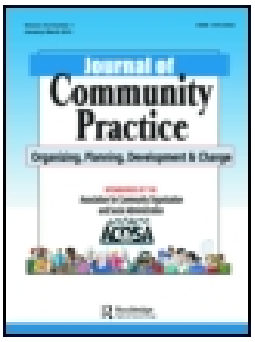

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# Worker Ownership and Participation Enhances Economic Development in Low-Opportunity Communities

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**ABSTRACT.** This study empirically estimates that worker ownership and participation modestly but importantly enhances the ability of firms to create "mainstream" employment in low-opportunity communities, both urban and rural. It is also associated with community development benefits not commonly provided by conventionally organized firms. In such forms as employee-owned firms and marketing cooperatives, worker ownership and participation should be more widely utilized in community development.

**KEYWORDS.** Economic democracy, worker ownership, community development, economic development, self-employment, marketing cooperatives, producer cooperatives, and employee ownership

In the United States, ownership and control in most businesses is vested in a few persons working in the enterprise (sole proprietor-

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ships, partnerships, and closely-held corporations) or dispersed among persons not actively involved in the company (publicly-traded corporations). If employees own stock in a firm (for example, through profit sharing plans or stock options), ownership is typically limited to higher-level employees; workers own only a minority interest; and employee-owners have little voice in managerial decisions.

Very few enterprises implement "workplace democracy"–majority ownership and effective control of the enterprise by most or all its workers. One traditional form of workplace democracy is cooperatives, including firms that are cooperative in legal structure as well as standard corporations with cooperative principles (such as one employee, one vote) in their by-laws. Another form of worker ownership, Employee Stock Ownership Plans (ESOPs), has become popular since passage of federal tax incentives in 1974. Throughout the United States, however, it is estimated that employees in corporations own less than 3.9% of outstanding corporate stock; fewer than 800 worker owned businesses were formed between 1840 and 1979; and ESOPS with employees as majority owners number less than 2,000 (Blasi, 1988; Jones, 1984).

This paper examines an atypical subset of these enterprises, namely, worker owned and managed firms involved in economic development. By involvement in economic development, we mean that the firms' workers and their communities have limited employment alternatives and, in the absence of actions supplementing market forces, will tend to remain outside the economic mainstream.

It is sometimes argued that worker ownership and economic development are mutually supportive (Cumin & Rosen, 1988, p. 13; see also Abell & Mahoney, 1988; Piore & Sabel, 1983; Rosen, 1989; Whyte & Whyte, 1988):

> [T]here is a close fit between the goals of community economic development and the realities of employee owned businesses. . . . [E]mployee owned businesses put economic control into the hands of the worker owners who are from the local community, . . . create more stable employment since the owners give a higher priority to creating a long-term workforce and maintaining employment during economic down-

> turns, . . . provide opportunities for skill training and upgrading, since the business is for the benefit of the workers, . . . foster the local retention of capital generated from inside and outside the community since local earnings are often spent locally, . . . [and] are more likely to recognize the community as a constituent and . . . share its concern for the environment, human resource development, and the quality of life.

Conversely, it is sometimes argued that economic development should not be burdened with the additional complications of workplace democracy and that economic development typically involves conditions in which worker ownership is unlikely to succeed. These conditions include limited financial resources, low levels of employee education and business experience, and marginal firms futilely attempting to stave off bankruptcy (Gamson & Levin, 1984; Gunn, 1984; Segarra, 1991).

This paper examines these contradictory hypotheses. The empirical basis of this study is twenty worker owned and managed enterprises studied on-site by the authors in 1991 (see Table 1). These firms are in urban and rural localities throughout the United States and operate in service- and product-based industries ranging from child care to manufacturing. Although they vary in legal form and operating style, they all implement a degree of worker ownership and participation that starkly contrasts with traditional ways of organizing business enterprises. And they have done so in community economic development, limited-opportunity circumstances.

The question addressed in this paper is: Does worker ownership and participation enhance firm-based efforts to create ‘‘mainstream’’ employment for persons and communities outside the economic mainstream? To answer this question, we first examine the tradeoff between providing employment in low-opportunity situations and offering employment of high quality. We then estimate the impact of worker ownership and participation in mitigating that tradeoff. Because we find that impact to be positive, we close with proposals for mobilizing worker ownership and participation in community economic development.

