



Worker Ownership in California

June 2024

Report

Chapters

1. Introduction and background
2. Effects of worker ownership
3. Barriers and enablers
4. Policies to promote high-road worker co-operatives
5. Cooperative labor contractors
6. Evidence gaps & learning agenda

Supporting research

- Literature review on worker ownership
- Case study pair: 2 home health care
- Case study: union construction ESOP
- Mini-cases: 2 co-op conversions
- Mini-cases: 2 labor contractor co-ops
- Key informant interviews
- Statistical analysis on ESOPs
- ACLC policy analysis

Team, in brief

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- William Foley – Rutgers SMLR, Researcher on literature review
- K. MacKenzie Scott – MIT Sloan School, Researcher on case studies
- Gonçalo Costa – CUNY Graduate Center, Researcher on statistics
- Minsun Ji – Rocky Mountain Employee Ownership Center, Researcher on case studies
- Doug Hirsch – UC Berkeley, Project Manager
- Doug Kruse – Rutgers SMLR, Expert adviser
- Edward Carberry – UMass Boston, Consulting adviser
- Jungook Kim – Chatham University, Consulting adviser



Background

Background


Background on this project

Background on labor markets & challenges

- Fissured workplaces and challenges of temp work, etc.

Literature review

We reviewed evidence on worker ownership in prior meetings

- Solid evidence on longer tenure in jobs, fewer layoffs
 - Pretty good evidence on increased productivity
 - Probably as workers shift to norms of high productivity
 - Probably mostly when coupled with training, information sharing, and empowerment
 - Limited data on wages and wealth
 - In co-ops, mixed data on wages, little data on wealth effects
 - In ESOPs, equal or higher wages, workers have an avg. \$180,292 in accounts
 - Gaps include wealth effects, equity treatment, job quality
- 



Effects of Worker Ownership

Statistical results

We analyzed two datasets on how ownership predicts employee self-reported attitudes

- Our statistical results suggest that ESOP membership is related with
 - increased worker satisfaction,
 - participation in decision-making,
 - commitment to the firm, and
 - less searching for alternative jobs
- The sample is modest in size, limiting precision
 - Not enough data on disadvantaged groups to say anything interesting
 - No evidence of meaningfully different results





Barriers & Enablers

Framework for barriers

Think about

- Labor markets
- Capital markets (including start-up or conversion)
- Product markets

In each market, we check for:

Market failures


- Imperfect information about
 - about employee ownership
 - about high-road co-ops
- Externalities
- Economies of scale

Government failures

- Unhelpful regulations

Barriers for startup and conversion

Complex process for conversion (e.g., a retiring business owner)

- Learn about co-op, ESOP, EOT (employee-ownership trust)
 - Screen: Is worker ownership plausible?
 - Work with consultants to do the math: Tax implications of ESOP vs. co-op, valuation, etc.
 - Engage workers, train managers
 - Work with lawyers to arrange a deal
 - Find financing for a non-traditional loan (esp. co-ops)
 - etc.
- 

Barriers for startup and conversion

Most managers not aware of the option

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- etc.

Most advisors are not too aware of the options & issues

Market failures

	Labor markets	Capital markets	Product markets
Imperfect information on employee ownership	Workers unfamiliar	Lenders, business advisors, etc. unfamiliar	Consumers & business clients unfamiliar

Market failures

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It can be scary to take a job, make a loan, or contact with an unusual ownership form

Market failures

	Labor markets	Capital markets	Product markets
Imperfect information about quality at high road employee ownership	Workers do not know when jobs are better	Lenders do not know loan repayment rates are often higher	Consumers & business clients do not see higher quality (e.g., lower turnover for home care)

Market failures

	Labor markets	Capital markets	Product markets
Externalities & economies of scale	<ul style="list-style-type: none">• High training benefits the next employer• Social benefits of fewer labor law violations, more dignity & respect	Lenders' standard procedures don't fit employee ownership (e.g., signature rules)	Fewer layoffs stabilize incomes and purchasing power

Government failures

	Labor markets	Capital markets	Product markets
Unhelpful regulations	Reg's assume mgt. mistreats workers, but a democratic co-op creates democratic safeguards	<ul style="list-style-type: none">• SBA loans require a guarantor signature• Employees cannot buy meaningful equity	Preferences for female and minority-owned suppliers for federal govt don't fit well

