues that are best decided by all members or their representatives, while the management system is left to a professional manager to handle daily business.[549]

One of the strengths of Proof Bakery is that it established clear roles and boundaries between general members, the board of directors, and the business managers from the very start. The role of membership is to elect board members, attend annual meetings, stay informed regarding financial matters, and to approve an annual budget during Proof’s annual membership meeting. To prepare for this annual meeting, Proof’s financial manager comes up with a budget to present to the board of directors for approval. While final budget decisions are typically made by the board of directors in many cooperatives, at Proof Bakery a final budget can only be approved by all worker-owners at a general membership meeting.

Board members are all worker members who were elected by general members to a two-year term. The role of Proof’s five-member board of directors is to pre-approve an annual budget, and to provide broad governance on business policies and direction (such as setting wage levels or deciding on business expansion opportunities). Board members articulate the vision, set strategic plans, and orient the business towards a larger goal. Board members also oversee hiring and firing the coop’s three managers and setting their salaries. These managers are all worker-owners of the business, themselves. At the same time, the board is not engaged in any daily operations or any operational decisions.

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[547] Ma, N. Personal Communication, January 21, 2024.
[548] The ICA Group, op. cit.
[549] Ibid.

The management team consists of three general managers: a front manager, a back of the house manager (responsible for baking and the kitchen), and a finance manager responsible for bookkeeping. These managers make operational decisions (such overseeing new hires, disciplinary actions, changing hours during holidays, and product placement). For instance, when a hurricane hit California in 2023, the three managers made a collective decision to close the store for the safety of worker owners. No managers are allowed to sit on the board of directors. Proof's well-organized governance structure has played an important role in stabilizing the cooperative and in increasing revenues quickly after the conversion process.

Workers' Income Increased Dramatically

Annual gross revenues for Proof tripled within one year of conversion, growing from $1 million in 2021 to $3.1 million in 2022 and $3.28 million in 2023, largely because workers and managers together agreed to raise the price of baked goods. While Ma charged cheap prices for all bakery products, worker owners charged a higher price based on the strong reputation of their product. Together with increased sales, this change resulted in tripled revenue for the cooperative. The net revenue also grew over 36% within a year of transition.

Higher net revenues allow for higher wages and profit distributions to workers. For example, worker-owners each received per capita patronage distributions of $6,000–$8,000 following conversion in 2021. These distributions were in addition to regular wages and were distributed in proportion to total hours worked. The total patronage distribution for fiscal year (FY) 2021 was $156,823, which grew to $286,761 in FY 2002, and $174, 609 in FY 2023.

Also, workers implemented a different tip policy, which resulted in better wages for most workers. While counter workers who worked at the front of a bakery previously took the most tips for many years prior to conversion, workers voted to change the tip policy to evenly distribute tips to all workers after conversion. With the change of tip policy, and with higher net revenues, workers' hourly wage increased by $3.50 on average (a raise of about 15%), effective April 2023. This increased wage for everyone (even as counter workers lost some tips) became an important factor for workers to believe in the power of a cooperative. "I am happier that we are making more income for everyone. That makes me feel good to be here" states one member.[550] Another worker, Proof's kitchen manager, received a $19,000 patronage distribution in 2023, which has dramatically improved his life. "I've definitely been able to move to a better apartment for my family in a nicer area, which I've always wanted to do," says the kitchen manager. "I just needed to save more money, and this allowed me to do that."[551]

Workers Develop Stronger Sense of Purpose and Satisfaction

A substantial positive impact after employee ownership conversion at Proof was an increase in workplace satisfaction. In the beginning of the conversion process, many workers expressed concern over how collective management of the workplace would work. The longest serving bakery employee, store manager James Lee, stated that "I was skeptical of the employee ownership model in the beginning. So, when Nayoung talked about it to all of us, I was rather in

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[550] J., Personal Communication, January 18, 2024.
[551] Hawkins, op. cit.

a neutral position, while some others were very excited." However, Lee's neutral position on employee ownership changed quickly, when he saw the power of the worker owned model in growing the incomes and satisfaction of collective worker-owners. "Now, I would like to recommend all other businesses to consider converting to EO," Lee says.[552]

Another worker-owner, Emily, also grew to increasingly believe in the cooperative model as she experienced its benefits. "I did not know what a worker cooperative was," Emily recalls. "But I am now very proud of myself for being a worker owner, and I would like to recommend others to do the same. My son is very proud of me because I am an owner of a business and I have a reliable living and good living wages. I never thought that being an owner was possible for me, but now I am."

This higher workplace satisfaction translates into better worker retention. Though the food and restaurant industry have high turnover rates of over 75% on average,[553] the turnover rate at Proof is very low. The average retention of workers at Proof was about 3.5 years under Ma's leadership, as she also provided employees with a good working environment, but the turnover rate for Proof after co-op conversion could move even lower, since as all worker owners have invested in ownership with their $2,500 buy-in, and assumedly plan to stay with the company for a long term. For example, Under Ma's leadership, she employed a neighbor who used to clean for Proof Bakery at night as a part-time worker, and now this employee has become a co-op member and owner. Now his wife is also a cooperative employee who wants to become a long-term owner.

Direct control of the workplace by worker-owners can increase a sense of pride and empowerment for worker owners. Many of the worker owners at Proof Bakery have moved from one job to the other job within the food and restaurant industry without much hope for staying for the long term. But at Proof Bakery, worker owners can develop a long-term plan to grow their incomes, build personal capacity, learn management skills, and feel more satisfied at their workplace. Consider the following worker statements, gathered from personal interviews conducted by the author of this case study.

- "I started at a hospitality business for long years. When I came to Proof Bakery, I came here to become a barista. But now, I am in charge of finance, because I love this kind of finance work."
- "I want to learn more about management in general. I came here to become a barista because that is what I wanted to do. But now, I manage the entire store, and I would like to learn more about management and communication skills."
- "I was at a front desk, but now I am a baker with a better paying salary. We have another worker who started as a part time janitor at night but now, he is a baker making bread in the back."

[552] Lee, J. Personal Communication, January 18, 2024.
[553] Reyes-Valarde, op. cit.

- "For me, not having a sense of economic security has always been a problem and I lived under lots of stress, moving from job to job at a café. But, with Proof Bakery, I feel less stressful, and I am happier."

All of these statements speak of worker-owners' enhanced sense of ownership, possibility, and purpose in their work at Proof, a workplace that has helped them to learn diverse skills, including skills to growing their business. While cooperative conversion in the beginning years can be filled with chaos and confusion, workers at Proof Baker have established a strong work culture that contributed to building stabilization and prosperity for workers.

Workers Develop Stronger Community Bonds

Another impact of the cooperative conversion at Proof is that worker owners have grown their desire to help other businesses converting to employee ownership. Every worker owner consulted for this report expressed a desire to help other businesses to do the same thing. "I learned so much that I want to help other businesses to do the same thing so that workers can get more benefits," one worker explained. Another stated that "I had no idea what a worker cooperative means and how it would work in the beginning. But now I know what it is, and I want to help out others."

Conversion to Worker Cooperative: Summary

At Proof, direct worker control through forming a worker cooperative has improved workers' wages and living conditions. Worker ownership has also built a sense of purpose and possibility, which is tied to the way business ownership has built workers' personal capacities and sense of personal direction and future possibilities. Worker owners have incentives to create a better working environment for everyone, creating stable structures through which workers learn how to become better owners while becoming more responsible for their own work. Being a worker-owner at Proof also has also increased the worker's civic concern for the well-being of other businesses and their employees.

Steward Ownership Conversion Case Study: Firebrand Artisan Breads

The case of Firebrand Artisan Breads shows how a company with a social mission can take steps to ensure that its mission to "serve the community" and to "provide good jobs for those with barriers to employment" continues as long the enterprise survives.[554]

Background: Pre-Conversion

Matthew Kreutz founded Firebrand Artisan Breads in 2008 in a West Oakland warehouse. Kreutz started working at a bakery when he was just 14 years old. He recalls that there was nothing outside of "bakery job" in his entire life. Kreutz worked for someone else for a few years, but his dream was always to work for himself, based on his lifetime commitment to "DIY (Do It

[554] Firebrand website. N.d. https://www.firebrandbread.com/.

Yourself) ethics" that is common in the lifestyle of punk subculture.[555] Consequently, in 2008, Kreutz founded Firebrand Artisan Breads.

In the beginning, there were no goals other than keeping the store afloat for a few years. This goal required "emotionally and physically demanding work with long hours in an industry marked by high turnover, limited career opportunities, and little to no safety net for workers."[556] Within a few years of opening, Firebrand had grown and stabilized. Kreutz saw an opportunity to align his hiring practices with his values of working among marginalized populations, offering jobs to people with a history of homelessness and incarceration. "My bakery store had too many overeducated people, but I was more interested in hiring more vulnerable people. We did not require any resume or anything, but we welcomed anyone who was willing to work hard."[557]

In 2012, Firebrand began to offer 24-hour delivery service, and the business grew exponentially after that. By 2018, there were 55 employees, 80% of whom were people of color, and 60% of all managers were women.[558] Hiring people with barriers to employment became "our thing," as Kreutz stated.[559] To support their practice of hiring vulnerable populations such as the formerly homeless or formerly incarcerated, Firebrand began to offer a series of business management and personal development training sessions. "It was always a natural and organic thing for us. I've never wanted to work at a place where I felt like I couldn't be myself," recalls Kreutz. "I've also been around a lot of people that don't have the fanciest education or most privileged background who can just kill it. Where their backgrounds were a real advantage, not on paper, but in real life, they add a huge amount to the company."[560] In addition to these personal satisfaction advantages, anyone who completed 90 days of the provisional period received free health care, dental and vision, and a boost in their hourly wage.

Even with a model of hiring less experienced and traditionally marginalized workers, Firebrand's revenue grew rapidly. In 2015, Firebrand's revenue grew to $3 million, a 300% increase from a few years previously. That same year, Firebrand raised $3 million in expansion capital that included a loan of over $800,000 from ICA Capital to move into a new facility in Oakland.[561] Also, the number of employees grew from 12 to 55 workers in 2015.[562] By 2019 Firebrand's annual revenue was $6.2 million, and the company began to launch a line of packaged goods.

During the Covid Pandemic of 2020, Firebrand made a conscious decision not to fire anyone, and its workforce did not experience much negative impact. "Although some people naturally left the company during the COVID pandemic, we did not rehire. We had a strong workforce during

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[555] Kreutz, M. Personal Communication, February 28, 2024.
[556] Purpose Foundation. Study: Firebrand Artisan Breads. N.d. https://www.purpose-economy.org/content/uploads/purpose-firebrand-artisan-breadscase-study.pdf, accessed March 14, 2024.
[557] Kreutz, M. Personal Communication, February 27, 2024.
[558] ICA Fund. Case study: Firebrand Artisan Breads. N.d. https://www.sec.gov/Archives/edgar/data/1888815/000167025422000527/document_12.pdf, accessed March 15, 2024.
[559] Ibid.
[560] Purpose Foundation. Study: Firebrand Artisan Breads. Op. cit.
[561] Ibid.
[562] ICA Fund, op. cit.

and after the COVID pandemic," stated Kreutz. The annual revenue for 2020, even during the pandemic, was $4.4 million, and that figure would more than double to $9.8 million in 2021.[563]

The Perpetual Purpose Trust Vision

By 2020, Firebrand had grown from a four-person operation and was approaching a 60-person team. Its model was to hire from vulnerable populations, provide individualized training and growth plans to every employee, and to connect employees to a range of social services, including legal assistance, housing assistance, ESL programs and GED classes.[564] "Firebrand seeks to stand at the center of a new wave of capitalism that leverages business to address complex societal problems," says Kreutz. "We believe through business we can create shared value for employees and the community."[565]

At this point, in 2020, Kreutz began to consider a business model which could protect Firebrand's social mission into the future, while attracting value-aligned investors. A model of steward ownership through a Perpetual Purpose Trust fit the bill. Transitioning Firebrand so that it was owned not by an individual (Kreutz), nor even by a community of workers (as in a worker cooperative), but by a Perpetual Purpose Trust would legally commit the company into prioritizing its social mission, before maximizing profits and individual economic gain.

The Perpetual Purpose Trust is a "non-charitable trust" that puts the "social purpose" of the business as the beneficiaries of the Trust and requires the steward supervisors of the trust to ensure its social values are always foremost. "It took me 48 hours to decide to go with a perpetual purpose trust" stated Kreutz, [566] as it provided a way to secure his social values regardless of who specifically invested in or managed the business. "I can get hit by a car, but the company continuing with its mission without any external pressure was important for me." stated Kreutz. "Baking is a conduit through which we offer marginalized people an equitable workplace," Kreutz notes, and a perpetual purpose trust is a way of ensuring that this mission never changes and that the company can't be sold to larger investors, no matter the profits.

To secure his values-driven mission, Kreutz considered other employee ownership models, such as worker cooperatives and ESOPs. However, Kreutz determined that it was impossible for Firebrand to convert to a worker cooperative, because "Firebrand already had a large debt from the Small Business Administration, and workers co-ops can't get a loan from Small Business Development Centers."[567] Although the Main Street Employee Ownership Act in 2019 directed that SBAs should include worker co-ops as eligible entities for loans, in reality, many SBA offices have reportedly been slow to change their on-the-ground practices to provide loans to worker co-ops. Kreutz believed a worker cooperative works best in a small workspace. Also, his focus was less on providing "ownership" to employees, and more on maintaining the social mission of vulnerable workforce development, while also focusing on growing in the next 10

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[563] Ibid.
[564] Ibid.
[565] Purpose Foundation. Study: Firebrand Artisan Breads. Op. cit.
[566] Kreutz, M. Personal Communication, February. 27, 2024.
[567] Ibid.

years so as to provide more jobs to marginalized communities. For these reasons, Kreutz eliminated the option of a worker co-op.

Also, Kreutz did not consider the ESOP model the right fit because employees must remain with ESOPs for a lengthy period of time to become vested in stock or retirement benefits, while many employees in the bakery and café industry have short retention periods. Also, the ESOP model is largely driven by the promise of stock gains and retirement benefits to employee stockholders, and this monetary motivation did not match Kreutz's hope to sustain a social mission-driven focus at Firebrand. Thus, Kreutz believed the best way to continue to grow his successful business would be to ensure professional management and outside investor interest in a steward-managed perpetual purpose trust.

Conversion Process: Firebrand Perpetual Purpose Trust

In 2020, Kreutz began the process of converting Firebrand from individual ownership into a perpetual purpose trust. Kreutz hired Stoel Rives, a Minneapolis-based law firm specializing in trust law to finalize the legal model for Firebrand and worked with the Purpose Foundation to complete the process. Although the process was complex at times, due to its unfamiliarity, Firebrand incorporated as a perpetual purpose trust in August 2021. The entire process from start to completion took eight months and worker engagement was not part of the conversion process, per se. After completing the conversion, Kreutz informed workers of the conversion. A few community foundations such as Libra Foundation joined to support the mission of Firebrand with value-aligned investment.

Thus, there are three foundational components of Firebrand's Perpetual Purpose Trust (PPT). First, there is the trust agreement, which is a governing document that defines the "beneficiary of the trust, the purpose of the trust and its governance." Second, there is the Trust Stewardship Committee which is responsible for governing the assets held by the trust and doing so in such a way as to always advance the social purpose of the trust agreement. Firebrand's Trust committee has five members. Three members come from Firebrand itself (the company founder, the company manager, and a line employee) one is a community member (the Libra Foundation), and one is an independent member (ICA Capital). Third, there is a Trust enforcer who serves as an arbitrator for grievances brought by stakeholders against the Trust Committee. In the case of Firebrand, the trust enforcer is Kreutz himself.

A core job of the Trust Stewardship Committee is to ensure that Firebrand's management adheres to the provisions of the perpetual purpose trust agreement. Firebrand's trust agreement identifies eleven purposes for the perpetual purpose trust. The first purpose of Firebrand is "prioritizing the hiring of people who are formerly incarcerated, homeless, or otherwise have high barriers to entering the workforce."[568] The second purpose of Firebrand is to "maintain a profit-sharing program or some equivalent financial program for workers to benefit from the profit of the company." [569] These two purposes of Firebrand express the core purposes behind the company – to hire from marginalized communities and to ensure their personal financial growth.

[568] Firebrand Artisan Breads. People first: Ingredients for an extraordinary team. N.d. https://www.firebrandbread.com/people-first, accessed March 15, 2024.
[569] Ibid.