TABLE 1. The 20 Worker Owned and Managed Firms in This Study

| Firm | Location | Industry | Full-Time-Equivalent Employees | Legal Form |
|---|---|---|---|---|
| Alaska Commercial Company | Rural Alaska | Food Retailing | 400 | ESOP |
| Capitol City Cooperative Cab Company | Sacramento | Local transportation | 155 | Nonprofit corporation |
| Cherry Hill Cooperative Cannery | Rural Vermont | Food manufacturing | 13 | Cooperative |
| Cooperative Home Care Associates | Bronx, New York | Home health care | 230 | Cooperative |
| Eastside Day Care Homes Cooperative | Indianapolis | Child care | 17 | Nonprofit corporation |
| Fastener Industries | Cleveland | Metal manufacturing | 165 | ESOP |
| Gentle Dragon Child Care Cooperative | Seattle | Child care | 10 | Nonprofit corporation |
| Heaven Sent House-cleaning | San Francisco peninsula | House-cleaning | 21 | Nonprofit corporation |
| InDios Cooperative | Rural Florida | Custom sewing | 14 | Corporation |
| Manos Home Care | Oakland | Home health care | 18 | Mutual benefit corporation |
| Manos Job Referral Collective | Oakland | House-cleaning | 125 | Unincorporated association |
| Nantahala Outdoor Center | Rural North Carolina | Outdoor recreation | 200 | ESOP |
| Natural Meat Company | Seattle | Food manufacturing | 3 | Cooperative |

TABLE 1 (continued)

| Firm | Location | Industry | Full-Time-Equivalent Employees | Legal Form |
|---|---|---|---|---|
| PFJ Enterprise, Inc. | Cincinnati | Temporary labor | 20 | Corporation |
| PEP Labor Crews, Inc. | Rural Florida | Agricultural labor | 17 | Cooperative |
| Salsedo Press Inc. | Chicago | Printing job shop | 17 | Cooperative |
| Southwest Detroit Construction Cooperative | Detroit | Rehabilitation construction | 6 | Corporation |
| Watermark Association of Artisans | Rural North Carolina | Giftware manufacturing | 200 | Corporation |
| Worker Owned Sewing Co., Inc. | Rural North Carolina | Clothing manufacturing | 45 | Corporation |
| Wyatt's Cafeteria, Inc. | Texas | Restaurant | 4500 | ESOP |

SOURCE: Authors' on-site survey of 20 firms in 1991.

## *EMPLOYMENT ACCESSIBILITY AND QUALITY*

The first question we examine is the extent to which the employment offered by the firms in our sample is accessible to individuals and communities with limited opportunities. Table 2 presents six indicators of the extent to which jobs are targeted in this manner. Two indicators report the proportion of workers from groups whose employment opportunities are limited by discrimination (minorities and women); two reflect workers' level of marketable skills (the proportion of workers who are not high school graduates, the proportion estimated by their manager not to be employable in a competing firm); and two measure the economic environment of the locality (percent of the labor force that is unemployed, percent of

TABLE 2. Accessibility of Employment in Sample Firms

| Indicator | Average for Sample Firms | Average for National or Industrial Comparison | Relationship of Sample to Comparison |
|---|---|---|---|
| Percent of workers who are minority | 62% | 10%a | Higher |
| Percent of workers who are female | 58% | 46%b | Higher |
| Percent of workers not high school graduates | 52% | 22%a | Higher |
| Percent of workers not employable in comparison firm | 21% | -- | Higher |
| Unemployment rate in locality | 6.9% | 6.3%c | Higher |
| Percent of locality's population in poverty | 14.5% | 13.1%c | Higher |

SOURCE: Authors' on-site survey of 20 firms in 1991.

a. Firms with fewer than 500 employees, nationwide, 1983 (Brown, Hamilton, & Medoff, 1990, p. 16).
b. Civilian Labor Force, nationwide, 1991 (U.S. Department of Labor, 1992, p. 10).
c. 1990 Census of Population, County data.

the population in poverty). In the table, each average value on these indicators for the twenty firms in our sample is compared to an average for similar firms that are not worker owned and managed.

The third column of Table 2 reports that, on all six indicators of outreach to persons and communities outside the economic mainstream, the sample firms average a higher score than more conventionally-organized enterprises. The magnitude of differences ranges from modest (the unemployment rate in sample firms' localities, 6.9%, is .3 percentage points higher than for comparison firms) to substantial (the proportion of employees who are not high school graduates averages 52% for sample firms, compared to 22% for small firms nationwide; the proportion of employees who are minority averages 62% in sample firms, compared to 10% in small firms nationwide). Perhaps the most revealing indicator in Table 2 is the proportion of employees not employable at comparable firms in the same industry, estimated by the manager of each sample firm. The 21% figure in the table means that for approximately one worker in five, the firm provides a job to which her/his qualifications would not otherwise grant access.