Enabler: Networks address many barriers

- Networks and supporting organizations vary widely:
 - Conglomerates (Mondragon, Basque region of Spain)
 - Vertical supply chain (Namasté Solar, Colorado)
 - Partner organizations (worker centers, co-op developers)
 - Associations providing public goods (National Center for Employee Ownership, NCEO, etc.)
- Networks differ widely, but many address the barriers we outlined above



Enabler: Networks address many barriers

	Labor markets	Capital markets	Product markets
Imperfect information about quality at high road co-ops	Reputation	<ul style="list-style-type: none">• Partner with lenders• Refer to advisors & lawyers	Create a brand

CA networks
like DAWI &
NCEO

Enabler: Networks address many barriers

	Labor markets	Capital markets	Product markets
Externalities & economies of scale	<ul style="list-style-type: none">• Common training• Worker centers give experience in organizing, group problem solving	Specialized lenders in the network	Lend employees to avoid layoffs

Enabler: Networks address m

Mondragon network of co-ops in Basque region has these features

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We hope to have a prototype "Sell your business" chatbot in a few months

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LA Pilipino Workers Center provided experience to workers in one of our case studies

Enabler: Networks address many barriers

	Labor markets	Capital markets	Product markets
Unhelpful regulations	Lobby governments for regulations that fit the needs of employee ownership		



Enabler: Other Institutions

- Capital markets
 - Banks or other lenders provide tailored, appropriate loans and grants
 - ESOPs get large tax subsidies
- Labor markets
 - Educational programs provide training for worker ownership
 - Work in a group
 - Read a financial statement
 - Labor advocacy provides vision, capacity, and support for democratic worker self-management



Enabler: Context

- Various moments in history have motivated large numbers of people to organize locally to meet needs through co-ops, credit unions, etc.
 - Often economic or political crises





Policies to Promote High-Road Worker Co-ops

Principles for policies

- Target market or government failures
 - Imperfect information
 - Economies of scale
 - Externalities
 - Unhelpful regulations
- Look for scalable policies that are cost-effective
 - E.g., pay a fixed cost for a public good such as training materials that many employers can use can be cost-effective compared to an ongoing subsidy

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**We put VERY ROUGH
cost estimates,
\$ probably < \$2 million,
\$\$\$ is > \$10 million**

Improve information about high road co-ops (HRCs)

	Labor markets	Capital markets (& conversions)	Product markets
Improve information about high road co-ops (HRCs)	<ul style="list-style-type: none">• Expanded outreach to workers (\$\$)	<ul style="list-style-type: none">• Certify HRC biz advisors (\$)• HRC ownership conversion templates/tools (\$)	HRC certification can help market products & services

Lower the cost of conversion

- **Market failure:** It is hard for a business owner to understand if worker ownership is a useful option to buy the business when the owner retires
- **Possible policies:**
 - Certify high-quality consultants, accountants, etc.



Lower the cost of

- **Market failure:**

understand if
the business wh

- **Possible policies:**

- Certify high-quality consultants, accountants, etc.

- GoBiz is a natural host, but may not do much business certifications
- Dept. of Consumer Affairs certifies personal services (manicurists, MDs), not business services. Usually has a board set standards.
- Need more work to determine who would host, what standards, etc.

Lower the cost of conversion with AI

- **Possible policies:** Artificial intelligence chatbot helps a business owner understand if worker ownership is a good option, and the various options (co-op conversion, ESOPs for S- and C-Corps, Employee Ownership Trust, etc.)
 - “Good option” means for the seller, buyer (such as employee owners), and lender.
- We hope to have a prototype “Sell your Business” chatbot in a few months



Improve information about employee ownership & quality

<i>Consider...</i>	Labor markets	Capital markets	Product markets
Improve information about employee ownership & quality	Certify high-road workplaces (\$)	<ul style="list-style-type: none">• Study & publicize EO loan repayment rates (\$)• Maybe subsidize a few lenders to pilot EO loans (\$\$)	Promote high-road co-ops (\$)


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Again, need more work to determine who would certify, what standards, etc.

