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Employee-owned firms and Support Organizations: Are we there yet?*

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Abstract

An important form of the employee-owned firm (EOF) is the producer cooperative (PC). The performance of PC sectors typically has been much helped by extensive institutional infrastructure (Smith, 2003; Jones, 2023). By contrast, U.S. EOFs (which are predominantly ESOPs), appear to be served by organizations that are much more limited in scope and nature. Is this institutional architecture for U.S. SOs a factor in accounting for the overall (and recently disappointing) performance of the U.S. employee-owned sector? Or are institutional set-ups for SOs for both forms of EOF essentially efficient, with differences in SO design primarily reflecting varying contexts (Europe vs. the U.S.) and a focus in the U.S. on growth in EO primarily by conversions of conventional firms, compared to what for PCs, in the past at least, was a focus on start-ups?

To examine these issues, I outline two competing conceptual frameworks. But I focus mainly on actual institutional differences in SOs. I extend a simple typology for SOs originally developed for PCs. By accessing descriptive information on U.S. SOs, I tentatively conclude that U.S. EOFs may be faced by SOs with some limits in institutional capacity. I conjecture that some individual SOs may have an unduly narrow range of activities while there may be unnecessary duplication in some support functions across SOs; the overall configuration of SOs may also have some inefficiencies. These potential limitations in the design of U.S. SOs for EOFs may have contributed to the recent flat-lining in growth of the overall employee-owned sector and may hinder future growth that many predicate on likely forthcoming policy initiatives (notably the Employee Equity Investment Act). Based on my interpretation of the limited theoretical and empirical evidence for U.S. SOs, I make some tentative suggestions for institutional innovations, mainly in the private sector.

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I Introduction

In this very preliminary paper, I address issues surrounding the scope, nature and effects of support organizations (SOs) for different forms of employee-owned firms (EOFs). The central issues investigated are: (i) whether there are preferred SOs for EOFs; (ii) whether preferred set-ups differ for different kinds of EOFs—for example, for firms with employee stock ownership plans (ESOPs) or employee-owned trusts (EOTs) compared to arrangements for worker/producer cooperatives (PCs)?

One point of departure is the simple empirical observation -- the types of SO set-ups for EOFs appear to be quite heterogeneous. For PCs, the expansive nature of the activities of the apex SO such as the Lega for groups of Italian worker cooperatives, contrasts with the limited associations that have typically served PCs in the USA. For firms with ESOPs, the number of SOs that serve US ESOPs, including the National Center for Employee Ownership (NCEO) and the ESOP Association (TEA), differs from what appears to be a more limited organizational infrastructure facing EOFs in most European countries. Do these differing institutional arrangements essentially reflect “efficient design” and responses to differences in scale, context and type of EOF? Or might the implementation of changed design eventually result in a more vibrant EO sector in the U.S.? Are there any general principles concerning the structure and design of these associations (and including their nature and scope) that appear to facilitate (hinder) success for EO sectors in different countries?

Second, while the importance of institutions and their design has long been recognized as being of central importance in social sciences, apparently not much attention has been devoted to

analysis of these formal EOF-serving institutions.¹ A recent literature has examined the preferred form of internal organization for EOFs (and especially the merits of ESOPs vs EOTs)². Earlier literature investigated the implications for firm productivity of different elements in the design of the internal organization of PCs (e.g. Jones et al., 1987). By contrast, apparently not much attention has been devoted to matters surrounding the preferred design of SOs for EOFs. It is perhaps a worthwhile thought experiment to consider whether the performance of overall EO sectors in different countries would be improved if a different configuration of SOs existed? In this draft we take a first stab at consideration of such matters for firms with ESOPs in the U.S.

Another motivation is prompted by differences in the dynamics of the footprint of, and policy initiatives concerning, employee ownership in various countries.³ In the U.S., it is now around 70 years since the Kelso initiative sparked an astonishing growth in EO. And new legislative initiatives continue to be put forward, notably the proposed Employee Equity Investment Act (EEIA), while other developments sustain interest in EO.⁴ While these recent developments, especially the EEIA, have huge promise, the recent record for EO in the U.S. may be viewed as more problematical. Fundamentally, the overall size of the EO sector in the US seems to have flat-lined. Since a huge amount of academic research points to diverse positive

¹ On the role of the importance of other forms of formal institutions see, for example, Persson and Tabellini (2003). Or for the role of institutions such as different legal arrangements see, for example, Djankov et al. (2003). See also Acemoglu (2020) who, amongst other things, cites empirical data that shows lots of variation in formal institutions across countries and time.

² See, for example, Mygind and Poulsen (2021).

³ See for example Lowitzsch (2024) who edited the latest PEPER report. In some countries the prospects for the growth of EO is marked by optimism (e.g. Slovenia) whereas prospects elsewhere are viewed as less sanguine.

⁴ The bill proposing the EEIA has bipartisan support and would "...create an investment facility within the SBA...to provide loan guarantees for investment funds devoted to expanding employee ownership" (Rosen, NCEO, 2014). Recent years have also seen growing interest from groups including the Aspen Institute. For a background paper for the legislative initiatives, see May et al. (2019).

outcomes for EOF⁵, understanding why this growth has stalled is a puzzle. While several thoughtful studies (e.g. Sharf, 2024; Mackin, 2024; May et al., 2019) have pointed to the major difficulties surrounding financing issues that confront conventional firms that may wish to convert to EO, is there also a potential enhanced role of SOs for facilitating and sustaining growth in EOFs that tends not to be emphasized?⁶ Again, might there be a place for considering changes in the design and overall configuration of support associations in the US?