These figures confirm that the enterprises in our sample reach outside the economic mainstream to a greater degree than counterpart conventionally-organized firms. The ultimate goal of economic development, however, is to bring excluded persons and their communities into the economic mainstream. To do so requires developing employment of mainstream quality. Table 3 presents eight indicators of the quality of employment in the sample firms.

On four of these measures–the proportion of workers who are owners, the proportion of firms providing health insurance, the rate of personnel retention, and the extent of employee training–the sample enterprises equal or exceed the level of job quality provided by their comparison, conventionally-managed firms.[1] The other three indicators suggest that the quality of jobs in the sample firms falls somewhat short. For example, 25% of sample firms offered pension plans, compared to 38% of small firms nationwide; wages five years after joining a sample firm as an entry-level worker averaged $8.32 per hour, compared to an average of $10.01 per hour for all private sector, non-supervisory employees in the nation; and 73% of workers were employed full time year around, compared to 81% in the labor force nationwide.

The indicators in Table 3 focus on financial dimensions of employment quality. Jobs also provide psychological benefits to workers such as prestige and job satisfaction. Although most evidence on this subject is unsystematic, worker owned and managed enterprises generally appear to outperform their more traditionally managed counterparts on these considerations, particularly for workers outside the economic mainstream. For example, in Puget Sound Plywood, Inc., a lumber manufacturing company operated by 240 limited-skill worker owners, wages were lower than in a more traditional company, but (Bennett, 1979, p. 90; see also Berman, 1982; Craig & Pencavel, 1992):

TABLE 3. Quality of Employment in Sample Firms

| Indicator | Average for Sample Firms | Average for National or Industrial Comparison | Relationship of Sample to Comparison |
|---|---|---|---|
| Hourly starting wage in entry level position | $5.84 | --a | -- |
| Hourly wage after five years | $8.32 | $10.01b | Lower |
| Percent of firms offering health insurance | 55% | 55%c | Equal |
| Percent of firms offering pension plan | 25% | 38%c | Lower |
| Percent of workers employed full time/ full year | 73% | 81%d | Lower |
| Annual personnel retention | 78% | 80%e | Equal |
| Percent of workers who are owners | 80% | --f | Higher |
| Investment in training (Scale) | 4.0 | 3.0g | Higher |

SOURCE: Authors' on-site survey of 20 firms in 1991.

a. No direct comparison is available; the federal minimum wage in 1991 was $4.25 per hour.
b.1991 annual average for private sector, non-supervisory employees nationwide (U.S. Department of Labor, 1993, p. 80).
c. Percent of firms with fewer than 500 employees (U.S. Small Business Administration, 1990, pp. 46, 53).
d. Percent of employees who worked for one employer during the year who worked full time, full year; unpublished data, Current Population Survey, March 1987.
e. The rate of personnel retention is the rate of annual personnel turnover subtracted from 100% (Brown, Hamilton, & Medoff, 1990, p. 56).
f. No direct comparison is available; 3.9% of corporate stock in the United States in 1983 was owned by employees of the issuing firm (Blasi, 1988, p. 11).
g. Rating by the authors on a five point scale in which 3 is the industry average and 4 is somewhat higher than the industry average.

> employees stay . . . [for] rewards other than money. I think the psychological realization that they have something to say about what goes on in their company has a great deal to do with it as well as the fairness, the opportunity that's provided, which is much more than in any privately owned company.

Similarly, among refuse collectors in the San Francisco area, worker owners in the Scavengers scored higher than counterparts in conventional private firms and the public sector in perceived job status, overall job satisfaction, and the likelihood that they would choose that occupation if starting their career again (Russell, 1982).[2]

## *FIRMS' COMMERCIAL VIABILITY*

In economic development, results such as those discussed in the previous section are sometimes achieved initially but subsequently disappear as firms prove fragile and short-lived. It is therefore important to measure the extent to which firms in the study sample are likely to sustain the employment described in the previous section by being stable, profitable, and commercially viable.

Two contradictory hypotheses are common concerning the impact of worker ownership and participation on the commercial viability of firms. One argues that these enterprises will be more successful than conventional businesses through higher worker productivity, increased worker creativity, lower worker turnover, and reduced need for supervision. The contrary view is that worker owned and managed firms will be less successful because of difficulties in retaining and motivating managers, maintaining worker discipline, raising capital, investing in new equipment and modern technology, and achieving economies of scale (Bartlett, Cable, Estrin, Jones, & Smith, 1992; Blasi, 1988; Levine & Tyson, 1990).