Other identified purposes of Firebrand largely support these two primary goals, such as by specifying that "profit maximization" is not the top goal of the company (purpose 3), prioritizing "professional development of employees as well as increasing growth ladders" (purpose 8) and promoting "fair labor practices" (purpose 10).[570]

Post-Conversion

Before the conversion, Kreutz maintained 100% of all company shares. After conversion, he transferred 51% of his shares to the Firebrand Purpose Trust to be held in perpetuity. The Trust also issued extra shares to value aligned investors with the result that after conversion. As a result, the Firebrand Stewardship Trust owns 33% of all shares, the founder owns 30%, The Candide group owns 10%, ICA Capital owns 19%, and employees own 8%.[571]

Under the new trust-ownership arrangement, social mission is paramount, but the company still seeks financial sustainability and a reasonable return on investment for all investors. Firebrand's Trust Purpose #3 clearly describes this balanced goal: "Operating the Company for the benefit of stakeholders rather than profit maximization and shareholder return, while acknowledging the necessity of financial security for the long-term viability of the enterprise."[572]

Firebrands PPT seeks to balance these goals of social mission and investor return through a profit structure in which patient capital "investors receive 90% of the distributed profits until they have achieved 2X their initial investment. The remaining 10% of profits are distributed to employees."[573] Once investors achieve 2X their initial investment, the profit structure is flipped and investors only receive 10% of profits, while the remaining 90% is distributed pro-rata based on ownership. Most of the ownership will be in the Trust's hands, because as investors are redeemed over time, their original shares will be bought back at original face value and allocated to by the Firebrand Perpetual Purpose Trust itself, "thus increasing employee/community ownership and their proportional share in profits."[574] Through this model, Kreutz hopes that the investors will earn 2X their original investment early, allowing the profit-flip to happen quickly, with the "hope that employees are able to split up 90% of profits in a couple of years."[575] His long-term goal is that the Trust owns 100% of shares.

Firebrand has plans for long-term growth after this conversion. Immediately following conversion, in 2022, Firebrand secured financing for a second facility one city over in Alameda, California: a 44,000 square foot building to provide training for employees and to create a 24-hour facility to deliver to over 450 wholesale customers, such as Google office cafes, Whole Food Markets, and Sprouts supermarket. The expansion budget for the new facility was $9.5 million, $2.5 million of which was raised from 90 investors.[576] The largest investor was the Libra Foundation, which supports jobs for previously incarcerated people. To finance this expansion,

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[570] ICA Fund, op. cit., p. 7.
[571] Hawkins, op. cit.
[572] Ibid.
[573] Ibid. p. 4.
[574] Ibid. p. 5.
[575] Kreutz, M. Personal Communication, February 27, 2024.
[576] Ibid.

Firebrand took on substantial new debt in 2022. As a result of the large debt burden, the company was not profitable in 2023, but Kreutz argued in early 2024 that "within a couple of months, we will be profitable again."[577]

Proof Bakery Co-op and Firebrand PPT: Case Study Lessons

Although these two cases are different in terms of employee ownership model, there are some commonalities to learn from.

Critical Role of Owner Vision

Both cases demonstrate how the vision and support of the original business owner is critical in a successful employee ownership conversion. Almost all employee ownership conversion cases have been actively led by the owner of the business.[578] The owners of Proof Bakery and Firebrand were both committed to supporting their workers and serving the broader community by transferring ownership to their employees or to a Trust with an obligation to support the interest of employees. Ma was willing to accept a lower price for her business than originally planned, while Kreutz eagerly transferred ownership of a large and successful enterprise to a Trust with a social purpose larger than his own private gain.

While Ma was more interested in transferring her business to direct worker ownership and control, Kreutz was interested in transferring his business to a perpetual purpose trust which would never be sold to any outside entity, and which had a mission of current and future employee benefit at its core. While the Proof Bakery worker cooperative created an environment where workers have a direct control of the workplace through democratic decision-making on such things as product pricing, Firebrand's PPT workers are less engaged in direct workplace management. While these two models have important differences, both conversions resulted in high road companies that provide good wages and a positive working environment, while building values of cooperation and social benefit in their communities.

Significant Potential for Worker Benefit

Both case studies demonstrate the significant potential benefits to be gained from conversion to direct employee ownership or employee ownership trusts. At Proof, workers quickly increased their average wages by $3.50 an hour after conversion, while also enjoying sizable annual patronage distributions. In addition, Proof Bakery worker-owners enjoy a sense of ownership, satisfaction, and even happiness at their democratically managed workplace. At Firebrand, conversion to a PPT attracted value-aligned investors who funded a large expansion of a company dedicated to hiring the formerly homeless and formerly incarcerated. These employees earn a good wage at Firebrand and enjoy a profit-sharing structure that over time will dedicate an ever-increasing share of profits to workers.

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[577] Ibid.
[578] Dudley, T. Why aren't there more employee-owned companies? Certified EO. N.d. https://www.certifiedeo.com/blog-posts/why-arent-there-more-employee-owned-companies, accessed May 7, 2024.

Cooperative or Trust: Business Size Matters

Proof Bakery chose to pursue a direct ownership worker cooperative, while Firebrand opted for a perpetual purpose trust with a mission to advance worker interests. A key reason for these choices was the size of the business to be converted. Direct cooperative ownership and governance of a business by workers themselves works best in a smaller operation, where all workers can meet together, build collective spirit, and meaningfully govern their business operations. At Proof, this model worked well for the approximately 10 original owners, growing to 20–30 owners over the years. In contrast, Firebrand had about 115 employees when it considered its employee ownership conversion and had plans to grow much larger. In such an operation, the model of an employee ownership trust representing the interests of all employees – including large numbers of potential future employees – may be a more workable model. At a place like Firebrand, with more than a hundred workers, many of them formerly homeless or incarcerated, and with traditionally high turnover rates, adopting a trustee model may be more realistic than pursuing full worker ownership and participation in governing business affairs.

Of course, there are some models of large worker cooperatives with hundreds of worker-owners, and there is no definitive point at which a business might become too large to sustain a democratic worker cooperative model. But there are some indicators that suggest a trust stewardship model might be a better fit, which include: 1) a large number of employees; 2) an employee community that might lack experience or education in business management and cooperative principles; 3) a highly transient, traditionally high-turnover labor force. The experience of Firebrand demonstrates that when a number of these indicators come together, it may be wise to consider the perpetual trust model.

Potential Benefits of Cooperative Support Association

Conversion to employee-ownership can be a difficult and time-consuming process. Proof Bakery's conversion was a multi-year process, while Firebrand's conversion took most of a year. Both owners and workers typically need substantial education and mentoring on the nature and process of employee-ownership conversions. Executing the process typically requires feasibility studies, education and support services from employee ownership developers, and legal assistance. All of this costs money, in addition to the financing needed to allow workers to buy their business in the case of a cooperative (or to expand their business, as in the case of Firebrand). Owners must access consultants, lawyers, financial analysts, and funders.

Associations such as DAWI and RMEOC (where the author works) support conversion efforts. It is likely that government support of such associations could make conversions faster, less costly and more common. These issues are discussed further in Chapters 4 and 5 of the main report.

Article 7: Staffing Co-ops, Umbrella Groups, and the Cooperative Labor Contracting Ecosystem

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July 17, 2024

Summary

As an increasing number of workers and employers participate in domestic outsourcing arrangements such as labor contracting and temporary agency employment, worker ownership advocates see worker ownership as a potential means to boost job quality, firm performance, and social outcomes. However, little research exists on the models and practices among staffing co-ops and related organizations – particularly umbrella groups that help enable their growth.

In this article, we examine organizations trying to advance job quality through worker-owned labor contracting. What goals and models have these organizations adopted? Where have they struggled and succeeded? What opportunities exist for growth and sustainability?

To explore these questions, we conducted in-depth interviews, correspondence, and document review with nine staffing co-ops and seven umbrella groups, co-ops and other organizations owned by and benefiting co-ops. We primarily focus on US-based organizations, all of which are new and small-scale (founded within the past six years, serving 50–1,000 workers). For perspective on financial sustainability and other questions, we include established, large-scale organizations in other countries (founded decades ago, now serving 7,000–300,000 workers).

Our research found that balancing rapid growth with democratic governance is crucial for both staffing co-ops and umbrella groups. For staffing co-ops, effective worker engagement with clear benefits for job quality relative to other opportunities is essential for recruitment. Similarly, strategic partnerships with recruitment organizations, training programs, and umbrella groups are key for short-term viability and long-term sustainability. Financial sustainability is a persistent challenge for both types of organizations, underscoring the necessity of umbrella groups that provide scalable shared services and pooled resources across multiple staffing co-ops.

These findings suggest that advancing worker ownership in labor contracting requires integrating governance into day-to-day operations, as well as shared services organized by umbrella groups. Future research ought to examine how a variety of organizations, from worker centers and labor unions to co-op development partners and business advisors, manage to advance job quality and firm performance in sectors that depend on labor contracting or are increasingly turning to staffing arrangements.

Introduction

Over the past few decades, a growing number of US firms have attempted to focus on core competencies and increase profitability by using staffing agencies and similar arrangements to offload the risk and outsource responsibilities associated with employment.[579] Former US Department of Labor official David Weil terms the result a "fissured workplace."[580] As a result of this trend, stable long-term jobs are increasingly shifting to flexible short-term contracts with minimal employee rights and protections.

However, worker-owned staffing cooperatives as described in the 2022 POWER Act may present a strategy for quality jobs that help workers support families and build wealth. Research on the staffing co-op ecosystem is key to designing an Association of Cooperative Labor Contractors (ACLC), a hub for cooperative labor contractors (CLCs) described in the 2022 Promote Ownership by Workers for Economic Recovery (POWER) Act, as well as informing initiatives for worker ownership more broadly.

This article presents an overview of organizations in the cooperative labor contracting ecosystem trying to create and sustain quality jobs. While most research focuses on directly creating cooperative businesses,[581] there is limited understanding of the complex, networked efforts across various organizations promoting worker-owned labor contractors.[582]

[579] Bernhardt, Annette, Rosemary Batt, Susan N. Houseman, and Eileen Appelbaum. "Domestic Outsourcing in the United States: A Research Agenda to Assess Trends and Effects on Job Quality" (March 24, 2016). Upjohn Institute Working Paper No. 16-253. http://dx.doi.org/10.2139/ssrn.2757254.

[580] Weil, David. *The Fissured Workplace: Why work became so bad for so many and what can be done to improve it*. Cambridge, MA: Harvard University Press, 2017.

[581] See, e.g., Radical Routes. *How to Set Up a Workers' Co-op*. 4th ed. Leeds: Radical Routes Ltd., 2019; Ranis, Peter. *Cooperatives confront Capitalism*. London, UK: Zed Books, 2016; Wright, Christopher C. *Worker cooperatives and revolution: History and possibilities in the United States*. Bradenton , FL: BookLocker, 2014; Green Collar Communities of the East Bay Community Law Center, and the Sustainable Economies Law Center. *Think Outside the Boss: How to Create a Worker-Owned Business*. 3rd ed. Oakland, CA: the Sustainable Economies Law Center, 2013; Scott L. Cummings, "Developing Cooperatives as a Job Creation Strategy for Low-Income Workers," New York University Review of Law & Social Change 25, no. 2 (1999): 181-212, 185.

[582] One exception is analysis of a case in Colombia where an employer-led labor co-op used legal loopholes to exploit workers. See Global Labor Justice. "Worker Cooperatives in Colombia: The Reality Behind the Rhetoric." December 3, 2010. https://laborrights.org/blog/201012/worker-cooperatives-colombia-reality-behind-rhetoric. In response, CICOPA's September 23, 2004 "World Declaration on Worker Cooperatives" set forth the following rule for worker co-ops: "Combat their being instruments aimed at making the labour conditions of wage-earning workers more flexible or precarious, and from acting as conventional intermediaries for jobs." https://cicopa.coop/wp-content/uploads/2018/02/world_declaration_on_worker_coops_en.pdf. Several years later, Colombia passed laws aimed at preventing further abuses. See Santos, Catalina. "Colombia – new rules to monitor and penalise the misuse of intermediation agreements by employers." Ius Laboris, July 17, 2018. https://iuslaboris.com/insights/colombia-new-rules-to-monitor-and-penalise-the-misuse-of-intermediation-agreements-by-employers/. Finally, on July 29, 2022, the OECD published a working paper titled "From informal to formal jobs: The contribution of cooperatives in Colombia."

Cooperatives and related organizations hold a particular appeal for some immigrants and racial minorities as these entities help individuals access the labor market and find quality jobs.[583] The literature in this area can be broadly divided into two parts: arguments for the formation of cooperatives in historically low-wage sectors (e.g., home cleaning, childcare)[584] and case studies of these co-ops and of umbrella organizations supporting them. Several articles focus on the freelancer back-office platform Smart Cooperative in the European Union and performing arts co-op Doc Servizi in Italy.[585] Among umbrella groups, researchers and practitioners have looked to the Mondragon conglomerate of worker co-ops in the Basque country of Spain and the Self Employed Women's Association (SEWA) Cooperative Foundation in India for decades, with new attention on the emerging cleaning services cooperative Up & Go in New York City and Namaste Solar network of co-ops in Colorado.[586]

In this article, we build on this earlier work by highlighting the goals and models among organizations in the cooperative labor contracting ecosystem and the ways in which these organizations strive to become sustainable. We address three questions:

1) How are the struggles of staffing cooperatives similar to or different from those of traditional worker cooperatives?[587]
2) What supporting role do umbrella groups play in the labor contracting ecosystem?
3) How do umbrella groups maintain job quality?[588]

583 Spicer, Jason, and Tamara Kay. "Another Organization Is Possible: New Directions in Research on Alternative Enterprise." *Sociology Compass* 16, no. 3 (February 11, 2022).
584 Rogers, Brishen. *Data and democracy at work: Advanced information technologies, labor law, and the New Working Class*. Cambridge, MA: The MIT Press, 2023, 149.
585 Charles, Julien, Isabelle Ferreras, and Auriane Lamine. "A Freelancers' Cooperative as a Case of Democratic Institutional Experimentation for Better Work: A Case Study of Smart-Belgium." *Transfer: European Review of Labour and Research* 26, no. 2 (May 2020): 157–74; Piasna, Agnieszka, and Jan Drahokoupil. "Flexibility Unbound: Understanding the Heterogeneity of Preferences among Food Delivery Platform Workers." *Socio-Economic Review* 19, no. 4 (July 5, 2021): 1397–1419; Bunders, Damion J., and Tine De Moor. "Paradoxical Tensions as a Double-Edged Sword: Analysing the Development of Platform Cooperatives in the European Gig Economy." *Journal of Management Inquiry*, September 28, 2023. https://doi.org/10.1177/10564926231202422; Mori, Anna. "Doc Servizi: How the Cooperative Model Can Support the Music Industry." In *Contingent Workers' Voice in Southern Europe*, edited by Sofía Pérez de Guzmán, Marcela Iglesias-Onofrio, and Ivana Pais, 55–74. Cheltenham, UK: Edward Elgar, 2023; Martinelli, Francesca, Sarah De Heusch, Raffaella Toncelli, and Mila Shamku. "Innovative Models of Cooperative of Independent Workers for Decent Work in Europe." *Revista Nacional de Administración* 13, no. 1 (June 30, 2022): 11–31.
586 See, e.g., Whyte, William Foote, and Kathleen King Whyte. *Making Mondragón*. 2nd ed. Ithaca, NY: Cornell University Press, 1991; Martins Rodrigues, Júlia, and Nathan Schneider. "Scaling Co-Operatives through a Multi-Stakeholder Network: A Case Study in the Colorado Solar Energy Industry." *The Journal of Entrepreneurial and Organizational Diversity* 10, no. 2 (January 31, 2022): 29–53; Hiriyur, Salonie Muralidhara. "Informal Workers Harnessing the Power of Digital Platforms in India." Essay. In *Social Contracts and Informal Workers in the Global South*, 169–88. Cheltenham, UK: Edward Elgar, 2022.
587 See, e.g., Michaud, Myriam, and Luc K. Audebrand. "One Governance Theory to Rule Them All? The Case for a Paradoxical Approach to Co-Operative Governance." *Journal of Co-operative Organization and Management* 10, no. 1 (June 2022): 100151. https://doi.org/10.1016/j.jcom.2021.100151; Varman, Rahul, and Manali Chakrabarti. "Contradictions of Democracy in a Workers' Cooperative." *Organization Studies* 25, no. 2 (February 2004): 183–208.
588 Young, Carla. "The Iron Cage Has a Mezzanine: Collectivist-Democratic Organizations and the Selection of Isomorphic Pressures via Meta-Organization." In *Organizational Imaginaries: Tempering*

Our primary focus is on staffing co-ops, a set of labor contractors and agencies owned by workers. Our secondary focus is on umbrella groups, which include a variety of associations, federations, and networks made up of the member worker-owned co-ops, including staffing co-ops as well as other businesses.

The cooperative labor contractors we review vary in age and size. Some contractors are formed within the past few years, have 50-500 workers, and are still trying to grow sustainably, while other co-ops were in the 1990s or earlier and have thousands of workers and a stable business.

The advisors and investors we interviewed offer diverse perspectives on what "works," with some factors playing a more direct role than others, and most focused on job quality in traditional as well as in worker-owned business.

Our data collection on each organization involved background research, correspondence, and in-depth interviews with one or more individuals in the founding team or senior leadership. In total, we talked with nine staffing co-ops and seven umbrella groups between March and June, 2024, which we summarize in the appendix to this article. We focused on each organization's goals and strategies, their model, and their struggles and successes trying to advance worker ownership.

In the next section of this article, we describe the ecosystem of staffing cooperatives and umbrella groups using the qualitative data that we have collected, and distill key themes that emerge about each type of organization. In the following section, we discuss our findings in relation to our three research questions. The final section presents our conclusion with suggestions for future research.