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Employee Ownership Hub

Many of the information-related policies are within the purview of the Employee Ownership Hub within GO-Biz (if funded):

- Work with state agencies to enhance opportunities and reduce barriers to EO
 - Partner with stakeholders to educate business owners and employees about the benefits of employee ownership;
 - Provide referrals to legal, financial, and technical employee ownership resources and services;
 - Develop recommendations on how state-run capital programs can support employee ownership transitions and employee-owned companies
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Externalities & economies of scale

	Labor markets	Capital markets	Product markets
Externalities & economies of scale	<ul style="list-style-type: none">• Co-op skills curriculum (\$\$)• Schools provide general skills of high road workplace (\$\$\$)	Maybe subsidize a few lenders to pilot EO loans (\$\$)	Convene stakeholders to explore scalable shared services (\$)



Externalities & Economies of Scale

For example: Elevate Co-op offers back office services (financial analysis, marketing, etc.) for 12 home care co-ops

	Labour	Capital	Product markets
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<i>Consider...</i>	Labor markets	Capital markets	Product markets
Appropriate regulations	Give HR policies at high-road employee owned firms deference, as with a union (\$)	<ul style="list-style-type: none">• CA pilot so SBA loans don't require a guarantor signature (\$)• Raise cap on employee equity (\$)	Work with federal govt to classify majority women- and minority-owned co-ops as WMBEs (\$)



Complementary ideas:
 Most employees cannot afford a costly buy-in, but an SBA-backed loan lets workers purchase their share with payroll deductions

	Labor markets	Capital markets	Product markets
	<p>employee-owned firms deference, as with a union (\$)</p>	<ul style="list-style-type: none"> • CA pilot so SBA loans don't require a guarantor signature (\$) • Raise cap on employee equity (\$) 	<p>Work with federal govt to classify majority women- and minority-owned co-ops as WMBEs (\$)</p>



	Labor		Product markets
Appropriate regulations	Regular HR policies at high-road employee owned firms deference, as with a union (\$)	SBA loans don't require a guarantor signature (\$) <ul style="list-style-type: none"> • Raise cap on employee equity (\$) 	Work with federal govt to classify majority women- and minority-owned co-ops as WMBEs (\$)

Relevant for federal contracts (CalTrans, etc.), with little CA discretion



Appropriate regulation: Labor markets

Regulators give HR policies at high-road employee owned firms some deference, as with a union contract.

We discuss possible examples below



Association of Contractor Co-ops

- Background
- Effects
- Barriers
- Policies



Background

Two Dimensions of ACLC Vision

1) Confederation of co-ops

- Incubator of new coops
- Sharing:
 - Technology
 - Branding
 - Economies of scale in insurance, health, worker supports

2) Labor contracting coops (CLCs)

- Worker owned labor pools contracting with employers seeking temps, selecting, vetting and placing those workers



Effects of Cooperative Labor Contractors (CLCs)

Two Dimensions of ACLC Vision

1) Confederation of co-ops

- Incubator, shared services, tech, branding, economies of scale
- **Solid evidence** that such strategies reduce admin costs, strengthen co-op resilience, benefit workers

2) Labor contracting coops

- Worker-owned labor pools contracting with employers seeking temps, selecting, vetting and placing those workers
- **It is hard to reach scale**

It is hard to reach scale

We studied cooperative labor contractors in California

- Agriculture – California Harvesters, ~1,500 workers
- Allied health – AlliedUP, ~20 members (?)
- Home care – Courage, ~20

Others around the globe

- Several have thousands of members, but >30 years old
- 

A co-op of contractors that reached scale

In NYC, CHCA is a large home care co-op with 2,000 members

- Possible to **eke out** high quality job model in low-margin sector
- Co-op structure cannot **“fix”** a market that pays low wages



Barriers Facing CLCs

Barriers to cohesiveness: Short jobs

- Some sectors have many short jobs with the CLC
 - Agriculture workers with short visas
 - Allied health services when many employees prefer a permanent job with a hospital, etc.