Table 4 presents four indicators of commercial viability for our sample firms and their comparisons. On two of these indicators–the size of business establishments and the rate of growth of the industries in which the firms operate–the sample firms rate lower than their comparison firms. For example, the annual growth rate of revenues in the industry in which the firm operates measures whether markets for the firm's products are expanding or contract-

TABLE 4. Commercial Viability of Sample Firms

| Indicator | Average for Sample Firms | Average for National or Industrial Comparison | Relationship of Sample to Comparison |
|---|---|---|---|
| Percent of employment in establishments with more than 100 employees | 24% | 44%a | Lower |
| Average growth rate of revenues in firms' industry | 2.2%b | 3.4%c | Lower |
| Productivity compared to industry average (scale) | 3.2d | 3.0 | Higher |
| Proportion of firms projected to continue in business through the next five years | 80% | 72%e | Higher |

SOURCE: Authors' on-site survey of 20 firms in 1991.

a. U.S. Department of Commerce (1987).
b. Percent change in revenues, 1990-1991 (U.S. Department of Commerce, 1991).
c. Percent growth in U.S. Gross Domestic Product, 1991 (U.S. Council of Economic Advisors, 1993, p. 348).
d. Authors' rating on a five point scale in which 3 is the industry average and 4 is somewhat higher than the industry average.
e. In Dun and Bradstreet data, 28% of small businesses that have survived five years fail during the subsequent five years (Scarborough & Zimmerer, 1984, p. 34). This comparison group was selected because the average firm in the study sample had operated under worker ownership for 7.5 years.

ing. The industries in which the sample firms operate average a 2.2% annual rate of growth, compared to 3.4% for the economy as a whole. On the other hand, the authors' ratings of productivity in the sample firms placed them slightly above their industry averages. Most importantly, the authors' projections that 80% of sample firms were likely to continue in business another five years matches or slightly exceeds the 72% average five-year survival rate for businesses of comparable age nationwide.

Although our sample is restricted to firms involved in economic development, empirical research on worker owned and managed firms throughout the American and other industrial economies can be compared to our findings. The most persuasive research incorporates comparisons between worker owned firms and conventionally organized firms of similar size in the same markets. Studies in this comparative mode generally conclude that the effect of worker participation on firms is, on balance, modestly positive. One recent synthesis concluded that (Levine & Tyson, 1990, pp. 203-204; see also Bartlett et al., 1992; Blasi, 1988; Bloom, 1986; Bonin, Jones, & Putterman, 1993; Defourney, 1992):

> . . . participation *usually* leads to small, short-run improvements in performance and *sometimes* leads to significant, long-lasting improvements in performance. There is usually a positive, often small, effect of participation on productivity, sometimes a zero or statistically insignificant effect, and almost never a negative effect.

That summary could serve for our more narrowly focused empirical results as well.

## *WHAT IS THE PARTICIPATION-DEVELOPMENT LINK?*

The empirical results concerning firms' commercial viability in Table 4 and job quality in Table 3 can both be summarized in the same terms: This set of worker owned and managed enterprises approaches, and to some extent matches, the "mainstream" performance of comparison firms.

Our sample firms differ from these comparison enterprises in two ways. One is that the sample firms implement worker ownership and participation. The other is that–as documented in Table 2–they are linked to workers and communities outside the economic mainstream. The history of economic development initiatives in the United States over the past three decades readily demonstrates that the further outside the economic mainstream that the intended beneficiary workers and communities are, the more difficult it is to accomplish and sustain business development (Bendick & Egan, 1987; Bendick & Egan, 1993; Bendick & Rasmussen, 1986). Indeed, this tradeoff defines the mission of community economic development. To measure the precise impact of worker ownership and participation on firms' performance, it is necessary to control for the extent to which the sample firms promote employment access and other economic development goals.