The Cooperative Labor Contracting Ecosystem

This section presents findings from two types of organizations: 1) staffing co-ops, and 2) umbrella groups. Each section begins with a brief overview of each type and their organizational design and structure. To provide depth of understanding as well as a full picture, we feature two organizations for each section and further contextualize our findings in relation to other organizations of the same type within our research sample. For each organization, we focus on key aspects: goals and strategies, successes and struggles, and opportunities and lessons.

1) Staffing Co-ops

This section describes a variety of worker-owned staffing agencies. We focus on two organizations to provide depth and contrast: Turning Basin Labs (TBL), a cooperative staffing agency based in the Bay Area, and Opolis, a national cooperative platform for independent professionals. For perspective, we also present data from several other organizations.

Overview:

Capitalism and Tending to Communities through Cooperatives and Collectivist Democracy 72, edited by Katherine K. Chen and Victor Tan Chen, 72:113–39. Leeds: Emerald, 2021.

Staffing agencies are a kind of labor market intermediary that connect workers with clients. For simplicity, we use the term to refer to a variety of organizations. The term "labor contractor" is mainly used in the context of agriculture, construction, manufacturing, and other sectors dependent on manual labor, whereas organizations playing a similar role in office work and white-collar occupations are often referred to as staffing agencies; however, some labor contractors are part of larger staffing firms that span many sectors.

The worker populations and the clients that labor contractors serve vary. Some workers are temporary and/or part-time contractors for large clients in farming, healthcare, and other sectors, while other workers are freelancers or small business owners providing consulting services like accounting, graphic design, or translation. Especially in lower-paid sectors, many workers are disadvantaged, such as new entrants to the workforce, interns and apprentices, returning citizens, or people changing careers, countries of residence, or experiencing other life changes.

Staffing agencies are often designed around two kinds of services:

1) Job placement: Helping worker members find work by connecting them with clients and employers (e.g., through partnerships with clients or a marketplace on a website or app)

2) Back-office support: Helping workers do jobs they find themselves or run their business efficiently (e.g., handling payroll, benefits, and tax compliance; facilitating the purchase of health insurance or smoothing income through guaranteed payments; etc.)

Some agencies prioritize one service, some provide a range of services, and some deliver services through strategic partnerships – for example, one staffing agency partners with vocational training programs to help pay their interns and apprentices.

Labor contractors' links to clients also vary widely. For example, the duration of contracts ranges from one-off "temp" projects to long-term arrangements. In addition, the scope of involvement with the workers and clients ranges from just recruiting and placing workers to direct management and supervision of teams or an entire workforce. Finally, the workers can become employees of the client, remain independent contractors, or have the labor contractor or staffing agency become their employer of record.

When a staffing agency is worker owned, there are multiple ownership models. Most are structured as worker-owned co-ops, some as employee ownership trusts (EOT), and some as limited cooperative associations (LCA, similar to a Limited Liability Corporation, orLLC).[589] Governance varies, too, in terms of worker involvement in decision-making, the proportion of workers on the board of directors, and other structures that ensure the firm serves its members.

[589] An LCA is a new and unique form of cooperative that can have outside investors as members of the organization with voting rights and participation in the financial gains or losses. Several states passed laws establishing LCAs, particularly Colorado. See, e.g., Dean, James. "The Colorado Uniform Limited Cooperative Association Act (ULCAA)." Colorado Secretary of State. Nd. https://www.sos.state.co.us/pubs/business/news/2012/20120402_ULCAA_Dean.html

The backdrop of our analysis are common tensions facing the governance of all cooperatives:[590]

- Not all worker-owners share the same goals, while managers and board members may have additional goals.
- There are tensions between empowering frontline workers versus managers, and between empowering an elected board versus managers and professionals with expertise.
- There is a tension between a co-op's economic success and its social goals.

Analysis:

Here we focus on two staffing cooperatives, Turning Basin Labs and Opolis, and include data from other similar organizations.

Turning Basin Labs, a DEI staffing firm

Turning Basin Labs (TBL) is a staffing co-op that seeks to ensure "permanent and substantial employment" for its worker members, by placing them in jobs with progressive businesses in the Bay Area. Since its founding in 2019, TBL has differentiated itself as a DEI (Diversity, Equity, and Inclusion) staffing agency, prioritizing underserved and workers and interns.

As of March 2024, TBL's three core staff members have placed over 350 individuals in various forms of training and employment, where they are paid a wage of at least $21/hour and $30/hour on average. In addition, TBL provides contractual, HR, and timekeeping support for interns. TBL also acts as an employer of record for gig workers, allowing them to enjoy the legal protections and benefits of employment such as unemployment insurance, plus tax compliance, payroll support, HR support, and mediation for any client conflicts. According to Marci Harper, TBL's Head of Operations, perks for interns placed with TBL include "certifications, counseling, job searches, resume building and confidence building workshops, mock interviews" and more.

The services of TBL are not only beneficial for workers but also for employers, most of which are nonprofit organizations. The cooperative labor contractor shoulders the administrative burden of being an employer and reduces the costs of hiring interns and new staff. Similarly, the co-op tracks and reports on how individuals perform in their training program and in their role (placed within nonprofits), thereby making it easier for these organizations to comply with their funders' requirements.

Despite the advantages TBL offers workers, employers, and nonprofits, there have been several struggles. As TBL co-founder and long-time staffing professional Nick Ellis told us, the co-op still has not been able to reach a "critical mass" of workers and clients necessary to become financially sustainable.

TBL's co-founder Stephen Bediako was also concerned about the lack of professionalism of the cooperative's leadership as well as the activity levels of the membership and board of directors,

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[590] Michaud, Myriam, and Luc K. Audebrand. "One Governance Theory to Rule Them All? The Case for a Paradoxical Approach to Co-Operative Governance." *Journal of Co-operative Organization and Management* 10, no. 1 (June 2022): 3-7. https://doi.org/10.1016/j.jcom.2021.100151.

including no formal general meetings taking place. As Bediako told us, in his view cooperatives are not well-suited to managing two-sided markets such as staffing agencies, but are better suited to business models in which the cooperative directly supplies goods and services. The challenges of managing both sides can perpetuate hierarchy by creating centralized relationship managers, and erode the democratic qualities of the organization.

Important lessons from TBL's experience include the need for labor contractor cooperatives to be financially sustainable and scalable, with professional leadership and active participation in governance contributing to this outcome.

Opolis, an employment commons

Opolis is a labor contractor cooperative that since 2021 has provided a suite of back-office services to help white-collar professionals run their businesses. Importantly, Opolis members find their own work; Opolis does not provide job placement services. Instead, Opolis services include payroll, tax compliance, and group health insurance at discounted rates. John Paller, founder and CEO with 15 years of experience in staffing, told us that some Opolis members paid up to 40% less for health insurance compared to their prior rates. Overall, members can access employment benefits through Opolis while still enjoying flexibility in how they perform work that they find on their own.

Scaling is also an issue with Opolis, with around 500 active members and 500 inactive members. There is a lack of knowledge and education about the benefits Opolis offers, which has contributed to this relatively modest size. Yet, at the same time, there is relatively low turnover in existing membership with members only leaving the cooperative if offered full-time employment. As with TBL, Opolis is concerned about long-term financial sustainability.

Opolis offers a lesson to other cooperative labor contractors in how to achieve financial sustainability: it charges members a 1% community sustainability fee and brokers the insurance products it offers members. To help grow, the cooperative offers lucrative referral fees to members, partners, and associations. This cooperative also has a long-term strategy for how members will become involved in certain decisions once it reaches a certain scale: only after securing 1,000 members will members become involved in decision-making on issues such as benefits and fees charged.

In short, both of these cooperative labor contractors face three problems:

1) Scaling membership,
2) Achieving financial sustainability for the business, and
3) Establishing active, reliable governance structures.

These themes can also be seen in other cooperative labor contractors. For example, Up & Go is an immigrant-led cleaning cooperative in New York City. Our informant raised concerns about the financial sustainability of their business model, as the costs for maintaining the technology are high and only 2% of client fees cover this cost. One of the Radiate Consulting co-ops in the Bay Area had similar challenges, struggling both to grow their numbers of worker-members and clients as well as to engage members in cooperative governance. Loconomics, a now-shuttered local services marketplace co-op for freelancers, struggled to explain their distinctive cooperative model to their members, leading to confusion about how the governance of the organization is managed.

However, (other than Loconomics) these cooperatives report how they hope to overcome these challenges. For example, the cleaning services co-op Up & Go has a clear delineation of the competencies and powers of the board of directors and the members' meeting, with these structures aiding members to develop a culture and practice of democracy. The consulting co-op agency Radiate highlights how frequent conversations between members have helped address thorny governance problems.

2) Umbrella Groups

Umbrella groups for cooperative organizations, most commonly as secondary cooperatives, are useful for the development of a cooperative ecosystem by helping their member co-ops access pooled resources, share risks, reduce costs, and compete more effectively on the market.[591]

At the same time, the democratic tensions identified above – workers with heterogeneous preferences; tension between empowering members vs. managers; and tension between a co-op's economic and social goals – are also relevant for understanding umbrella groups.

This section describes umbrella groups that serve worker-owned businesses. We present findings from several organizations, but focus on two in particular that cover two ends of this spectrum: Up & Go, a co-op of women-owned cleaning co-ops in New York City, and Arizmendi Association, a federation of bakery and pizza co-ops in the Bay Area.

Overview:

Generally, umbrella groups protect members from risk and boost their collective benefits. Benefits range from bulk purchasing of solar panels or health insurance, to common branding and collectivized data and technology, and more.

As organizations, umbrella groups are designed to leverage economies of scale, economies of scope, and network effects. They are similar to co-ops that help their members meet common goals and needs. In some sectors and regions around the world, these co-ops are called "secondary co-ops" because their membership consists of other co-ops that directly employ individual worker-owners to produce goods and services; they are also sometimes called "shared services cooperatives."

In terms of structure, umbrella groups come in two broad categories: 1) hub and 2) network. The hub category of umbrella groups plays a role as an apex body with formal membership, such as a tight-knit federation with a primary stakeholder, or a loose and diverse association across a sector or region. The network category has more autonomous member co-ops than in the hub model.

[591] Mannan, Morshed. "The Emergence of Democratic Firms in the Platform Economy: Drivers, Obstacles, and the Path Ahead," 2022, pp. 193ff. https://scholarlypublications.universiteitleiden.nl/handle/1887/3278843.

Cooperative developers and advocates are vocal proponents of networking among cooperatives through secondary entities as a means for growing large, durable cooperatives that are both adaptable and efficient, particularly in regions and countries where co-ops represent a significant proportion of business and economic activity.[592] Umbrella groups enable the sharing of services, as well as the sharing of technical expertise, professional support, branding, and management of intellectual property.[593]

While we have some understanding of *how* cooperatives coordinate with each other, our knowledge of when umbrella groups *support or undermine* their member organizations is limited. Among other things, there is a lack of research on how internal or external factors affect the activities of umbrella groups, such as the leadership of the umbrella group or the social movements that can give impetus to new or existing cooperatives.[594]

Analysis:

Here we focus on two umbrella groups: Up & Go, a cleaning services co-op in New York City, and the Arizmendi Association, a network of pizzeria and bakery storefronts in the San Francisco Bay Area. We also include data from other similar organizations.

Up & Go, a platform for cleaning services

The Up & Go cooperative was formed in 2017 as an umbrella group that developed a digital platform for customers to obtain cleaning services from its worker cooperative members. The Center for Family Life, a community and workforce development nonprofit in Sunset Park, Brooklyn, facilitated the formation of the umbrella group and continues to support its operations and governance.

The objective of this group is to increase wages in a historically low-wage sector, typically comprising immigrant women. To raise compensation for on-demand cleaning, Up & Go developers and members decided at an early stage that the worker cooperatives would differentiate themselves by offering a higher quality of service than their competitors. In addition to funding and supporting the development of a customer-facing web application, including credit card processing, Up & Go provides training to its worker cooperatives in marketing, translation services, work assignment, and growth strategy. The group is democratically governed through a board of directors and a membership committee. The cooperatives make decisions on pricing, service policy, platform design, and data governance through the membership committee.

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[592] Menzani, Tito, and Vera Zamagni. “Cooperative Networks in the Italian Economy.” *Enterprise and Society* 11, no. 1 (March 2010): 98–127.
[593] Mannan, Morshed. “The Emergence of Democratic Firms in the Platform Economy: Drivers, Obstacles, and the Path Ahead,” 2022, p. 237.https://scholarlypublications.universiteitleiden.nl/handle/1887/3278843.
[594] Spicer, Jason, and Tamara Kay. “Another Organization Is Possible: New Directions in Research on Alternative Enterprise.” *Sociology Compass* 16, no. 3 (February 11, 2022), pp. 6-7; Ometto, M. Paola, Thomas Gegenhuber, Johanna Winter, and Royston Greenwood. “From Balancing Missions to Mission Drift: The Role of the Institutional Context, Spaces, and Compartmentalization in the Scaling of Social Enterprises.” *Business & Society* 58, no. 5 (March 20, 2018): 1003–46.

By 2022, the workers of these cooperatives were earning more than $33/hour, which is double the wages that cleaners in the area were earning previously. Up & Go and the Center for Family Life point to this substantial increase in wages when asked about the modest growth of membership and geographical coverage. Scaling in wages is considered more important than scaling in size or territories covered. However, as Up & Go has been funded by grants and a 2% customer service fee for several years, one of the potential issues for the future will be financial sustainability. The member co-ops have discussed a plan to contribute a percentage of their earnings to improve the sustainability of the umbrella group.

Arizmendi Association, a network of bakeries

Similarly, the Arizmendi Association is an umbrella group formed in 1996, made up of seven worker cooperative bakeries that it helps fund and develop. The association has also tried to form other cooperative businesses, including a worker-owned residential construction co-op called Roots & Returns, and more recently, a landscaping cooperative called Root Volume.

As with Up & Go, Arizmendi seeks to improve the wages of worker cooperative members and ensure dignified, decent work, but they also want to support the local community, provide education, and more generally promote economic democracy. Although this umbrella group has a deep conceptual knowledge of cooperative history – as indicated by their name, derived from the founder of Mondragon – they are also practical in how they work to achieve their goals.

The founders of the association closely studied past successes and failures in running cooperatives, according to Ashley Ortiz (formerly in cooperative business development with the Arizmendi Association of Cooperatives), and chose to replicate a time-tested worker co-op model of The Cheese Board Collective pizzeria. The Cheese Board model was attractive for replication for two reasons: 1) it is a collective whose success depends on contributions from multiple members, not just one or two founders or managers, and 2) its profitability draws attention to an experiment in economic democracy. As Ortiz told us, the collectives produce not only bread, they also produce hope.

Arizmendi invested in training and education of new employees on how to run such a cooperative, including “training the trainers” about skill adoption and governance. Individual members of cooperatives under their umbrella sometimes hesitate to seek help from the association. To encourage consultations, the association charges member co-ops a fee based on co-op performance, not on use of its services. Thus, worker-members can ask for help without paying an extra fee. In some cases, such as courses on mediation, the association compensates individuals who take courses.

The Arizmendi Association has struggled to avoid recreating a monoculture of white, middle-class, voluntarily ascetics that can exist in cooperative communities in the area.

Arizmendi views its role as an umbrella group helping its member cooperatives embrace a culture of non-domination and positive liberty, while having the resources and ability to act. Arizmendi’s approach is to help member organizations help themselves, whether by assisting founders to train new leaders or striking a balance between supporting their members and letting them become self-sufficient. According to Ortiz, an overarching goal of the association is to strengthen the “immune system” of their collectives, which means strengthening their mechanisms for both recognizing threats and opportunities as well as having processes for adaptation and renewal. To do so, this umbrella group draws on the wisdom of the collectives they are involved with as well as lessons from other collectives, either “recently deceased” or farther back in history.

Two themes in particular emerge from these brief profiles of two umbrella groups: 1) problems of financial sustainability, and 2) problems of balancing assistance between helping member organizations and enabling capacity-building for self-sufficiency.

These themes can also be seen in other umbrella groups. Fuse Cooperative, for instance, describes itself as a “member-owned platform cooperative that facilitates effective partnering in the staffing industry,”[595] which it does through the sale of subscriptions to its Gustav VMS (Vendor Management Systems) software system that streamlines the process of worker recruitment:

> “Members are for-profit staffing firms who want to maximize their opportunities to provide specialized value (e.g. type of recruiting and clients that they are good at serving) and Fuse exists to help them succeed by either:
>
> - Getting them access to client opportunities to provide their staffing services
> - Providing lower cost access to software (e.g. middle office financial software for staffing firms) and shared services (e.g. shared EOR services) that reduce their costs, decrease risks, or help them grow through differentiation (e.g. SkillsProject)”

This cooperative struggles with securing sufficient job orders for its members, which are needed for the financial future of the smaller staffing firms in particular.