Barriers for cooperative labor contractors

- Dispersed workers
 - Hard to develop solidarity
 - Hard to monitor and reward peer effort
 - Costly to come to an in-person meeting
 - (especially in LA)
- Varying schedules (home care, allied health care) makes even online meetings hard



CLCs need scale

- If a staffing agency is at scale:
 - Clients know this CLC can fill openings
 - Employees know they can find work
 - Small CLC → workers also work for other staffing agencies, just as drivers drive for both Uber & Lyft
- Reaching scale is *hard*




What is helpful for all co-ops?

- Familiarity with co-ops and organizing
 - Filipina workers in home care were...
 - Familiar with co-ops from the Philippines and in LA worker center
 - Had experience organizing for dignity & respect, building leverage
- Networks for capacity building
 - Various associations, federations, worker centers, etc. enable co-ops to learn how to integrate operations and governance
 - Efficient meetings, know how to read financial statements



ACLC provides back-end services for all CLCs

- Connecting clients and contractors in an excellent marketplace
 - e.g. an online roster or app
 - Coops might excel at user-centered design
- Accounting, HR, etc.
 - Might help co-ops in many sectors
- Accountability for high-road practices
 - Can run grievance process
 - Can collect employee surveys



Higher productivity
can grow wages &
market share



Policies to Promote an ACLC (Association of Cooperative Labor Contractors)

Preempt some regulations

Union contracts preempt some state regulations

- The logic is that the union will negotiate only if expected to benefit workers
- We know
 - Union negotiations are imperfect
 - Existing regulations are imperfect
- The same logic suggests regulators can defer to democratic coops



Preempt some regulations

Proposed ACLC preempts “joint employer liability” so workers with wage & hour or workers’ comp violations can sue only the CLC


- No option to sue the client, who would then sue the staffing agency



Preempt more regulations?

Perhaps permit a carve-out for workers' compensation

- Unions can create a “carve-out” (customized) system for workers' compensation
 - Also the ACLC
 - Or perhaps a carve-out for *all* high-road coops?

 - What regulatory preemptions should apply to all high-road co-ops?
- 

Weaker regulations has risk of exploitation if the co-op is not democratic

- BUT we don't know what metrics will best signal democratic governance

Even democratic co-ops can have self-exploitation: workers engaged in a race to the bottom to get more jobs

- Again, we lack metrics



One option: Mandatory mgt. policies, plus a menu

The following could be mandatory:

- Workers democratically elect a board
- Workers trained on CLC, ACLC & their role in governance
- Workers vote on executive pay and any pay X times minimum



One option: Mandatory mgt. policies, plus a menu

A sample menu of high-road policies: “Pick at least X of...”

- Open book management
- Training > industry average
- High frontline empowerment
 - e.g., as measured by ACLC survey
- Most contractors are owners
- Workers consulted on strategic decisions
- Highest pay < X times lowest
- Pay at least 125% minimum wage in that sector
- Benefits higher than that sector
- No (or minimal) substantive violations of OSHA, wage&hour, EEO, NLRB, etc.

Couple any regulatory preemption with learning

- ACLC oversight
- External evaluation of whether preemption leads to problems
 - Modify the requirements over time



A richer set of CLC models

Proposal seems focused on CLCs as staffing agencies, e.g. the CLC finds contractors and clients for short-term jobs

Consider potential models and platforms

- Include freelancers
 - Reduces need to match specific clients, fill vacancies, etc.
 - Classify as employees



Long-term contracting for services

- Examples
 - Outsourcing HR, janitorial services, etc.
- Why?
 - Helps build cohesiveness among workers
 - Time to invest in skills of working together to solve problems



Conclusion: Building an ACLC/network of CLCs is *hard*

We do not know how to build something novel

So, permit wide experimentation at first


And build in continuous improvement



Learning Agenda


Learning agenda

Smaller questions:

- Do worker-owned firms have lower workers' comp costs? If so, maybe lower initial rates and accelerate rate reductions
 - Can we build a chatbot to help business owners decide if worker ownership is a good fit? Can the AI help owners draft a spreadsheet to see implications?
 - Use AI to improve business advisory services
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Learning agenda

Bigger projects: Gather new data

- Understand how ownership affects disadvantaged groups, in both compensation and in issues like dignity and respect
 - Evaluate (once they are running):
 - Employee Ownership Hub
 - Any regulatory exemptions for high-road coops
 - ACLC and CLCs
- 

Conclusions

We will keep working

So please look for a revised report in a few months...