We achieve this control through the statistical technique of multiple regression analysis. In this analysis, the dependent variable–the variable upon which the impact of other variables is estimated–is employment quality, represented by a scale based on variables in Table 3. Two explanatory variables are included in the analysis to control for firms' pursuit of goals that might conflict with employment quality: employment accessibility (based on variables in Table 2) and additional economic development objectives (based on variables in Table 5, below). A third explanatory variable is included to represent the extent of worker ownership and participation. Based on observation and interviews, the authors rated three aspects of worker ownership and participation at each sample firm on a 5 point scale (from 1 = minimal to 5 = pervasive). Among the 20 firms studied, worker participation in their firm's governance ranged

TABLE 5. Other Community Economic Development Activities in Sample Firms

| Activity | Percent of Sample Firms |
|---|---|
| Firm seeks to enhance workers' personal or political empowerment | 65% |
| Firm provides or links social services to employees | 40% |
| Firm participates in community or industry economic development strategies | 35% |
| Firm has affected the non-personnel practices of other firms | 25% |
| Firm has affected the personnel practices of other firms | 20% |

SOURCE: Authors' on-site survey of 20 firms in 1991.

from 1 to 5, with an average of 2.5; participation in firms' overall management ranged from 1 to 5, with an average value of 2.4; and participation in "shop floor" production decisions ranged from 1 to 5, with an average of 4.0.

A multiple regression equation was estimated among the variables described in the previous paragraph.[3] According to this equation, pursuit of job access and other economic development goals does adversely affect the achievement of job quality. Each one point increase on the "employment access" scale reduces the "job quality" scale by .14 points, and each one point increase on the "other goals" scale reduces the "job quality" scale by .28 points. However, after these other factors are controlled for, each one point increase on the "worker ownership and participation" scale increases the "job quality" scale by .30 points. That is, worker ownership and participation enhances the ability of firms to generate employment of "mainstream" quality for persons outside the economic mainstream. The greater the extent to which our sample firms implement worker ownership and participation, the greater their success in mitigating the tradeoff that is the heart of community economic development.

The positive relationship between worker ownership/participation and community economic development extends to other aspects of development as well. Table 5 displays five measures of the extent to which firms in our sample promote development of their communities in addition to the jobs the firms provide.

One community development activity that flows naturally from workplace democracy is workers' political empowerment. The opportunity, experience, and expectation of workers to participate in decision-making is a defining characteristic of worker owned and managed enterprises. This experience promotes community development when workers transfer or generalize the participatory skills and expectations acquired at work to other contexts, particularly political ones. For example, one survey of 1,400 employees at 55 worker owned and managed companies found a strong, mutually reinforcing relationship between increased participation in decision-making within the firm and participation in the political process in the community (Smith, 1992).

Table 5 reports that 65% of firms in our sample make development of workers' skills in exercising rights and responsibilities an organizational goal. Typically, this process within the firm involves workers being informed or consulted on managerial decisions, participating in "shop floor" work planning and self-managed work teams, and voting for board members and managers. Workers transfer these skills and expectations outside the work situation in a variety of ways. A number of firms in the sample encourage and assist their workers to register to vote. The full-time employment provided by several sample firms has encouraged local political leaders to view workers as permanent community residents to whom they should be responsive; this effect is often enhanced by firms assisting workers who are undocumented immigrants to regularize their immigration status. At one firm, workers formed a vocal block of political activists that forced their local government to appoint the community's first minority police chief, racially integrate a housing project, and support a worker training program.

A second community development activity involves provision of social services to workers and their families. The demographic characteristics of workers at the firms in our sample (see Table 2) suggest that a significant proportion of these workers are likely to need assistance for themselves and their families in such forms as income supplementation, publicly-funded health services, personal social services, job training, and adult education. Table 5 reports that 40% of firms in our sample either provide such services within their own program or (more commonly) refer and link their workers to public or private social service agencies. In fact, 15% of the firms in our sample are subsidiaries of social service programs formed to provide employment opportunities for clients.

A third community development activity in which sample firms engage involves participating in joint business strategies in the firms' community or industry. Business development initiatives in the 1990s often focus less on individual firms than on groups of firms whose combined development can create synergisms and economies of scale. For example, small manufacturers may join in a network of firms to undertake large projects, or local retailers may use joint advertising and common hours of operation to create a shopping district that attracts additional customers (Bendick & Egan, 1993; Jordan, 1986; Pyke, 1992).

Table 5 reports that 35% of firms in our sample participate in community-based or industry-based development strategies. Three firms are subsidiaries of community development corporations that are pursuing a range of simultaneous improvements in the quality of life in their communities; two firms are linked to training programs by providing on-the-job training and then permanent employment to trainees; and two firms were created within efforts to develop multiple firms simultaneously in the same locality.