Elevate, a federation of home care cooperatives, illustrates the significant difficulties of achieving financial sustainability:

> “Because the home care cooperative sector is still very small (23 incorporated cooperatives, 9 of which were incorporated in the past 14 months) and because home care cooperatives have small margins, a challenge endemic to the industry, the ability for Elevate to cover its costs solely through membership dues will be a challenge for many years to come.”

Even then, Elevate does not wish to offload these costs and expenses onto its members, recognizing the distinct needs of the cooperative sector:

> “While Elevate can minimize its offerings to lower costs and increase financial sustainability, we know that the needs of the cooperative sector necessitate a higher level of support and therefore investment. As such, our strategy is to raise the funds needed to offer a high level of services (at a low cost to Elevate members) and support growth of the sector, so that Elevate can eventually sustain itself.”

[595] Fuse Cooperative. “About Us.” Fuse, 2024. https://www.fuse.coop/about-us.

Radiate Consulting, a “unifying brand” for the Rapid Response Cooperatives developed by the Democracy at Work Institute, seeks to provide technical and business guidance on how job quality, work performance, and working conditions can be improved for the immigrant workers that comprise their membership. This is done by cross-referencing service prices and contract terms, among other things. Radiate reports having difficulties motivating members to engage in the governance of their cooperatives, as many service providers consider themselves to be workers rather than business owners. This has constrained the self-sufficiency of these cooperatives.

Discussion

In this section, we use the findings to address our research questions.

Staffing Co-ops vs. Other Worker Co-ops

Our first question was: To what extent are the struggles of staffing cooperatives similar to or different from those of traditional worker cooperatives?

The problems of scaling membership, establishing financial self-sufficiency, and achieving active member participation are akin to the struggles encountered by many worker cooperatives. Staffing cooperatives experience tensions regarding **maintaining cooperative identity and integrity**, as they need to balance their interest in growing a viable cooperative business with preserving the values and principles of the cooperative.

For instance, both TBL and Loconomics have explained that building a new marketplace involving both local service professionals and consumers is an onerous task due to a ‘chicken and egg’ problem. There is a need to attract a sufficient supply of each group to the marketplace which generates pressure to scale in size rapidly. This, in turn, can harm the democratic qualities of the cooperative, as growth gains prominence over participation.

Moreover, Loconomics founder Joshua Danielson told us he regretted foregrounding the cooperative concept in describing their business to their service professionals, as they did not understand the model and how it was applied. In his view, if given the chance to market Loconomics again, he would avoid cooperative branding. The emerging freelancer co-op Guilded, in contrast, attributes their difficulties in scaling in a manner that is consistent with cooperative values to a lack of stable leadership, with the organization having four general managers over just 3 years. This turnover has created difficulties in implementing the vision that led to the formation of Guilded.

Second, these staffing co-ops succeeded in providing certain important services to their members – e.g., low-cost group health insurance coverage in the case of Opolis, the employment co-op, and California Harvesters, Inc. (featured in another research article as part of this report). However, all of these co-ops struggle to generate growing revenue.

Opolis, for example, generates revenue from its 1% community service fee and the brokerage of insurance products, but for this model to be financially sustainable, the organization needs to onboard many new members in a short space of time.

Low revenue is not as serious an issue with all staffing cooperatives. California Harvesters, Inc. (CHI), for instance, has a workplace in which workers are treated with dignity and respect, while also generating about $20 million in revenue and turning a profit (before interest payments) of $1.1–1.2 million in 2023. While this is a relatively low profit margin, one interview in the case study on CHI told us that this is sufficient for the cooperative to repay its debts.

Third, cooperatives want democratic participation, which can often slow down decisions and growth.[596] For instance, TBL's Head of Operations Marci Harper told us that the lack of business growth and sustainability partly explains why member involvement in governance is low. First, members fail to see likely material benefits from participation. In addition, members also have few opportunities and limited support to participate because both Harper and TBL staff prioritize core business operations over engaging members in governance. As noted above, Opolis formalized this trade-off: a Board of Stewards will steer the cooperative until Opolis has at least 1000 members.

In addition, many members are apathetic about their involvement in governance processes. This apathy may be due in part because worker cooperatives operate in a wider non-democratic context, which is not conducive to democracy within these co-ops.[597]

Some staffing cooperatives have prioritized member participation. AlliedUP, for instance, not only provides governance training for its members, but has also formed a cultural committee to make it easier for women of color to serve as directors of their board. Future research ought to explore worker motivations to participate in governance – for instance, factors such as the social capital of members, their affective commitment, and the use of governance technologies.[598]

The Role of Umbrella Groups

Our second question was: What supporting role do umbrella groups play? How do they help ameliorate the tensions outlined above?

TBL co-founder and managing director Stephen Bediako recognized that an umbrella group was needed to help address the issue of scale: "I don't think we've got enough energy resources to place hundreds or even thousands of workers every year; at the moment we're doing tens every year." Here, an umbrella group can not only centralize job placements but can also help with other necessities, such as marketing.

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596 Mannan, Morshed, and Simon Pek. "Platform Cooperatives and the Dilemmas of Platform Worker‐member Participation." *New Technology, Work and Employment* 39, no. 2 (May 27, 2023): 219–37.
597 Varman, Rahul, and Manali Chakrabarti. "Contradictions of Democracy in a Workers' Cooperative." *Organization Studies* 25, no. 2 (February 2004): 183–208, p. 187.
598 Bunders, Damion J. "Silicon Law of Oligarchy: Patterns of Member Participation in the Decision-Making of Platform Cooperatives." *Socio-Economic Review* early access (October 8, 2023). https://doi.org/10.1093/ser/mwad058.

Similarly, to support the financial sustainability and development of California Harvesters and AlliedUp, the creation of an umbrella group was recommended as it would help both in pooling resources and sharing costs for “common administrative expenses like payroll management, insurance, or legal assistance,” marketing assistance, and IT services. Thus, umbrella groups can help address the scaling and financial tensions experienced by staffing groups.

Our third question was: How do umbrella groups avoid the labor contracting norms and management practices that compromise job quality?

Our findings show that there are a number of ways in which umbrella groups support job quality in cooperative labor contracting, without requiring these cooperatives to conform to market logic that drives a race to the bottom. According to Ashley Ortiz at Arizmendi Association, individual cooperators often hesitate to ask the association for help for issues such as mediation and financial management, due in part to “the American myth of self-sufficiency.”

To change this culture of not asking for help, the association changed the fee structure for these services and created incentives for seeking assistance. Help in these matters is provided as part of a comprehensive association fee package, and is not contingent on the services requested. In fact, as mentioned above, the association paid for mediation training.

At a higher level, Arizmendi Association staff drew lessons from the Mondragon experience and their own first attempt to develop a cooperative business to replicate further new cooperatives. As Ortiz told us,

> “[W]hile starting the first business, the team was willing to commit the time and effort to capture the things they learned from the [co-op businesses] development. And because they captured all of the information about the costs, the projections, etc. they were able to easily create additional businesses in the network and benefit from scale.”

In other words, umbrella groups can develop **detailed templates** for the replication of successful co-op. Conversely, the association studies the “fossil record” of failed cooperative experiments in its effort to strengthen the “immune system” of its members, which allows this umbrella group to offer **empirically informed advice** to their member organizations.

As mentioned above, umbrella groups face the same three governance tensions encountered by staffing cooperatives Umbrella groups such as Elevate have shared the significant difficulties of achieving financial sustainability, but does not wish to offload costs and expenses onto its members, recognizing the distinct needs of the cooperative sector for support and investment. Fuse also illustrates tensions between catering to the financial interests of their members and upholding cooperative values and broader social goals.

Finally, umbrella groups can also have difficulties with sustaining member participation, as David Cruz at Radiate shared with us. In his view,

> “[I]t’s hard to balance providing your services to earn money and also give your time (unpaid) to handle the internal affairs of the cooperative. Changing the mindset of the service providers from just workers, to also business owners.”

In sum, member cohesion, performance measurement, and member participation can impede the ability of umbrella groups to serve their members, but examples like Elevate and Arizmendi show that these tensions can be resolved in a manner that is coherent with cooperative values rather than in conformity with predatory market logic.

Conclusion

This research article looked at worker ownership dynamics in the labor contracting ecosystem.

Overall, we found that advancing worker ownership through staffing co-ops and umbrella groups requires a comprehensive and integrated approach. Staffing co-ops face struggles with scaling, financial sustainability, and member participation, yet they succeed wherever they combine competitive services, experienced leadership, and reliable governance with the support of umbrella groups that offer shared services, pooled funding, and information sharing.

While staffing co-ops have shown their potential in providing quality job placements and comprehensive back-office support to their members, umbrella groups offer essential shared services and collective benefits that enhance sustainability and scalability. Both types of organizations face similar challenges in recruiting membership, building financial sustainability, and maintaining governance structures aligned with cooperative principles.

Our research points to a need for both immediate support and long-term strategic planning. Staffing co-ops like Turning Basin Labs and Opolis illustrate the need to balance rapid organizational growth and patient democratic governance. This tension is compounded by competitive market pressures, which often necessitate a focus on immediate economic gains over long-term cooperative ideals. Umbrella groups such as Arizmendi Association and Up & Go also face these challenges as they strive to provide services and assist their member co-ops while enabling their efforts to build capacity for self-sufficiency. Above all, financial sustainability remains a key challenge for both staffing co-ops and umbrella groups. Some organizations like Smart and Doc Servizi succeeded in generating significant revenue and supporting large memberships over several decades, but others like TBL, Guilded, Radiate, AlliedUP, and California Harvesters are relatively new and struggle to break even, let alone grow. Umbrella groups play a crucial role in providing pooled resources and shared services, helping individual co-ops reduce costs and access essential support that would otherwise be unattainable.

In future research, it is essential to explore best practices for governance and financial models within staffing co-ops and umbrella groups. Investigating the factors that enable successful member engagement and participation in governance can provide insight into maintaining cooperative integrity while scaling operations. Additionally, examining the roles of strategic partnerships and collaborations on the growth and sustainability of co-ops can offer pathways to sustainability and growth; in particular, umbrella groups could effectively organize more diffuse networks that enable worker ownership so that they are more focused. Finally, future research might focus on the role of policy frameworks in supporting cooperative labor contracting with an enabling environment that addresses long-standing labor violations in conventional staffing and also provides broad-based support for worker ownership in regular co-ops, where workers produce goods and services within the co-op rather than within client firms.

By addressing these issues, staffing co-ops and umbrella groups can play a pivotal role in creating a more equitable and sustainable labor market. The findings from this research underscore the need for continued exploration and support of cooperative models as viable solutions for improving job quality within equitable economic development.

Appendix: Summary of Staffing Co-ops and Umbrella Groups

The following tables provide high-level data on the organizations we feature in this study.

Staffing co-ops

Name	Core services	Model	Membership composition	Number of members	Founded	Location
Turning Basin Labs	Job placement	Co-op	Trainees (in bookkeeping, IT, admin, etc.) from underserved communities	240 workers placed, 30 became members	2019	Bay Area, California
Loconomics	Job placement	Co-op	Local services freelancers (dog walkers, therapy, handiwork, etc.)	≈1,000 users, ≈100 members	2012 (shuttered 2020)	Bay Area, California
AlliedUP Cooperative	Job placement	Co-op, majority worker board	Allied health workers (medical coders, licensed vocational nurses, etc.)	≈3,000 workers placed, 20 members	2020	California
California Harvesters, Inc.	Job placement	EOT	Farm workers	≈1,500 workers, all part of trust	2018	California
Opolis	Back-office	LCA (Limited Cooperative Association)	White collar professionals (accountants, lawyers, etc.)	≈1,000 members (500 active)	2015	National
Guilded Freelancer Cooperative	Back-office	Co-op	Creative freelancers (artists, designers, etc.)	75 users, zero members (still formalizing membership)	2020	Philadelphia
Doc Servizi	Back-office	Co-op	Musicians and music industry professionals	≈7,000 members (3,500 active)	1990	Italy
Smart Cooperative	Back-office	Co-op	White collar professionals (designers, translators, etc.)	≈40,000 members (20,000 active)	1990	European Union

Umbrella groups

Name	Core services	Model and details	Membership composition	Number of members	Founded	Location
Up & Go	Placement + back-office	Co-op + brand + platform	Worker-owned cleaning co-ops	7 co-ops (42 worker-owners total, avg. 5–6 per co-op)	2017	New York
Radiate Consulting	Placement + back-office	Co-op brand	Translators, bookkeepers, etc. from immigrant communities	5 co-ops (43 worker-owners total, avg. 6–10 per co-op)	2020	National; locations in California, Illinois, and New York
Elevate Cooperative	Back-office	Co-op federation	Home care cooperatives	18 co-ops	2024	National
Fuse Cooperative	Back-office	Co-op + platform	Staffing agencies	30 staffing agency members, ≈5,000 non-member users	2022	National + Canada
Namaste Solar	Supply chain network	Informal relationship between independent businesses	Solar power businesses	5 co-ops, 1 credit union (≈400 worker-owners)	2021	Colorado
SEWA Cooperative Foundation	Placement + back-office + marketing network	Federation + labor union	Self-employed women in informal sector work (artisans, cleaning, etc.)	112 collectives (mostly co-ops) (≈300,000 worker-owners)	1972	India
Mondragon	Back-office + business network	Co-op + brand	Worker-owned businesses	81 co-ops + 180 other businesses/ organizations (≈80,000 worker-owners)	1956	Basque Country, Spain

Article 8: Analysis of the Association of Cooperative Labor Contractors (ACLC)

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Summary

This article examines the potential formation of an Association of Cooperative Labor Contractors (ACLC) in light of the goals of the California Future of Work Commission. An ACLC would give contract workers an ownership stake in the cooperative labor contractors (CLCs) that employ them. By linking the CLCs to an association that provides shared services and upholds labor standards, an ACLC could present a more equitable employment model. An ACLC also addresses specific challenges faced by both workers and firms in contract labor markets today.

The analysis presented here finds meaningful opportunities for an ACLC to improve job conditions for contract labor. These include the opportunity to leverage competitive advantages of worker ownership in staffing; the opportunity for scale associated with shared services (such as HR management, employer of record services, capital access, and technology) provided by the association; the opportunity for workers to access profit-sharing benefits and ownership; and the overall opportunity for bold experimentation that an ACLC represents. However, significant challenges exist for CLCs. These include assuming employer liability for workers who are staffing other companies, securing market share, and competing with low-road competitors in low-wage sectors known for labor violations. Additionally, there is tension between the need for cohesive workplaces and the reality of temporary staffing arrangements. Short-term contracts and highly mobile workforces can hinder CLCs from fully leveraging the competitive advantages of participatory, worker-owned business models.

The analysis outlines policy approaches and business strategies that may help the ACLC overcome these challenges and pursue opportunities to improve outcomes. For policy, there are good reasons to consider a waiver of joint employer liability for clients that contract with CLCs, and benefits to reducing the high initial cost of workers' compensation for startup CLCs based on their safety records and labor law compliance. For business strategies, the analysis points to CLCs focusing on longer-term staffing arrangements with stable clients and annual or multi-year contracts, and the potential for an association to reduce costs and secure resources for CLCs.

These findings suggest that the formation of an ACLC and its capitalization and implementation should be given careful consideration. Labor contracting is often associated with poor job quality and economic uncertainty for workers. The right combination of leadership, sector, client, training, and democratic workplace practices could create better wages and working conditions and provide a model for industries to follow. Future analysis ought to review policy approaches and success conditions to help an ACLC launch, learn, and grow.

Introduction

A major purpose of this study is to assess the opportunities and challenges associated with the creation of an Association of Cooperative Labor Contractors (ACLC), a nonprofit association of worker-owned staffing organizations described in California's 2022 Promote Ownership by Workers for Economic Recovery (POWER) Act, AB 2849. Such an association would facilitate the growth of high-road democratic employers that operate within the dynamic of the California economy and its proliferation of low-road staffing arrangements.

The POWER Act called for the study of how such an association of worker cooperatives could advance the goals of the California Future of Work Commission, particularly as they apply to historically under-resourced communities; the Commission articulated principles for a new social compact of work in California seeking equity for disadvantaged workers, rebalanced power between workers and employers, and collaboration among stakeholders.

Labor contracting has come to play an increasingly significant role in the economy, supplying staffing labor in virtually every sector.[599] Labor contracting arrangements are frequently associated with reduced job quality and increased inequality, although more research is needed.[600] An earlier version of AB 2849, proposed in a bill and described by its proponents, aimed to provide a new democratic high-road model for labor contracting in California. In that model, outsourced workers own their own staffing firms, share in the profits they produce, enjoy democratic control in the workplace, and benefit from a floor of labor standards.[601] According to attorney Darin Ranahan, who helped craft the proposal submitted as an earlier version of the bill, which was revised and passed as a bill calling for further study, the ACLC was intended to "preserve the gains of employment legislation and worker organizing of the last century and build upon them."[602] This analysis examines and also identifies ways to improve upon that model, to best achieve the goals articulated in the legislation.