A final form of community development activity involves firms influencing the business practices of other firms in their industry or locality. Firms might imitate the practices of a model firm because the experiences of the model firm impress them, or they might be forced to do so by competitive pressure. In either case, by serving as a "yardstick" against which other firms are measured, one firm can promote the development of other firms as well.

According to Table 5, 25% of the firms in our sample have affected the business practices of other firms on aspects of their operations other than personnel. Typically, this effect involves raising the quality of products and services produced in the industry. In some cases, this effect occurs when sample firms provide training to their competitors, an action typically undertaken only when model firms are not motivated solely by commercial success. In other cases, the effect does not rely on selfless motivation but arises through competition: The model firm's goods or services set a standard of quality that customers then demand from all producers. For example, by selling fresher, more varied groceries in isolated rural locations, one firm in our sample forced other retailers to upgrade their merchandise.

Table 5 also reports that 20% of sample firms have affected the personnel practices of other firms. None of these cases involves firms convincing other firms to implement worker ownership and participation. Instead, it typically involves raising wage levels or improving other aspects of job quality.

Although the contributions to economic development documented in Tables 2 through 5 arose in firms that are worker owned and managed, worker ownership and participation did not provide the motivation to engage in economic development. In every case in our sample in which firms consciously sought economic betterment for low-opportunity workers and their communities, an outside force–a community development corporation, labor union, religious agency, or idealistic individuals–was the source of this goal.[4] In fact, worker owners sometimes oppose community development efforts that distract from their own employment opportunities. In one case in our sample, a firm was attempting to employ more members of an under-represented demographic group at the direction of the community development corporation that was the majority owner of the firm over the objections of the employee owners. Relatedly, the literature on cooperatives discusses the tendency in these firms to "degenerate" toward conventional capitalist behavior, particularly the tendency of a founding generation of owners to enhance their incomes by hiring employees whom they preclude from ownership. For example, the Scavengers refuse collection firm eventually developed two tiers of workers: "partners" or owners (whose wages in 1976 averaged $22,000) and non-owners or "helpers" (who earned $15,000 that year). The Scavengers were subsequently sued for discrimination by Black and Hispanic employees on the grounds that ownership was restricted to "family members" of Italian ancestry (Cornforth, Lewis, & Spear, 1988; Russell, 1982).

## *ONE PROMISING MODEL: MARKETING COOPERATIVES*

In one subset of our sample, the advantages to community economic development of worker ownership and participation are particularly clear. Eight sample firms take the form of marketing cooperatives among persons who are self-employed. Rather than being businesses with employee owners, these firms are associations among independent, one-person firms to whom they provide services, principally intermediation between producers and their customers (Ben-Ner, 1987; Grossman and Hart, 1986; Hansmann, 1988). This form of worker ownership can often promote business development in low opportunity communities more effectively than several economic development approaches in widespread use.

One way that marketing cooperatives enhance the commercial potential and productive efficiency of their members is by achieving economies of scale in providing common services. Economic development initiatives such as business incubators typically provide services such as secretarial and bookkeeping support, as well as business training and counseling (National Business Incubation Association, 1992). Marketing cooperatives generally serve clients in one industry, while incubators draw their tenants from a range of industries. Many important aspects of business strategy and operations are industry specific, making industry knowledge, contacts, and expertise prerequisite to providing useful counseling on many issues. At the same time, focusing on one industry allows a broader range of services to be provided in common, notably joint purchasing of industry-specific equipment and supplies and industry-specific worker training. For example, one marketing cooperative in our sample that serves child care providers operates a ''lending library'' of toys and provides training in child care skills.

Many of the most important industry-specific common services involve product marketing. At a simple level, these services may include joint advertising and a central clearinghouse for orders, as when one cooperative in our sample advertises housecleaning services under a catchy brand name, receives telephone orders, and then distributes these orders to its members. Joint marketing might also involve grouping providers to bid for large contracts, as when one cooperative in our sample arranges long-term contracts with local corporations and hospitals for its fleet of independent taxi drivers. A more complex form of joint marketing involves monitoring market trends and adapting products to these developments, as when one cooperative in our sample attends national trade fairs in the giftware industry and then designs new craft products for its members to manufacture.

At their best, these joint marketing services provide one-person firms access to larger, more affluent market niches than are otherwise open to them. For example, one cooperative in our sample primarily serves monolingual Spanish-speaking housecleaners. By taking orders in English from customers who do not speak Spanish and translating these orders for its members, the cooperative assists these workers to find work in affluent suburban neighborhoods.

A larger-scale example of the same process is provided by the Watermark Association of Artisans, a marketing cooperative serving 400 self-employed persons, mostly women, in eastern North

Carolina. For persons with limited skills, most employment alternatives in the rural area in which this cooperative operates pay only minimum wage. If residents of the area earn money by producing crafts such as baskets, quilts, and wooden toys, the outlets for their work are traditionally limited to local stores, craft fairs, and roadside stands. But since 1978, Watermark has served as an intermediary to market these products in wholesale quantities to national and international customers, including Esprit and Ralph Lauren. Watermark's marketing activities include representation at national trade shows, advertising (such as nationwide distribution of professionally designed color catalogues), and sales contacts through which staff foster long-term relationships with significant customers. Producing for the higher-volume, higher-priced markets that Watermark's marketing efforts open to them, the independent craft artisans who are members of the cooperative can earn as much as $30,000 per year.

Marketing cooperatives may also increase producers' earnings by formalizing markets and professionalizing occupations that traditionally operate in a highly unorganized fashion. For example, one marketing cooperative in our sample that serves housecleaners provides an efficient order-taking staff, standardized worker training, on-site worker supervision, and prompt resolution of customer complaints. Because these activities promote service quality and customer satisfaction, the brand name under which the cooperative advertises its members' services commands customer loyalty and a higher hourly wage. Similar results have been achieved by another cooperative in our sample that markets home health care services. The cooperative has sought to professionalize the occupation of home health aide through training, medical supervision, creating more full time employment, and reducing worker turnover. The resultant increases in productivity and customer satisfaction have facilitated establishment of higher wage levels for these workers.

These examples illustrate that the relationship between marketing cooperatives and their member firms is not restricted to the period when these businesses are first established. Many business development programs provide assistance to firms when they are starting and then graduate them as fledgling entrepreneurs when they become more experienced and their firms more stable. This is the philosophy in most programs promoting micro enterprises (self employment), in which individuals who experience difficulty finding work are encouraged to employ themselves by founding their own one-person enterprises (Balkin, 1989; Bendick & Egan, 1987; Shorebank Advisory Services, 1992). In contrast, marketing cooperatives typically presume that some types of firms should never operate in a solo fashion because the advantages of joint operations do not diminish. Many of the one-person enterprises undertaken in low opportunity communities or by individuals with limited skills are in product lines found in our sample: housecleaning, child care, home health care, temporary labor, transportation services, construction trades, and craft production. As our sample firms illustrate, such enterprises may derive substantial advantages from operating permanently through marketing cooperatives.

## *MOBILIZING WORKER OWNERSHIP AND PARTICIPATION FOR COMMUNITY ECONOMIC DEVELOPMENT*

The benefits of worker ownership and participation documented throughout this paper clearly suggest that this approach should be encouraged in firm-based initiatives for community economic development. Experience in industrialized nations outside the United States demonstrates that the concept can be implemented on a substantial scale. In Italy, some 16,000 producer cooperatives employ more than 300,000 workers. In the Basque region of Spain, a single complex of interrelated enterprises employs 19,500 workers in more than 100 cooperatives and related institutions (Bartlett et al., 1992; Whyte & Whyte, 1988). Yet, as the limited number and modest size of the firms studied in this paper signal, this idea has been tried in the United States on only a very small scale.

As in all firm-based initiatives in economic development, the first requirement in implementing worker ownership and management is that firms meet the unrelenting demands of the competitive marketplace. Firms must identify a market opportunity and develop the managerial, technical, and financial capability to exploit that opportunity. Worker ownership and participation itself affects these "business fundamentals" only marginally. Accordingly, in evaluating an economic development initiative that involves worker ownership and management, an initial step should be to assess the enterprise in conventional business terms while ignoring the presence of workplace democracy. If a proposed project lacks some prerequisites, then standard tools of business development–such as managerial training, worker training, management consulting, and financial subsidies–can be applied to rectify the deficiencies.

Projects that are commercially viable should next be evaluated from the point of view of their likely contributions to overall community development. Evidence in this paper demonstrates that worker ownership and participation itself does not guarantee that a project will attempt to benefit low-opportunity workers and their communities. Thus, this assessment must rest on other characteristics of a project, such as the ways the enterprise is linked to low-opportunity persons and localities or the extent to which the project is controlled by individuals or institutions committed to community development.