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[599] According to a recent U.S. Census Bureau Center for Economic Studies working paper, the U.S. manufacturing sector alone increased the number of outsourced jobs per payroll job by at least 40 percent from 2006 to 2017. The average share of revenue spent on such arrangements increased by 85 percent since 2006. See Andrea Atencio De Leon, Claudia Macaluso, and Chen Yeh, "Outsourcing Dynamism," *Center for Economic Studies* (U.S. Census Bureau, December 2023). Available at https://www2.census.gov/library/working-papers/2023/adrm/ces/CES-WP-23-64.pdf.

[600] Bernhardt, Annette and Batt, Rosemary and Houseman, Susan N. and Appelbaum, Eileen, "Domestic Outsourcing in the United States: A Research Agenda to Assess Trends and Effects on Job Quality" (Upjohn Institute, March 24, 2016). Upjohn Institute Working Paper No. 16-253. Available at http://dx.doi.org/10.2139/ssrn.2757254.

[601] Criscitiello, Ra, David Miller, Darin Ranahan, and Camille Kerr, interviews with the author 2023-2024.

[602] Ranahan, Darin, interview with author, February 12, 2024. The bill AB 2849 was heard by the Senate Judiciary Committee on June 28, 2022. It was ultimately modified into the study bill. See text of the earlier detailed proposed legislation at https://sjud.senate.ca.gov/sites/sjud.senate.ca.gov/files/20212022_0_ab2849_05-19-2022_mia_bonta_judiciary_spc_139558.pdf. See text with strikeouts at https://legiscan.com/CA/text/AB2849/id/2603587. See the final study bill at https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202120220AB2849 and at https://sjud.senate.ca.gov/sites/sjud.senate.ca.gov/files/20212022_0_ab2849_05-19-2022_mia_bonta_judiciary_spc_139558.pdf. See text with strikeouts at https://legiscan.com/CA/text/AB2849/id/2603587. See the final study bill at https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202120220AB2849.

The Fissured Workplace

This shift from directly hiring employees to outsourcing labor is part of a more significant societal transformation of the employment relationship that economist David Weil has termed the rise of the "fissured workplace"[603] in which employers increasingly turn to outsourced labor from staffing firms, vendors, and subcontractors.

Weil writes: "Employment is no longer the clear relationship between a well-defined employer and a worker. … Responsibility for conditions has become blurred" as companies seek ways to shed activities, costs, and responsibilities onto labor contractors (2014). In this blurring of responsibility, outside workers hired by third-party staffing firms may work daily alongside a client company's directly hired employees–yet lack the employees' protections, rights, and compensation; disparities in pay, treatment, and protections between directly hired W2 employees and outsourced labor are pervasive.[604] Low-wage fissured jobs are disproportionately held by people of color, immigrants, and women.[605]

As Weil puts it, today, a large business "looks more like a small solar system, with a lead firm at its center and smaller workplaces orbiting around it. Some of those orbiting bodies have their own small moons moving about them. But as they move farther away from the lead organization, the profit margins they can achieve diminish, with consequent impacts on their workforces."[606]

The ACLC concept takes the fissured workplace as a starting point. It works within the labor contracting paradigm by meeting corporate demand for contract labor and preserving some flexibility for businesses of that system. At the same time, its design ensures that the workers performing such labor benefit from solid labor standards, fair wages, a share of the profits they help to produce, a degree of control, and potentially, unionization.[607]

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[603] Weil, David. *The Fissured Workplace* (Harvard University Press, 2014).

[604] The National Employment Law Project (NELP) points out that at Google, a skilled "shadow workforce" of nonemployee labor makes up more than half of the workforce – without the employment protections, benefits, and job security that Google employees enjoy. Outsourced workers in tech have little voice over their working conditions, despite often possessing valued and needed skills, according to the NELP report. See Dave Desario, Ben Gwin, and Laura Padin, "Temps in Tech: How Big Tech's Use of Temp Labor Degrades Job Quality and Locks Workers Out of Permanent, Stable Jobs," National Employment Law Project, August 20, 2021. Available at https://www.nelp.org/insights-research/temps-in-tech-how-big-techs-use-of-temp-labor-degrades-job-quality-and-locks-workers-out-of-permanent-stable-jobs/.

[605] National Partnership for Women & Families, *Why Women Need the U.S. Department of Labor's Independent Contractor Rule* (NPWF & NWLC, March 2024). Available at https://nationalpartnership.org/wp-content/uploads/women-need-dol-independent-contractor-rule.pdf.

[606] Weil, David. "Why Fissure?," in *The Fissured Workplace* (Harvard University Press, 2014), 43–75. Available at http://www.jstor.org/stable/j.ctt6wppdw.6.

[607] For an important review of the synergies between worker ownership and unionization see Sanjay Pinto, Camille Kerr, and Ra Criscitiello, "Shifting Power, Meeting the Moment: Worker Ownership as a Strategic Tool for the Labor Movement," *Rutgers University*, December 30, 2021. Available at https://doi.org/10.7282/00000168.

Labor Market Intermediaries and Staffing Firms

CLCs would be a new type of labor market intermediary (LMI). LMIs interpose themselves between workers and client entities to facilitate matching workers to jobs.[608] Intermediaries take many forms including staffing agencies, farm labor contractors, union hiring halls, platform apps, government-run workforce programs, and nonprofit workforce programs.[609] Of these LMI examples, CLCs would most closely resemble staffing firms because they would be for-profit business entities supplying labor. CLCs would likely compete with for-profit staffing firms in many sectors.

Staffing firms are themselves a highly variable category of LMI, spanning a wide variety of sizes, scopes, ownership structures, sectors, and client bases.[610] In the United States today, staffing firms range in size from small and medium-sized firms with less than $2 million in revenue to large multinationals with billions of dollars in revenue.[611] Of the approximately 25,000 staffing firms in the United States, twenty-five – 0.1% – report revenue exceeding $100 million, and these firms account for 77% of the overall industry estimated revenue, according to Keating (2023), citing American Staffing Association data.

Nationally, according to the American Staffing Association (ASA), staffing companies hire over 14.5 million employees annually, placing an average of 3 million of them in any given week. About 40% of the workers occupy “higher-skilled jobs,” and most staffing employees (73%) work full-time. Six in 10 workers say staffing firms fill the gap between jobs or help them land jobs. According to the ASA, staffing employees work in all industries with 36% in Industrial; 24% in Office, Clerical and Administrative; 21% in Professional and Managerial; 11% in Engineering, Information Technology, and Scientific; and 8% in Health Care. By one estimate, in 2023, 30% of the nation’s 250 largest staffing agencies were healthcare staffing firms, 28% were IT staffing providers, and 25% were industrial firms.[612]

The staffing industry increasingly offers a wide variety of staffing models. These models extend well beyond the familiar short-term contract (“temporary staffing”) approach. Staffing firms can offer longer-term contract staff augmentation (“long-term staffing”). An altogether different approach to contract staffing is the “Managed Services” model, where the firm assumes full responsibility for operating a specific function on an ongoing basis for the client. Managed

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[608] Autor, David H. “The Economics of Labor Market Intermediation: An Analytic Framework,” *National Bureau of Economic Research*, September 1, 2008. Available at https://doi.org/10.3386/w14348.

[609] The ACLC focuses primarily on workers who supply labor to external clients through labor market intermediaries such as staffing firms and farm labor contractors. The ACLC proposal could also provide structure and support for collections of otherwise disaggregated workers such as freelancers, and it could provide workforce pools to platform companies such as Uber and Thumbtack.

[610] Keating, Terry. “Staffing: An Industry With Many Facets,” Secured Finance Network, October 23, 2023. Available at https://www.sfnet.com/detail-pages/article-detail/staffing-an-industry-with-many-facets.

[611] Ibid.

[612] “List of Largest US Staffing Firms for 2023 Now Online,” Staffing Industry Analysts, June 6, 2023. Available at https://www2.staffingindustry.com/Editorial/Daily-News/List-of-largest-US-staffing-firms-for-2023-now-online-65750.

services might cover IT, food services, the call center, the mailroom, a data processing center, customer relationships or another task area for the client organization.

The primary revenue model in "temporary staffing" derives from the markup rate – the difference between the hourly rate paid to the worker and the billed rate, which typically incorporates operating expenses, statutory expenses and profit. Thus, if the LMI can find sufficient workers, lower pay can increase profit margins.

By contrast, managed service arrangements rely on monthly recurring revenue. Instead of charging by the employee hour, as occurs in temporary staffing arrangements, there is a subscription-like revenue arrangement for a contract period. The managed services firm increases its profits by performing well and expanding its number of long-term customers. This "managed services" model may provide a more stable revenue flow than temporary staffing for CLCs.[613]

The Need in California

As the nation's most populous state, California is a national leader in relying on temporary staffing agencies. The American Staffing Association, the nation's largest association of staffing firms, estimates that 2,114,900 (non-farm) workers were employed by staffing firms in California in 2022, with a $34.6 billion annual payroll in 2021 across about 4,290 staffing agency offices.[614] California has the nation's single highest number of average weekly temporary contract workers, with 376,400 average weekly workers.

More detailed data are needed on overall staffing trends, the distribution of staffing labor in specific sectors, and outcomes for workers and firms. Recent trends are difficult to measure due to incomplete measures and confounding effects of pandemic recovery.[615]

In the farm sector specifically, 46% of California workers whose primary job was in agriculture in 2021 (332,996 of 724,500 workers) worked via farm labor contractors or "FLCs," which recruit and hire migrant or seasonal agricultural workers. A rising share of farmworkers are brought to

[613] In each of these staffing industry approaches, the staffing firm itself, and not the client business, functions as employer. A CLC could theoretically take up any of these approaches to staffing, among others. By contrast there exist other models in staffing where the host firm remains the employer, for example, staffing designed for a direct hire permanent placement by the client entity, or in which the staffing firm manages a client business workforce while the client business remains employer. These models are less relevant to the CLC because the CLC model is expressly one in which the CLC serves as the employer. Note that under any of these models, client business or staffing firm could be a secondary or "joint employer" under federal and state labor laws, making both (or multiple) entities jointly liable for compliance, as discussed below.

[614] "California Fact Sheet," American Staffing Association, 2023. Available at https://d2m21dzi54s7kp.cloudfront.net/wp-content/uploads/2020/05/2023-StateFactSheets-CA.pdf

[615] Better data on labor contractor use by large firms will be available starting in 2025. SB 1162, California's new pay data reporting law, will soon require all staffing firm clients that employed 100 or more labor contractors in the prior reporting year to file a Labor Contractor Employee Report, including. Employers with 100 or more employees hired through labor contractors within the prior calendar year must also report on pay data covering those employees and disclosing the names of the labor contractors used to supply their employees. Staffing firms and other labor contractors will need to supply relevant pay data information to the client.

farms by FLCs.[616] California FLCs have a history punctuated by incidents of abuse and maltreatment of largely immigrant labor pools. Farm labor contractors accounted for about half of all federal wage and hour violations detected in agriculture in California from 2005-2019, according to a 2020 report.[617] Farmworkers who worked for FLCs were more likely to suffer wage and hour violations than farmworkers hired directly by farms.[618]

Nationally temporary staffing has seen widespread labor law violations and other problems. A 2022 study conducted by advocacy groups surveyed 1,337 temporary workers, some of whom worked for major national staffing firms and had job placements in high-name-recognition national corporations. Respondents reported widespread wage theft (failure to pay minimum wage, the overtime rate, or to pay for all hours worked), "permatemping,"[619] and workplace injury. Workers reported that staffing agencies often overstated the likelihood of being hired permanently. The survey also found high rates of race, gender, and age discrimination.[620]

Contracts between the staffing firm and the client sometimes include "conversion fees" if the client hires a contractor within a specified period. Employees do not always know about these fees and how very high fees deter client companies from hiring temporary workers as permanent employees.[621] Although non-compete clauses may be illegal, they are still widely used, and other unregulated restrictive covenants in the staffing industry also limit temp worker mobility.[622]

Operating a High-Road CLC Alternative

In today's fissured workplace, businesses increasingly shift costs and responsibility onto their labor contractors, vendors, and subcontractors. Overall, outsourcing reduces the employer-related costs and responsibilities for lead firms. This large-scale shift of costs and burdens from client organizations onto labor contractors presents a significant hurdle for developing a high-road alternative contracting model such as the CLC.

Any assessment of the opportunities and challenges associated with creating an Association of Cooperative Labor Contractors must account for and counteract burdens and costs related to

[616] Hooker, Brandon, Philip Martin, Zachariah Rutledge, Marc Stockton. "California has 882,000 farmworkers to fill 413,000 jobs," 2024. Available at https://doi.org/10.3733/ca.2024a0005 and https://escholarship.org/content/qt9p8710qt/qt9p8710qt.pdf?t=s8wqmx.
[617] Costa, Daniel, Philip Martin, and Zachariah Rutledge. "Federal Labor Standards Enforcement in Agriculture," Economic Policy Institute, December 15, 2020. Available at https://www.epi.org/publication/federal-labor-standards-enforcement-in-agriculture-data-reveal-the-biggest-violators-and-raise-new-questions-about-how-to-improve-and-target-efforts-to-protect-farmworkers/.
[618] Costa, Martin, and Rutledge. "Federal Labor Standards Enforcement in Agriculture."
[619] Permatemp refers to an employee hired as "temporary" who is then retained for a prolonged period often with less pay and without the same benefits as similar directly hired employees.
[620] "Temp Workers Demand Good Jobs," National Employment Law Project, February 3, 2022. Available at https://www.nelp.org/insights-research/temp-workers-demand-good-jobs/.
[621] Lazare, Sarah. "How Secret 'Bondage Fees' Trap Contracted Workers in Low-Wage Jobs," The American Prospect, April 21, 2023. Available at https://prospect.org/labor/2023-04-21-bondage-fees-trap-contracted-workers/.
[622] Flanagan, Jane R., "Fissured Opportunity: How Staffing Agencies Stifle Labor Market Competition and Keep Workers 'Temp,'" *The Journal of Law in Society* 20, no. 2 (Summer 2020): 247–72.

this shift. The ACLC blueprint proposed in the initial versions of the POWER Act addressed numerous shortcomings of predominant low-road staffing models.[623] In our assessment, however, a strong blueprint for an association of CLCs must even more fully anticipate and address the burden of employer-related responsibilities and costs.

For corporations and other entities needing labor, contracting with LMIs can have advantages over hiring employees directly. Specifically: outsourcing labor shifts costs and administrative burdens. First, it shifts responsibility for required employment benefits – Social Security, Medicare, state and federal unemployment insurance, and workers' compensation – onto the labor contractor. Second, it shifts the costs of any fringe benefits onto the staffing firm. Third, the staffing firm may have all or partial responsibility for other forms of insurance, such as general liability and employment practices liability insurance, and for administrative compliance with laws. While the rates paid by client firms will compensate LMIs for many of these costs, the shift in responsibilities will simplify and possibly lower costs for client firms, and it will reduce their exposure to lawsuits and workers' compensation claims, although the client may still be liable for violations as a joint or even sole employer.

Corporations also gain the flexibility of hiring staffed labor more quickly and for shorter periods or specific projects without the commitment of an employment relationship. They can "test out" new employees before hiring them directly.

The result is a substantial shift in costs and employer responsibilities from the client organization and onto the LMI. From employers' perspectives, the weight of cost and responsibility they carry within California's progressive framework of employment policy is a "heavy" one; pay levels and workers' compensation costs are among the highest of any state. California employers, therefore, are attracted to staffing intermediaries to help mitigate these perceived burdens.

The original ACLC blueprint was intended to transform the existing fissured workplace "from within." It took the broader shift of cost and responsibility onto labor contractors as a given. It even offered further benefits to client businesses by proposing that CLCs that participate in the ACLC would absorb the cost of employment practices liability insurance,[624] in addition to providing above-minimum compensation, health and retirement benefits, state and federal unemployment insurance, Social Security and Medicare, and legally mandated workers' compensation.[625]

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[623] For example, the ACLC would share profits with staffing workers and give workers a democratic voice.
[624] As discussed below, the requirement for CLCs to carry employment practices liability insurance is designed to further encourage client businesses to use CLCs and increase market share.
[625] Both client firm and labor contractor may carry workers' compensation policies. Therefore, workers comp is a cost that client companies and staffing firms often share. This varies to some extent by sector. Specific rules exist, for example, around workers' compensation in home health care. See "California: What Constitutes a Prescription for Home Health Care Services?," LexisNexis, January 29, 2018. Available at https://www.lexisnexis.com/community/insights/legal/workers-compensation/b/recent-cases-news-trends-developments/posts/california-what-constitutes-a-prescription-for-home-health-care-service. Unions and employers establish carve-outs administered by jointly-trusteed workers' compensation funds; see David I. Levine et al, *Carve-Outs in Workers' Compensation: An Analysis of the Experience in the California Construction Industry* (W.E. Upjohn Institute for Employment Research, 2002). Available at

By shouldering those costs and responsibilities, the CLC would further free its clients from many of the responsibilities associated with employing and protecting the workers who produce value for their companies.

As high-road employers, CLCs would, in theory, also shoulder more costs than low-road competitors in providing high pay and a floor of labor standards. However, the case studies suggest that the fierceness of competition from low-road competitors and the inherent challenges of sustaining high pay and benefits will constitute serious challenges for CLC start-ups in securing market share and surviving without external support.