For projects that meet this standard, a third step should be to ensure that the worker ownership and participation aspects of the proposed project are well designed. Effective arrangements for worker ownership and participation generally include: provisions for workers to share in the financial rewards of increased productivity; extension of participatory decision-making to operational issues on the "shop floor"; delegation to workers of authority to make decisions rather than merely offer advice; assurance of job security and long term employment relations; and measures to build group cohesiveness (Hochner, 1988; Levine & Tyson, 1990). The experience of a majority of firms in our sample has been that implementation of workplace democracy is not intuitive, and both managers and workers require training and practice before operating comfortably in this style. Most firms have also found that decision-making and work planning are at least somewhat more complex and time-consuming than under conventional management approaches, particularly when involving workers with limited education and experience. Firms implementing worker ownership and participation should reflect these considerations in their budgets and schedules, and most should seek assistance and training from consulting organizations specializing in workplace democracy.

One issue that does not appear to inhibit firms from implementing worker ownership and participation is that of legal structures.

Some legal forms of worker ownership are available only in a limited number of jurisdictions. For example, only half a dozen states, primarily in New England, have statutory provisions permitting firms to be officially organized as cooperatives–that is, to incorporate as cooperatives, use the word cooperative in their corporate name, and develop internal capital accounts for individual worker owners (Cumin & Rosen, 1988). In states without such statutes, however, a corporation can operate as a cooperative by structuring its articles of incorporation and bylaws appropriately. Table 1 reports that the 20 firms in our sample have implemented worker ownership and participation under at least six different legal forms. In no case did we observe that their choice of legal form significantly influences their style of operation.

A similar conclusion–that a potential barrier does not in practice seem a widespread problem–applies to the issue of financing. It is sometimes argued that worker owned and managed firms have limited access to capital because conventional financial institutions (such as commercial banks) are wary of firms with unusual legal forms, skeptical about the quality of their management, and unsure about the ownership of their collateral. About 25% of firms in our sample have experienced no problems obtaining financing from conventional sources. The remaining 75% have encountered varying degrees of problems, and many have resorted to alternative sources of finance such as foundations and religious orders. In each case in the latter group, however, a principal reason for difficulties in obtaining conventional financing seemed to be weaknesses in the financial profile they present to commercial lenders, usually reflecting their sacrifice of commercial profitability in pursuit of broader economic development objectives. Once that circumstance was taken into account, worker ownership and participation seemed to limit their access to capital only marginally.

In short, neither complexity nor lack of legal forms and financing explains the limited implementation of worker ownership and participation in economic development efforts throughout the United States. Instead, the major barriers seem to be lack of familiarity with this approach among community development practitioners and a shortage of evidence about its benefits. In relation to both these barriers, this paper itself may play a useful role.

## AUTHORS' NOTES

1. Other studies have found similar results. In the Scavengers, a worker owned refuse collection firm in San Francisco, wages (in 1976) of $22,000 for partners and $15,000 for helpers compared favorably to $15,000 in private waste management firms that were not worker owned and $12,000 for refuse collectors who were city employees (Russell, 1982). Another example is provided by the Denver Yellow Cab Cooperative Association. In 1979, when drivers bought a profitable firm and converted it to a cooperative, the drivers' union established group life insurance, disability insurance, and a pension plan, the first for independent driver contractors in the United States (Gunn, 1984).

2. However, the psychological benefits of ownership by themselves cannot outweigh other serious job disadvantages. For example, Scavenger owners did not view their refuse collection tasks as cleaner or less objectionable than did other respondents (Russell, 1979). Nor can psychological rewards generally compensate for a lack of financial payoff from the firm. Indeed, financial returns themselves are a prime determinant of psychological rewards. For example, one study of ESOPS found a strong relationship between the size of the company contribution to the ESOP and employee satisfaction with the ESOP, their work, and the company (Rosen, Klein, & Young, 1986; see also Long, 1978).

3. The estimated regression equation is:

$$\text{Employment Quality} = \underset{(2.04)}{11.86} - \underset{(.19)}{.14} * \text{Employment Access} - \underset{(.16)}{.28} * \text{Other Goals} + \underset{(.15)}{.30} * \text{Worker Ownership/Particip.}$$

R2 = .38, D.F. = 16, F = 3.3. Figures in parentheses are standard errors.

4. This caution is particularly applicable to ESOPS, 40% of which are estimated to have been established solely for tax purposes. Special tax provisions allow company owners to defer capital gains taxation when selling their firm to an ESOP and assist ESOP companies to raise capital, defend against takeovers, and institute a benefit program without immediate cash outlays (Bloom, 1986; Conte & Svejnar, 1990; Scholes & Wolfson, 1990; U.S. General Accounting Office, 1987; Young, 1990).

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