Although CLCs may offer increased productivity to partly offset the increased burden of meeting high road standards, there will likely still be a need for additional state or philanthropic support. Additional regulation and state or philanthropic support may well be required for an ACLC to succeed, for CLCs to compete and grow, and for economies of scale and other efficiencies to be realized.

California Policy Context: Employee or Contractor?

Labor contracting in California is distinct due to recent policy developments.[626] To understand the ACLC vision, one must understand this state regulatory context.

In 2020, California adopted a streamlined test for "employee" status, with the goal of making it more difficult for employers to misclassify workers as independent contractors. In 2018, the California Supreme Court held that an "ABC test" applied to determine employee status under California's Wage Orders and on January 1, 2020, California Assembly Bill 5 (AB 5) extended the "ABC test" to nearly all workers in the state. Under the test, a worker is presumed to be an employee unless the hiring entity proves all of the following: (A) that the worker is free from the control and direction of the hirer in connection with the performance of the work, both under the contract and in fact; (B) that the worker performs work that is outside the usual course of the hiring entity's business; and (C) that the worker is customarily engaged in an independently established trade, occupation, or business of the same nature as the work performed for the hiring entity. This test makes clear that certain workers previously treated as independent contractors legally must be treated as employees, who are protected by wage and hour laws, and entitled to unemployment insurance and a range of other employee protections.[627]

https://doi.org/10.17848/9780585469690.

[626] AB5 (2020) required companies to reclassify many independent contractors as employees. AB 2257 (2020) exempted a number of professionals from the ABC test, allowing them to remain independent contractors. Proposition 22 (2020) then redesignated app-based ride-hailing and delivery services as independent contractors, overriding AB5.

[627] Employees have rights protected by federal and state labor laws. Independent contractors have few rights or protections, lacking minimum wage protections, overtime, paid leave, and unemployment compensation. When employers misclassify employees as independent contractors, they deny them the protection of workplace laws, unemployment insurance, and workers' compensation while saving as much as 30 percent of required payroll and related taxes. California joined New Jersey, New Hampshire, and Massachusetts in utilizing the robust "ABC" test to determine whether a worker is an independent contractor under state law.

In November 2020, the ballot measure Proposition 22 removed app-based ridehail and delivery drivers from the protections of AB 5 by classifying them as independent contractors, provided certain conditions are met.[628]

After the passage of AB 5, many businesses that once had hired their workers as independent contractors were now bound by the ABC test to ask themselves if they could establish each of the three factors under the ABC test. If not, the employer must hire them as employees (not independent contractors) to avoid liability exposure.[629]

California Policy Context: Joint Employer Liability

After AB 5, unable to hire workers as independent contractors as easily as before, and with pandemic-related labor shortages, more entities turned to staffing firms to supply their labor needs.[630] Because staffing firms serve as employers of the staffing workers, some client companies may have hoped they might be protected from liability in the new AB 5 environment. Indeed, following AB 5, some staffing agencies marketed themselves to businesses as vehicles for reducing liability risk.[631]

However, escape from responsibility for employee protections would prove more difficult than such clients had hoped.

The key is the question of joint employment. A joint employment relationship exists when two or more employers share or codetermine employees' terms and conditions of employment. Where a joint employment relationship exists, both (or all) employers are responsible for employees' employment-related rights, such as wage and hour laws and other employment protections under California state employment law and under the federal Fair Labor Standards Act (FLSA). Even when a business may wish to escape responsibility by contracting with a staffing agency, it

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[628] Prop. 22 does not automatically make app-based drivers independent contractors; it makes these drivers independent contractors only if the hiring entities (e.g., Uber or Lyft) can show that a series of conditions are met; see "Cal. Bus. & Prof. Code § 7451," Casetext, November 3, 2020. Available at https://casetext.com/statute/california-codes/california-business-and-professions-code/division-3-professions-and-vocations-generally/chapter-105-app-based-drivers-and-services/article-2-app-based-driver-independence/section-7451-protecting-independence. Note that the constitutionality of Prop. 22 is currently pending at the California Supreme Court in Castellanos v. State of California, S279622. Oral argument will be held on May 21, 2024, and a decision is expected within 90 days thereafter.

[629] Some LMIs continue to utilize misclassified independent contractor labor. The staffing company "Qwick" which provides on-demand staffing to the hospitality industry is paying for allegedly doing so in northern California. It is settling for $2.1 million following a lawsuit alleging that it was misclassifying employees as independent contractors instead of employees; see City Attorney of San Francisco, "Chiu Secures $2.1 Million Deal Requiring Gig Economy Company to Reclassify Workers as Employees," February 22, 2024. Available at https://sfcityattorney.org/2024/02/22/chiu-secures-2-1-million-deal-requiring-gig-economy-company-to-reclassify-workers-as-employees/.

[630] Source: https://labormarketinfo.edd.ca.gov.

[631] See for example: "What Employers Need to Know about California's AB5" by Robert Half. Note that it is impossible to parse the effects of covid, with companies turning to temp agencies to acquire needed labor during the early stages of the pandemic, from the effects of AB 5 in 2020-2021. https://www.roberthalf.com/us/en/insights/management-tips/what-employers-need-to-know-about-california-ab5

can in fact be sued or otherwise held accountable for the staffing agency's breach of employee rights. Joint employer liability means that California businesses that use staffing firms, franchises, and subcontractors remain at risk of legal and financial penalties should the staffing firm, franchise or subcontractor violate workplace protection laws.

California Labor Code 2810.3 specifies that employers with 25 or more employees may be jointly liable for wage and hour violations committed by labor contractors such as staffing agencies. This mirrors decades of federal and state court decisions holding that businesses that outsource labor are nonetheless responsible for compliance with basic workplace standards.

Challenges and rulings under California employment law attest to the continued employer liability of client companies using outsourced labor.[632] Indeed, the California Chamber of Commerce warns its members:

> "Employers who contract out for services are increasingly being held responsible by enforcement agencies and the courts for wage and hour and other labor violations, and it is increasingly common that staffing agencies and the businesses that lease employees will be found to be joint employers. Joint employment status eliminates the benefit of being relieved of employment law responsibilities and creates liability, where often there is little control."

Below is a description of the ACLC design, followed by a discussion of opportunities, challenges, and ideas for additional exploration to incentivize the growth of an ACLC model.

ACLC Design and Fit for California

Considering common workplace abuses among traditional labor contractors, the recent thrust of California employment policy to protect temporary and contract workers, and the aspirations articulated by the Future of Work Commission, an Association of Cooperative Labor Contractors merits close examination.

The 2022 POWER Act, sponsored by the Service Employees International Union–California, detailed a blueprint for the proposed ACLC.[633] Initial versions of the bill would have established a new type of business, the cooperative labor contractor (CLC), a high-road worker-owned and

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[632] For example, a 2022 California Supreme Court ruling permitted an employee to bring a second class action against the client company as joint employer, after having already brought a wage and hour class action against the staffing agency that had employed them and having settled with the staffing agency; see Grande v. Eisenhower Medical Center, 2022 WL 2349762 (Cal. June 30, 2022). In another California news story on joint employment liability (among many), the Cheesecake Factory agreed to pay $750,000 in connection to wage theft and other alleged violations by a janitorial contractor; see Farida Jhabvala Romero, "The Cheesecake Factory Pays $750,000 in Connection to Wage Theft Case," *KQED*, January 22, 2024. Available at https://kqed.org/news/11973279/the-cheesecake-factory-pays-750000-in-connection-to-wage-theft-case.

[633] The original submitted AB 2849 was considered by the California Senate Committee on Labor, Public Employment and Retirement, and the Senate Judiciary Committee in June 2022. The original bill (see https://sjud.senate.ca.gov/sites/sjud.senate.ca.gov/files/20212022_0_ab2849_05-19-2022_mia_bonta_judiciary_spc_139558.pdf) was modified (see https://legiscan.com/CA/text/AB2849/id/2603587) and passed as a study bill (see https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202120220AB2849).

governed staffing business. As a worker cooperative, a CLC is owned and controlled by its worker members and democratically governed, much like the other approximately 1,000 worker cooperatives that exist in the United States.[634]

In many worker cooperatives, workers work together within the cooperative business's organizational boundaries to produce a product or deliver a service through their collective labor. In contrast, in many CLCs, workers will instead supply labor to external, contracted entities,[635] or serve as third-party agencies or contractors to a client company.

Planners envisioned CLCs organized by sector, for example, with separate CLCs potentially for "Healthcare (mobile nursing, senior care, special needs care, etc.)"; "Home Services (tutoring, pet care, housekeeping, childcare, nanny services, cleaning, installation, gardening, handyman, etc.)"; and "Transportation of things." Planners assumed that these CLC sectors would broadly match the differing jurisdictions of specific labor unions, which generally track industry sector structure.[636]

Notably, the initial draft legislation imagined an umbrella association – the Association of Cooperative Labor Contractors – as an independent nonprofit mutual benefit corporation to serve as a hub for establishing CLCs in various industries throughout the state and providing them with labor policy, management assistance, and business support.[637] As proposed in the draft Senate bill in June 2022, the Association would be structured as a nonprofit mutual benefit corporation and, therefore, would be exempt from federal and state income taxes.[638]

The Association could employ managers and implement labor policy within the member CLCs. The ACLC could ensure that CLCs meet labor and democratic governance standards by, for example, requiring them to carry employment practices liability insurance, establishing a wage floor, and requiring pay transparency and minimum health and retirement benefits.[639] Importantly, if the labor pool were unionized, under the proposed ACLC the labor relations administration would be held by the ACLC instead of the client corporation.

An Association could be tasked with developing new CLCs in specific industries, securing capital access, and offering expertise and services to provide "critical missing infrastructure that

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[634] California law (AB 816) defined worker cooperatives under state law. California allows worker cooperatives to be organized as LLCs, S corporations, or C corporations structured according to cooperative principles.

[635] Typically, workers will be joint employees of the CLC and the association. For excluded workers unable to have W2 employment, CLCs would allow for LLC entrepreneur members.

[636] Draft internal memo "Platform Worker Co-ops and Industries" (undated) shared by Ra Criscitiello; David Miller and Darin Ranahan, interviews with author.

[637] See: https://sjud.senate.ca.gov/sites/sjud.senate.ca.gov/files/20212022_0_ab2849_05-19-2022_mia_bonta_judiciary_spc_139558.pdf.

[638] The income tax exemptions are significant. The federal income tax rate is 21% and the state income tax rate ranges from 6.65% to 8.84% in California.

[639] From draft legislation: "The purpose of this section is to provide that the association shall be deemed the employer of the management professionals and each member's workers under federal law, regardless of whether a member is also deemed an employer. Under state law, workers are employees of both the association and the applicable member, while management professionals are employees of the association."

will support worker co-op membership to grow and thrive." The Association would also "provide shared administrative, managerial, and other functions and costs, leveling the playing field for worker co-ops of any size to … gain the benefits of scale."[640]

The ACLC designers intend for it to be economically viable and scalable, with the potential to one day encompass a significant portion of the California contingent workforce.[641] But how would such CLCs compete with existing sources of labor? How might they grow sufficiently to provide both sustainable benefits to workers and a reliable workforce for employers?

The original proposal included a significant incentive for client entities (for example, large companies or public institutions) to contract with CLCs for labor: Clients would receive an exemption from all joint employer liability, provided the CLC met all high-road standards.This exemption is significant for California companies using outsourced labor. For example, if a staffing agency fails to pay its employees properly, the client company where they were placed would not be liable if they received an exemption from joint employer liability.[642] This incentive and additional proposed incentives are discussed below. Joint employer liability is a significant concern to employers and business associations. Note: that qualifying for this exemption would require contracting with a CLC that belongs to the ACLC. The ACLC would ensure compliance with specified labor standards by member CLCs to provide a safeguard against employers creating low-road "sham" CLCs in order to access joint liability protection.

In summary, the ACLC is a bold idea for a nonprofit association to develop and support high-road cooperative labor contractors and worker-owned and governed labor pools designed to offer democratic high-road employers to outsourced labor, which could also offer substantial benefits to employers including exemption from joint employer liability.

Opportunities and Challenges of the ACLC Model

We first review the major opportunities and challenges of the ACLC, and then put forward several ideas for incentivizing ACLC growth.

Opportunity for Bold Experimentation

ACLC represents a bold, innovative initiative that addresses poor working conditions in staffing.

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[640] Fact Sheet: AB 2849: Promote Ownership by Workers for Economic Recovery (POWER) Act, last updated 03.28.2022.

[641] Designers of the ACLC concept included senior staff from SEIU-UHW and allied labor attorneys and cooperative experts.

[642] CLCs and the association would serve as high road employers. Employers withhold payroll taxes, contribute the employer share of FICA, and provide workers compensation and the protections of employment law. Note: The legislation suggests making the association and the CLCs jointly employers of record under California law (under federal law, the legislation expresses the intent that the association is the employer of record). However, the language does not explicitly rule out the possibility that some CLCs, such as farm labor contractors, could include contract workers unable to be hired as W-2 employees in certain cases, as is true of current co-operative structure. However, there is a limit, as it required that "worker-owners work the majority of the hours worked by workers over a six-month period for the CLC," excluding only bona fide independent contractors under AB 5 from the definition of "worker" which, as discussed above, narrowed the class of people that can be deemed independent contractors.

The Future of Work Commission called for bold measures to ensure a more equitable economy with high job quality for all. The proposed Association of Cooperative Labor Contractors, if capitalized and implemented well, could represent an innovative pilot to create high-road democratic employers for staffing labor at a moment that demands a systemic response to the challenges of the fissured workplace.

The ACLC model is bold in addressing underlying ownership structures in the staffing and labor contracting sectors, thereby sharing productivity gains with workers and securing greater worker control over workplace conditions. If it served niche sectors and markets well, it could benefit disadvantaged labor pools. If scaled larger, with adequate support, it might forge an innovative high-road contracting model with the potential to impact larger segments of the labor market.[643]

Opportunity for Profit Sharing with Workers

Through profit sharing, workers retain and share surplus that would go to investor-owners in traditional staffing agencies.

The primary revenue model of for-profit temporary staffing firms derives from the difference between the rate billed to a client and the hourly rate paid to the worker. “The markup rate for temporary roles can be anywhere from 20% to 75%,” according to one industry source.[644] The markup rate is the profit margin over and above employee pay, statutory expenses, benefits and operating expenses.

Profits typically benefit the owners and investors of staffing agencies, without being distributed to the staffing workers themselves. However, by owning their own staffing business, CLC worker-owners can benefit from retaining a portion of the surplus through profit sharing. In worker cooperatives, these profit shares are known as "patronage dividends."[645]

Opportunity for Federating

Reap benefits of scale, centralized organizational administration, branding, and collectivization of risk.

Embedding CLCs within a state-wide association can provide several benefits.[646] First, it offers the potential for major economies of scale in technology, HR management, benefits access, bulk

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[643] It will be important to ensure this model does not simply accelerate fissuring.

[644] McCareins, Michael. “How to Calculate Staffing Agency Markup Rates,” *altLINE*, December 29, 2023. Available at https://altline.sobanco.com/staffing-agency-markup-rates/.

[645] Patronage dividends may be any combination of cash payments and deposits into internal capital accounts. See this discussion of Internal Capital Accounts from the Democracy at Work Institute: Richard Feldman et al, *Internal Capital Accounts* (The ICA Group, n.d.). Available at https://institute.coop/sites/default/files/resources/Internal-Capital-Accounts.pdf.

[646] Case study and anecdotal evidence points to the crucial role of networking and support associations in building cooperative resilience and sustainability. The Mondragon Corporation and its network of member cooperatives is an emblematic case. Theoretical work too has emphasized the strategic compatibility of networks and cooperative forms; see Sandeep Vaheesan and Nathan Schneider, “Cooperative Enterprise as an Antimonopoly Strategy,” *Penn State Law Review* 124, no. 1 (2019): Article 1. Available at https://elibrary.law.psu.edu/pslr/vol124/iss1/1.

purchasing, training, and capital access. Such economies of scale promise to alleviate costs and administrative burdens for individual CLCs, thus increasing their net income.

We can see these benefits of a federation in Mondragon, the world's largest integrated network of worker cooperatives. The Mondragon network in the Basque region of Spain has over 80,000 employees in 270 co-ops. Mondragon co-ops share an umbrella governance structure that provides member cooperatives with education through Mondragon University and other training centers, research centers, a bank, and a Social Security entity. “Without the umbrella organization,” argues Roche et al (2023), the individual cooperatives “would have had problems competing internationally…” and may have had “difficulties accessing funding for large projects; providing training and development opportunities; earning the trust of customers; enduring recessions; bargaining with suppliers on equal footing with large competitors; attracting and retaining skilled personnel; and obtaining or developing new capital-intensive technologies.”[647]

For the ACLC, a scaled branding strategy akin to Mondragon’s could enable higher brand recognition for the individual CLCs among potential clients and the public while allowing for individuated identities for the individual member CLCs. A well-branded ACLC would also have better potential to attract seed funding for CLC startups, and working capital, which is a prerequisite in staffing.

Within the Association, individual CLCs could also exchange or coordinate to share contracts with clients. For example, such inter-cooperative exchange is practiced among co-ops in North Carolina’s Industrial Commons network, where a worker-owned, women-led, cooperative bookkeeping group performed bookkeeping for other cooperatives in the network and other businesses in the region.[648]

Lastly, in federated networks, collectivizing a portion of rewards and risk can contribute to overall network resilience. At Mondragon, for example, a portion of all the member cooperatives’ profits or losses is pooled at the end of the year. As a result of the pooling, a portion of losses can be covered by cooperatives with a surplus (Roche et al 2021).[649] In a network of homecare cooperatives in Washington state, one co-op may sometimes “lend” workers to other co-ops in the network.[650] Allowing an employee to move from one CLC to another at times, especially in staffing, would increase employment and reduce employee risk.

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[647] See Olivier Pierre Roche et al, “Eroski, a Mondragon Coop: Overcoming Challenges and Facing a New One,” The CASE Journal 19, no. 4 (2023): 559–98. Available at https://doi.org/10.1108/tcj-09-2021-0178. For another example of a network supporting cooperative resilience, see Adria Scharf, “Five Home Care Cooperatives in Washington State,” CLEO Rutgers, December 2022. Available at https://cleo.rutgers.edu/articles/five-home-care-cooperatives-in-washington-state/.
[648] See https://www.theindustrialcommons.org/.
[649] In Mondragon, for example, member cooperatives contribute a small percentage of profits to the corporation. Stronger cooperatives can then buffer less profitable cooperatives. Because only a small percentage of profit is collectivized, high-performing individual cooperatives continue to benefit considerably from their successes, incentivizing effort while the co-ops tithe a profit portion to the whole.
[650] Source: https://cleo.rutgers.edu/wp-content/uploads/2023/01/CASE-STUDY-WASHINGTON-HOME-CARE-COOPERATIVES.pdf.

Additional advantages from economies of scale, including through shared apps and technology are discussed below.

Competitive Advantages

Worker ownership is associated with more robust performance outcomes in high empowerment, high trust, and participatory environments. This may provide a competitive advantage.

As high-road democratic worker-owned businesses, the CLCs may have distinct competitive advantages over low-road competitors.

Research suggests that worker ownership corresponds to reduced turnover and increased performance, particularly in high-worker empowerment, high-trust, environments. The association between employee ownership and decreased quitting intention and turnover is well documented.[651] According to Blasi, Freeman, and Kruse (2016), the effect of ownership on turnover is strongest in work environments with high employee empowerment.[652]

If CLCs, as high empowerment worker-owned entities, deliver lower turnover consistent with employee-owned firms in other sectors, they will enjoy several related advantages relative to competitors.

Low turnover confers major competitive advantages in staffing industries. According to the ASA Staffing Employment and Sales Survey, the turnover rate for temporary and contract employees was 419% in 2022, and the average tenure for staffing employment was just 10 weeks in 2022. In many specific sectors, such as home health care, lower employee turnover is important to care quality. Longer-tenure is also associated with lower workers compensation costs.[653] For all of these reasons, longer tenure and lower turnover would deliver competitive advantages to CLCs.

Beyond reducing turnover, shared ownership can reinforce other worker engagement and productivity outcomes in participatory environments. For example, employee ownership and a participatory workplace culture can increase worker co-monitoring. That is, employees who own a stake in the business, in participatory environments, are more likely to intervene when a co-worker is underperforming (Freeman et al 2008). This dynamic may reduce the need for

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[651] The pattern appears to bear out with striking clarity in specific sectors – home care cooperatives have considerably higher retention than competitor home care firms (e.g., ICA Group), and in periods of severe downturn; employee-owned companies retained more workers than competitor firms during the pandemic downturn in early 2020, according to Rutgers research with EOF (2020), https://cleo.rutgers.edu/wp-content/uploads/2020/11/EOF-REPORT-EMPLOYEE-OWNED-FIRMS-IN-THE-COVID-19-PANDEMIC.pdf.

[652] Shared capitalist structures including employee ownership are associated with reduced turnover in high trust high employee engagement workplaces. See Figure 2 in Joseph Blasi, Richard Freeman, and Douglas Kruse, “Do Broad‐based Employee Ownership, Profit Sharing and Stock Options Help the Best Firms Do Even Better?,” *British Journal of Industrial Relations* 54, no. 1 (2015): 72. Available at https://doi.org/10.1111/bjir.12135.

[653] “Approximately 40% of the claims are from those having less than 1 year of tenure, and those with 1 to 4 years of tenure account for about a third of the claims.” Julia Zhang et al, “Impacts of Employee Tenure on Workers’ Compensation Claim Frequency in California (March 2023). Available at https://www.wcirb.com/sites/default/files/documents/report-employeetenurestudy-032724.pdf.

hierarchical supervision and complex labor controls. The research literature suggests a broad range of such positive outcomes can result from the combination of employee ownership and participatory cultures, including job satisfaction, organizational commitment, productivity, and innovation, in addition to worker co-monitoring.

For excluded and marginalized workers vulnerable to discrimination and abuse, the mutual support, safety, respect, and economic security that a worker-governed cooperative enables may provide supportive workplace conditions to enable stronger work outcomes, as anecdotal and case study examples suggest. [654]

Challenge of Cost and Responsibility Shift

The ACLC model risks continuing and accelerating cost and responsibility shifting from big firms to labor contractors. We might call this the fissured workplace trap. High-road cooperative labor contractors falling into this trap would be challenged to absorb the full cost of employer practices liability insurance and benefits in addition to legally mandated workers' compensation, state and federal unemployment insurance, Social Security and Medicare, above and beyond above-minimum compensation, and high-road labor practices.

Meanwhile, the client employers would be relieved of all these burdens, by shifting them onto the high-road CLC, which could struggle to successfully compete with low-road competitors.

Challenge of Tension between Workplace Democracy and Temporary Contracts

Workplace democracy is in tension with short-term labor contracts and rapid temp-to-hire transitions.

Labor contracting placements vary in length. Beyond the familiar short-term contract ("temporary staffing") staff augmentation models, placements may take the form of longer-term, even quasi-permanent, arrangements. Additionally, "Managed Services" models are where a firm assumes full responsibility for operating a specific function on an ongoing basis for a client. Case studies reveal the challenge of pairing short-term contracts and a mobile workforce with worker ownership and worker governance. Workplace democracy requires training, investment of time, information-sharing, and workers' active engagement. Such factors suggest the need for a more durable employment relationship than temporary staffing and temp-to-hire

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[654] For example, see the case study of Sanjay Pinto, "Golden Steps," CLEO Rutgers, December 2022, https://cleo.rutgers.edu/articles/golden-steps/, where he writes:

> "In addition to the benefits of shared ownership and a community of support, Golden Steps members earn more than they would working independently or for another agency, according to Bonilla – a rate of $22–25 per hour. Members attribute this in part to the collective identity and reputation they have forged through the co-op, which affords them greater respect and value in the eyes of existing and prospective clients. According to one member, being invested in the co-op and wanting to maintain its strong reputation serves as an added motivation for providing high-quality services. Job-related training also contributes to the co-op's reputation and its ability to charge a premium for its services. Through Golden Steps, members are certified in key skill areas…"

arrangements – when client companies hire away quality contract workers as regular employees – afford. Relatedly, tensions are inherent with a highly mobile workforce or when many workers are on short-term visas. As is described elsewhere, labor contracting arrangements take a variety of forms, which extend well beyond temporary work. Long-term placements, managed service models, and similar labor contracting approaches by their design may be more compatible with the requirements of workplace democracy than short-term labor contract models.

Challenge of Low Margin Sectors

The ACLC is primarily intended to benefit marginalized low-wage workers. Many of these segments of the labor market face particular hurdles; they see more competition from the informal sector, which often pays below minimum wage off the books, for example. In low-margin sectors like home care and agriculture, there is often little room to raise compensation levels, partly due to drive-to-the-bottom competition.

Moreover, a significant portion of workers most in need of economic opportunity lacks documents to be employed on a traditional payroll. The CLC model must be designed to address these challenges.

For a description of one marketing cooperative that serves the needs of immigrant women of color, see the case study of “Golden Steps” (Sanjay Pinto 2022):

> “Founded in 2012, Golden Steps is a Brooklyn-based worker cooperative of immigrant women of color, all of whom have roots in Central and South America. Providing services to those who do not qualify for Medicare or need more than what Medicare will pay for, Golden Steps operates in a part of the market where home care workers are hired directly by private-pay clients and their families. Workers in this arena continue to labor under racialized legal exclusions dating back to the New Deal Era and face numerous other challenges to building power and voice. In this context, worker co-ops like Golden Steps provide one of the few available vehicles for organizing collectively on a formal basis and building a shared support structure.”[655]

Challenge of Securing Market Share

Securing market share represents a fundamental hurdle that every CLC must clear. Case studies of Allied Up, California Harvesters, and the Heartsong Homecare Co-operative in Washington State all point to the importance and challenge of securing and sustaining market share – a market share of both job opportunities and reliable workers to meet those opportunities.

The launch and success of a CLC requires both the active participation of contracting clients and the participation and availability of workers willing to supply labor. This is a familiar

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[655] Pinto, “Golden Steps.”

two-sided market problem. Two-sided markets require attracting participants on both sides; participation by one side depends on participation by the other side. This has presented a "chicken and egg" problem for some start-up staffing cooperatives, as documented in case studies.

CLCs will work best if they have sufficient clients such that employees would not require multiple agencies to fill their work schedules, and sufficient reliable employees that employers know the CLC can fill staffing gaps.

From case study evidence, capitalization, skilled leadership, a strong market expansion strategy, and multiple reliable sources of demand are essential. Case studies also highlight the fragility of over-dependence on a single client or few contracts.

Securing market share for a staffing firm in traditional markets requires entrepreneurial savvy, effective leadership, and a competitive strategy. Note that the managers selected by the ACLC who possess the skill set to manage a new cooperative business startup may not have the industry and marketing knowledge necessary to build market share in a specific industry. It is critically important that the CLCs get this leadership piece "right," that is, they must balance a commitment to democratic cooperative practices with a real strategy and skill set conducive to securing job opportunities in a competitive market.

Incentivizing Growth of the Association and Member CLCs

The POWER Act called for a study to consider how to incentivize the growth of the association and its members. Below are several policy approaches derived from analysis of prior worker-owned staffing efforts, interviews, data analysis, and analysis of staffing and farm labor contractor sectors. This list includes ideas collectively generated by the research team.

Waiver from Joint Employment Liability

The original AB 2849 POWER Act proposed an incentive to help CLCs secure market share. It would have amended state employment law to grant businesses and other entities that contract with CLCs exemption from joint employer liability, provided that high road conditions were met by the CLC. The act would also have required the association and its member CLCs to carry employment practices liability insurance.[656] These were the two key, complementary, incentives built into the ACLC proposal to propel its growth.[657]

Joint employer liability (as described in the section above "California Policy Context: Joint Employment Liability") is viewed as a significant source of risk for employers in California. The Annual Workplace Class Action Lawsuit Litigation Report produced by the Seyfarth Shaw law firm describes California as a "breeding ground" for wage & hour class action litigation.[658] Given

[656] Darin Ranahan, interview with author, February 12, 2024.
[657] The EPLI was designed to support relief of joint employment liability.
[658] 18% of the nation's class action lawsuits in 2020 originated in California, as per the map at Gerald L. Maatman et al, *17th Annual Workplace Class Action Litigation Report* (Seyfarth Shaw, 2021), 4. Available at https://www.seyfarth.com/dir_docs/publications/WCAR_SAMPLE_2021.pdf.

this context, exemption from joint employment liability will likely be very attractive to client companies using outsourced labor and it represents an important tool for incentivizing the growth of the proposed Association of Cooperative Labor Contractors and its member cooperatives.[659]

Reduce the Cost of Workers' Compensation

California has one of the highest workers compensation rates in the U.S. among states, with an average cost of $1.45 per $100 of payroll in 2020, substantially above the national average of $1.19.[660] California requires that all businesses with employees carry workers' compensation insurance covering on-the-job injury or illness–staffing agencies and farm labor contractors are no exception.[661] Employers purchase workers' compensation insurance from licensed insurance companies,[662] from the State Compensation Insurance Fund (SCIF), whose market share was about 8% in 2022,[663] or by self-insuring.

Case study evidence and interviews underscore how the cost of workers' compensation makes high-road democratic co-ops vulnerable to failure – particularly in sectors with riskier jobs such as agriculture.[664]

Controlling workers' compensation costs at the startup phase and throughout ongoing business operations, including in high-risk sectors, will be important to growing the association and its member CLCs.

There are several possible pathways to reduced workers' compensation costs for the ACLC and CLCs – at the organization level, association level, and through policy intervention.

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[659] The proposed legislation also gives the association nonprofit mutual benefit corporation status, but not the CLCs themselves, and tax exemption at the state level.

[660] See Tyler Q. Welch et al, "Workers' Compensation Benefits, Costs, and Coverage – 2021 Data," National Academy of Social Insurance, February 29, 2024. Available at https://www.nasi.org/research/workers-compensation/workers-compensation-benefits-costs-and-coverage-2021-data/ and "Workers Compensation Insurance, Simplified for Small Business," WorkCompOne.com, accessed May 29, 2024.

[661] See *Worker Compensation Preview* (California Department of Human Resources, July 2016), https://www.calhr.ca.gov/Documentsc/workers-compensation-preview.pdf.

[662] See Ricardo Lara, "Workers' Compensation Rate Comparison," California Department of Insurance, accessed May 30, 2023, https://www.insurance.ca.gov/01-consumers/105-type/9-compare-prem/wc-rate/index.cfm for an online rate comparison of the top 50 workers' compensation insurers.

[663] "2023 State of the System," p. 60. See: https://www.wcirb.com/sites/default/files/documents/wcirb_2023_state_of_the_system.pdf.

[664] In fact, some companies have been known to close and open their operations under a new name to escape a poor claims history. The staffing sector is so riddled with schemes to illegally reduce workers' compensation costs that "above-board" staffing companies launched a nonprofit trade association, the California Staffing Agency Reform Association or Cal-SARA, to challenge fraudulent workers' compensation practices in the staffing industry. According to the group, legitimate staffing agencies are forced to compete with "scam agencies," and these illegal operations drive prices down below the cost of doing business, creating an unfair marketplace. As reported by Cal-Sara, "Cal-SARA Targets Illegal Work Comp Insurance Practices in California Staffing Industry," *PR Newswire*, January 5, 2021, https://www.prnewswire.com/news-releases/cal-sara-targets-illegal-work-comp-insurance-practices-in-california-staffing-industry-301200841.html, "California customers of the staffing industry have come to accept these illegitimate operations."

First, the member CLCs themselves must prioritize worker safety – and bring worker-owners alongside in this goal. Evidence suggests that worker-owned businesses are correlated with better safety practices and fewer injuries.[665] One interviewee who founded a high road worker-owned LMI in California recently observed how ownership can align with safety. In their experience, when a worker was given ownership and a right to retain a share of the profit, and they came to understand how injuries may result in claims that greatly increase the cost of workers' compensation insurance, they quickly aligned with the goal of safety – so long as these dynamics were explained transparently and workers are treated as allies in safety. An association-wide commitment to safety, and CLC-specific safety training will be necessary. With cultures of safety, CLCs will be well-positioned to reduce claims, establish strong safety records ("experience ratings"), and lower premiums over time.

Another possible tool for reducing workers' compensation costs is the "carve-out," a program that allows employers and unions to create their own alternatives for workers' compensation benefit delivery and dispute resolution, generally under a collective bargaining agreement.[666] Carve-outs can reduce costs for employers and improve benefits for workers.[667] Carve-outs are particularly useful in sectors with high injury rates and high workers' compensation costs, such as construction. Unionized CLCs could pursue such carve-outs. Indeed, a major advantage of the ACLC vision is its potential for employer-union collaborations that produce benefits and efficiencies for employers and workers.[668] As for nonunion CLCs, the same logic that says

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665 OSHA-reported injury and illness rates are lower in ESOP companies than in otherwise-similar non-ESOP companies. See Austin Palis, "Employee Stock Ownership Plans and Workplace Safety. Senior Thesis," Rutgers Economics Department. 2022. A Rutgers-Employee Ownership Foundation study of ESOP companies during the COVID-19 pandemic suggested patterns of prioritizing worker health and safety in ESOP firms. ESOPs acted more quickly to protect employees than other companies. ESOP companies were more likely to send employees to work from home, offer employees personal protective measures, such as masks and gloves, and provide additional sanitizing/professional cleaning; for example, see Employee Ownership Foundation, *Employee-owned Firms in the Covid-19 Pandemic* (Rutgers, 2020). Available at https://cleo.rutgers.edu/wp-content/uploads/2020/11/EOF-REPORT-EMPLOYEE-OWNED-FIRMS-IN-THE-COVID-19-PANDEMIC.pdf.

666 See Labor Code section 3201.5 (for the construction industry) and Labor Code section 3201.7 (for all other industries), as well as California Code of Regulations, title 8, sections 10200-10204.

667 Gene Darling, *How to Create a Workers' Compensation Carve-Out in California* (IIR, LOHP, and California Commission on Health and Safety and Workers' Compensation, 2006). Available at https://www.dir.ca.gov/CHSWC/carve-out1.pdf.

668 According to David Levine, co-author of *Carve-Outs in Workers' Compensation: An Analysis of the Experience in the California Construction Industry* (2002), "carve outs" from the workers' compensation system permit a unionized workforce to negotiate an alternative system to provide medical care, assistance returning to work, and adjudication of benefits for those unable to return to work. The intuition is simple: Unions will ensure the alternative system is at least as beneficial to workers as the state system. The ability to create a medical care system that minimizes fraudulent providers and a dispute resolution system that speeds adjudication and transaction costs can benefit both employees and employers. According to Levine, the evidence on the first few carve-outs in California suggested that they worked fairly well for workers. At the same time, there was no evidence of large cost savings. Over time, workers comp costs have continued to rise, so carve-outs may have a useful role to play. There is a fixed cost of establishing a carve-out, so this proposal may not be relevant until the number of employee-owners in democratic employee-owned workplaces is larger. A recent study on carve-outs in construction found "no evidence of harm from carve-outs that should inhibit adapting them to other industries." See: https://doi.org/10.17848/9780585469690.

unions can negotiate for a carve-out suggests that the state might consider permitting the democratic and worker-owned ACLC to sponsor a carve-out for its member CLCs. More generally, a network of democratic employee-owned firms should also be able to create a carve-out – as long as both the co-ops and the carve-out meet minimum standards.

Other tools to alleviate workers' compensation costs in startups and in high-risk industries like construction and agriculture would require policy intervention. One interviewee who had struggled to cover workers' compensation costs in leading a worker-owned LMI suggested a pilot program discounting workers' compensation policies within the State Compensation Insurance Fund (SCIF), insurance offered by the state. This hybrid government-private SCIF competes with private workers' compensation insurance companies for business and operates as the insurer of last resort. The Fund is self-supported with premium revenues and investment income. The state could, in theory, pass a law requiring workers' compensation insurers to separately rate worker-owned and unionized workplaces, given their expected lower injury rates. More speculatively, could the Fund be directed to create a pilot program discounting workers' compensation policies for companies that share profits and voice with workers and provide quality jobs? These policy ideas would require additional vetting and legal review as California's workers' compensation law and systems are extremely complex. They are offered here for the purpose of discussion.

Tax Credits or Grants

Replicate and expand robust tax credit initiatives for employee ownership

Across the country, several states have passed legislation to support employee ownership, including tax credits, capital gains tax reductions, grants and other incentives to support business conversions to employee ownership structures. For example, Colorado adopted a substantial tax credit for businesses that convert to employee ownership or that expand their existing employee ownership programs, with a tax credit of up to $150,000 for businesses that convert to an employee stock ownership plan (ESOP). Washington State recently passed legislation to fund feasibility studies for conversion. Iowa and Missouri give a 50% reduction in capital gains taxes for business owners selling to an ESOP if the ESOP owns at least 30% of the company. New Jersey is poised to roll out a program subsidizing ESOP feasibility studies for qualifying businesses.

In most states, the credits apply only to conversions of existing businesses, but in California, credits or grants could be adopted to support the launch of startup CLCs or a statewide association of CLCs. California has already established the beginning of a track record of piloting public investment in worker cooperative development, with the SEED grant program established in 2021.[669]

At the city level, New York City and Chicago also have worker cooperative grant programs that may serve as examples.

[669] Christina N. Chung et al, *Seeding Equity* (Center for Law and Work and Democracy at Work Institute, 2023). Available at https://law.berkeley.edu/wp-content/uploads/2024/01/Seeding-Equity-12.2023.pdf.

Design Considerations for the ACLC

The original ACLC proposal would have permitted its member CLCs to be worker-owned cooperatives. Each CLC must maintain specific standards of workplace democracy, compensation, and labor standards.

Within the parameters of a clear commitment to shared ownership, shared profits, and democratic practice, we suggest a degree of flexibility in the target market for CLCs around the specific form of worker ownership, and the specific rules and tools for employee democracy.

Prioritize Long-Term Staffing

Use the advantages of long-term staffing and "managed services" staffing models.

Two of the case studies here revealed the tensions between aspirations for workplace democracy and the reality of short-term seasonal workers and mobile workforces. One case study involved allied health workers with a cooperative labor contractor (Allied Up) who were hired onto the client payroll as regular employees, resulting in a decline in co-op membership. The other involved an immigrant farmworker labor force that was too mobile and unstable for building a truly participatory democratic workplace.

For this reason, longer-term staffing models may be better suited to building a model of democratic employee ownership than temporary staffing companies.[670] Longer time horizons make possible the building of democratic workplace practices and strong, productive teams.

A model, sometimes called "managed services," in which the CLC would specialize in managing and handling a whole task or function for a client organization (such as long-term janitorial services or food services) could provide a more stable long-term team-based arrangement than short-term labor contracts or seasonal work. The workers within the CLC, rather than being disbursed to various sites on a short-term basis, would have the potential to work together over longer terms to produce a high-quality service. The CLC would also have more control over the terms of work.[671]

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[670] Some LMIs attempted to continue to define their labor pools as independent contractors even after adoption of the ABC test, and some are facing sanctions. Qwick, a staffing company providing on-demand staffing to the hospitality industry, is settling for $2.1 million following a lawsuit misclassifying employees as independent contractors. See "Firm reclassifying contractors as employees in first for California," Staffing Industry Analysts, February 26, 2024. Available at https://www2.staffingindustry.com/Editorial/Daily-News/Firm-reclassifying-contractors-as-employees-in-first-for-California-68486.

[671] Another staffing model is the Professional Employer Organization (PEO) where the client business outsources its payroll and HR functions to the staffing firm. The client organization may have already recruited and hired its own workforce, in which case the PEO "hires" their workforce and leases it back to the client. Alternatively, a PEO may recruit and hire the employees for the client. The PEO serves as employer of record. NAPEO claims that the "return on investment of using a PEO, in costs savings alone, is 27.3 percent." See "What is a PEO," NAPEO, accessed May 30, 2024, https://napeo.azurewebsites.net/what-is-a-peo. There are 487 PEOs in the U.S., according to NAPEO, serving 173,000 small and mid-sized businesses and employing 4 million. PEOs often charge client organizations either per employee or a percentage of total gross payroll. NAPEO claims that businesses in a PEO arrangement grow faster, have lower turnover, and are less likely to go out of business. In some

Such staffing approaches have different revenue models than short-term contract and long-term contract staffing models (offering "staff augmentation"). Instead of charging a client per worker hour, such CLCs could charge a monthly fee to provide a client with a menu of services related to a task area and then take responsibility for that area. Clients typically sign a contract, perhaps for one year, and make recurrent monthly payments. This arrangement, with its recurring monthly revenue, can provide more stable, predictable income. These CLCs would scale through incremental growth by building relationships with new clients – without requiring the cooperative to shoulder the challenge of constantly securing short-term client contracts and irregular, unpredictable job market share.

Include Freelancer and Independent Contractor Cooperatives

Some CLCs can serve bona fide freelancers (individual worker-producers) who obtain their own job opportunities. These freelancer CLCs could provide an employer of record and employment protections for freelancers, and shared tools and resources. These CLCs could be relieved of the task of securing job contracts for individual co-op members, who would independently seek out their own contracts. By including independent contractors such CLCs could create a space for freelancers, including gig workers, to collectivize.

This approach broadly follows the model of the Smart Cooperative in Europe, a cooperative of "autonomous workers" (or freelancers) with offices in 40 cities across nine European countries that includes more than 35,000 members, founded in Belgium in 1998. At Smart, when an independent freelancer joins the cooperative, they become an employee of the cooperative and benefit from the associated protections of having employment status. In addition, they gain access to shared business tools and resources such as invoicing, client payments processing, and payroll services. In Smart, individual worker-producers negotiate contract details with their clients, including pay levels and contract lengths, within the cooperative's broad constraints, including a minimum hourly wage. The cooperative provides the organizational and support infrastructure that allows worker/producer members to produce and earn independently.[672] The Smart cooperative enables workers the autonomy to manage their own economic activities, preserving the independence and freedom of the gig economy while providing them employment status, collective resources, and effective technology.

These CLCs are freed from the responsibility of securing contracts. They can focus on protecting, supporting, and potentially building collective power among the individual independent contractors (who secure their own jobs).

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states, PEOs are required to have a license or to register. California does not require license or registration. The Employer Services Assurance Corporation provides accreditation for PEOs nationally.

[672] See Annalisa Murgia and Sarah De Heusch, "It Started With the Arts and Now It Concerns All Sectors: The Case of Smart, a Cooperative of 'Salaried Autonomous Workers,'" in *Creative Working Lives* (Palgrave Macmillan, 2020), 211–30 (available at https://doi.org/10.1007/978-3-030-38246-9_12) and Julien Charles, Isabelle Ferreras, and Auriane Lamine, "A Freelancers' Cooperative as a Case of Democratic Institutional Experimentation for Better Work: A Case Study of SMart-Belgium," *Transfer* 26, no. 2 2020): 157–74 (available at https://doi.org/10.1177/1024258920919686.)

Consider Flexible Forms of Worker Ownership

Allow space for experimentation in organizational forms for CLCs.

The original ACLC proposal required that CLCs be structured formally as worker cooperatives. A new wave of experimentation is underway across the country utilizing a variety of forms of shared ownership structures to empower immigrant workers, build economic security, and improve low-wage jobs.[673] The ACLC should permit sufficient flexibility to capture and include this variety of emerging models so long as they reflect high-road democratic worker-centric features – including LLC cooperatives, marketing cooperatives, and nonprofit incubated cooperatives. Employee Ownership Trusts are another flexible form of shared ownership that, with clearly specified provisions around worker governance and profit sharing, could align with the CLC vision. In addition, for larger CLCs, "ESOP-operatives" operate according to cooperative principles with tax benefits that co-ops without an ESOP component lack.

Rather than defining a specific form, the ACLC legislation might expand to encompass a variety of shared ownership organizational types that give workers governance rights and voice and rights to profit sharing and meet certain labor standards requirements. The legislation could allow a flexible range of such models to benefit from the proposed ACLC structure. The legislation could include an expanded safe harbor for what will be considered a legitimate CLC (beyond only worker cooperatives) with the chance to revisit this flexibility after a pilot period.[674] Specifically, the ACLC could allow certain LLCs and Employee Ownership Trusts, in addition to cooperative law worker co-ops, to ensure maximum reach of the ACLC model.

The U.S. federal tax code tax-advantages worker cooperatives and ESOPs in different ways. These tax advantages are within reach within already existing frameworks. We encourage the state to use all appropriate existing laws that mobilize federal dollars. For example, conversions of existing companies into CLCs may qualify for tax-deferred rollover for the selling owners in certain circumstances, providing hefty tax advantages for the seller. (Converting existing staffing agencies with client relationships into CLCs could expedite the building of market share by starting with a pre-existing client base).[675]

The ACLC was initially proposed as a tax-exempt nonprofit mutual benefit corporation. It should remain so. Individual CLCs, unlike ACLCs, are obligated to pay federal income taxes as businesses. By permitting CLCs where appropriate to build cooperative workplaces within federal tax-advantaged structures – such as S-ESOPs[676] – these CLCs could access significant

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[673] Chung et al, *Seeding Equity*.
[674] Proposed by MacKenzie Scott in a research team meeting, 2024.
[675] Some business owners sell their businesses to their workers for the tax advantages associated with doing so. Section 1042 of the Internal Revenue Code allows for the deferral of capital gains tax when selling qualified securities to an ESOP or a worker cooperative if the securities are reinvested in stock and bonds of U.S. companies. If those replacement investments are held until death, the seller may avoid any taxation if the basis of the gains is "stepped up," meaning if the value of the investments are adjusted to reflect their increased market value. The company must have been a C corporation.
[676] The S corporation is a form of business ownership in which the corporation does not pay tax on its earnings. In an S corporation that is 100% owned by an ESOP, no federal tax is owed. ESOPs may be unionized. Recology is one example of a California company in which collectively bargained workers (Teamsters) are part of the ESOP.

additional tax advantages. Such companies can govern themselves according to cooperative principles, as S Corporation “ESOP-erative” CLCs.[677]

Funding CLCs

Capital Funds

Capital will be necessary to start CLCs in California, bridge gaps between payroll obligations and payment receipts, convert businesses into CLCs, invest in equipment and technology, and support growth. The ACLC will also require capital, either through its own capital fund or through access to external sources.

Staffing firms face unique challenges, including fluctuating demand and uneven cash flows in business models where client payments trail payroll cycles. Access to working capital is essential, not only at the startup phase, but for meeting ongoing payroll obligations and other expenses when client payments trail payroll obligations.[678]

Other organizations including Project Equity have built catalyst and accelerator funds from philanthropic sources. In 2024, the city of Chicago launched a mixed grant and low-interest loan fund for a specific purpose that may provide another relevant model,[679] while the city of Saint Paul, Minnesota, announced a new LOCAL Fund of $2.5 million with loans, grants and technical assistance dedicated to supporting worker cooperatives and real estate investment cooperatives.[680]

State seed or matching funds could incentivize private social impact investors, responsible lenders, and philanthropic investments.

Economies of Scale

Opportunities for advantageous economies of scale include creating shared technology, such as a dedicated “app” or menu of apps that can allow for potential workers, worker-owners, and clients to easily connect with and benefit from the Association of Cooperative Labor Contractors.

[677] When a company combines an ESOP with worker cooperative-like governance, it has been informally described as an “ESOP-erative.”
[678] “Future-Proof Your Staffing Agency with the Right Financial Partner,” Access Capital, March 20, 2024. Available at https://accesscapital.com/2024/03/choosing-the-right-financial-partner-for-staffing-agencies/.
[679] Chicago’s Good Food Fund is a $5 million fund offering a mix of grants and low-interest loans for businesses across the food ecosystem in communities with inequitable food access. The fund was designed after intensive community engagement using an equity and community-based approach. See “Good Food Fund” (2024). Available at https://www.chicago.gov/city/en/sites/bacp-recovery-plan/home/goodfoodfund.html.
[680] Kamal Baker, “City of Saint Paul engages nexus community partners on local fund,” Saint Paul Minnesota, March 15, 2024. Available at https://www.stpaul.gov/news/city-saint-paul-engages-nexus-community-partners-local-fund.

Apps and web platforms could inform workers what jobs are available and what skills are needed. Such apps might handle onboarding from application to hiring to payroll and provide occupational skills training based on client needs. Safety reminders could be provided through the app, helping to control workers' compensation costs.[681]

Apps could cover everything from job application to onboarding, general skills or sector-specific training, scheduling, invoicing, resource sharing, and certain democratic functions such as voting or CLC virtual “owners” meetings. The staffing industry has spawned a cottage industry of app and platform developers tailored to their needs. The ACLC could utilize existing technology or develop and independently own IP rights to newly developed apps; this practice is commonplace among “platform cooperatives.” Note that shared technology can serve both sides of the market. For example, an app might let clients and contractors update one another, inform clients which contractor skills and experience are available, etc.

At the Smart Cooperative of autonomous and freelance workers in Europe, shared technology is used to efficiently serve the extensive, growing cooperative network, automating administrative functions and bringing efficiencies to scheduling, contracting, and payments by client businesses and payroll. There, the digital platform appears to be a factor in the Smart Coop’s rapid growth.[682]

There is also a potential economy of scale in creating and delivering training on ownership skills well in various languages (e.g., “What does it mean that I’m an owner? How can I track and drive the financial success of my cooperative?”). Training and the shared scheduling & training app might reinforce the safety culture to reduce workplace injury and control workers' compensation costs. All of this can support the CLCs in creating a reputation for quality and leveraging that reputation to help build market share in new sectors.

Economies of scale could also be significant in providing HR services. If the ACLC can cover payroll processes, pay employment taxes, and arrange retirement and health benefits for some or all CLCs, that would alleviate those responsibilities from the CLCs themselves and enable them to focus on securing market share, onboarding, supporting members, and building an ownership culture. Taking this a step further, establishing a secondary cooperative, or holding company to serve as an employer of record for most of the CLCs could give workers in smaller CLCs access to better health and retirement benefits at scale. Relatedly, the ACLC could also benefit from economies of scale in bulk ordering for purchasing certain items or equipment that multiple CLCs use.

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[681] To our knowledge, past examples of worker owned staffing entities have not fully reaped the benefits of rapidly evolving technology.

[682] Joining Smart Cooperative provides access to shared business tools and resources; the list may include invoicing, bookkeeping, insurance for accidents and bankruptcy, payroll, tax filing, legal advice, a salary guarantee fund, and in some regions co-working spaces. Members access services through a digital platform available 24 hours daily. In Smart individual worker-producers negotiate contract details including pay levels and contract lengths within certain broad constraints including a minimum hourly wage. The cooperative provides the organizational and support infrastructure that allows worker/producer members to produce and earn independently; see Murgia and De Heusch, “It Started With the Arts and Now It Concerns All Sectors.” See also Charles, Ferreras, and Lamine, “A Freelancers’ Cooperative as a Case of Democratic Institutional Experimentation for Better Work.”