Another impulse comes from a recent paper (Jones, 2023) that investigates the effects of SOs for a particular form of EOF, the PC. That paper documents an abundance of theoretical and empirical literature for PCs on these matters (e.g. Smith, 2003.) Overall, the evidence points to the strong positive effects of a strong center that undertakes diverse tasks in support of PCs. Again, by contrast there is a limited literature for the role of associations for other forms of EOFs such as those based on ESOPs or EOTs.

To begin to investigate some of these issues, in the next section I first discuss competing conceptual frameworks concerning the nature and preferred scope of SOs. When thinking about formal support organizations for EOFs, I consider whether *in theory* there might be a preferred set up for the range and scope of the activities of SOs for different forms of EOF—e.g. what is the preferred set of technical tasks for an “ideal” SO for firms with ESOPs or EOTs? Can we identify a list of features to use to assess the efficacy of associations that support EOFs. Are these arrangements different for different EOFs? Relatedly, what determines the preferred number of SOs that might best operate within one country? To that end, I develop criteria to

⁵ For a summary of recent evidence see Blasi and Kruse (2023).

⁶ For example, in accounting for the low rate of conversions to EO in recent years, using interview evidence, Sharf (2024) finds for the importance of factors such as transition costs and the ongoing annual costs of running ESOPs. See also Mygind, Blasi and Kruse (2023).

evaluate the nature and scope of potential and actual support structures both individually and collectively within a country. For individual SOs, besides technical services such as legal help and a role for political lobbying, are there other matters that might be included in a portfolio of services, such as encouraging cross-ownership, holding company structures and trading amongst individual EOFs? Concerning the overall eco-system of SOs within a country, is the number of SOs and the configuration of these SOs, preferred? Might considerations such as economies of scale argue for fewer rather than many SOs? In considering these questions I will develop a simple typology to classify potential types of individual SOs accompanied by an assessment of the desirability of the overall configuration of SO arrangements.⁷

To inform the discussion I augment existing compilations of inventories of actual formal bodies serving EOFs, particularly those assembled by the NCEO in the U.S. and the European Federation of Employee Share Ownership. Relatedly, I attempt to identify what appear to be the core real-world functions of these organizations.⁸ In this draft I concentrate on reviewing the real-world landscape of organizations serving EOFs in the U.S.⁹ I also build on a simple typology of SOs developed earlier to classify PCs, apply it to SOs in the US and then use it to assess the efficiency of the overall configuration of SO arrangements.

⁷ A related matter is definitions—what is the appropriate terminology for formal bodies that provide services for EOFs? While shelter organizations or Support Structures (SOs) is usually the preferred term for PCs, and in part reflecting a more modest compass for EOFs, other terms such as “association” might be preferable for other EOFs?

⁸ I am anxious to learn of omissions and errors from workshop attendees, not only whether I have correctly checked the right boxes, but also to get a better sense of the actual institutional capacity and resources of different SOs.

⁹ Subsequently I would plan to extend the exercise to SOs around the world. But even at this stage it appears that there is great diversity-- compare for example the US with multiple organizations serving EOFs with countries elsewhere, including the UK, Japan or Canada and the diverse European cases where typically the organizational structure is more limited. (These are discussed in Lowitzsch, (2024), the latest PEPPER report.)

The next and most challenging task will be to empirically assess the efficacy of current arrangements for EO SOs. Is there empirical evidence to support the impact on performance of different SO set-ups? The eventual aim here is to attempt to link variation in the types of SOs around the world, with variation in outcomes from employee ownership in selected countries. In this draft I start that process, with a focus on the U.S. Moreover, I limit discussion of “outcomes” to the size of the employee-owned sector, where even that available evidence is limited.

The final aim is to offer policy implications. Based on my interpretation of the limited theoretical and empirical evidence for U.S. SOs, any conclusions must be highly tentative. While the key obstacle to more rapid growth of the US EO sector in recent years is likely to have been a shortage of capital mainly to fund conversions, I conjecture that the current configurations for SOs serving EOFs in the US (and perhaps elsewhere) may **not** have been the most efficient and that there may also be a modest “infrastructure gap”. The functions of individual SOs may not always have matched the needs of existing EOFs. And the overall configuration of US SOs may have limitations too. Moreover, this limitation may increase if changes such as the EEIA are adopted and US SOs do not change their scope and nature.¹⁰ To aid the development of EO sectors, current SO arrangements may need to be tweaked. The extent of support infrastructure for EOFs appears to be inadequate and may need to be built out. In addition, perhaps one way to enhance sectoral performance is to consolidate the functions that are currently spread across many separate organizations into one or fewer bodies.

¹⁰ Similar conclusions have been reached concerning the efficiency of other institutional arrangements e.g. Acemoglu, 2020).

II Conceptual Frameworks and Definitions

For PCs there is a long-established line of reasoning that argues that SOs for PCs are needed, that these SOs should have extensive functions and that SOs should encourage networking with other similar firms. It is argued that a strong central supporting structure was needed to help start new PCs and then to help existing individual PCs operating within a capitalist environment overcome what was perceived to be a hostile environment. An early proponent of this view was Vanek (e.g., Vanek, 2000). The Mondragon cooperative system and its supporting structures was viewed by Vanek as a particularly good example of the sort of arrangements that were needed to deal with a “hostile environment”. In subsequent work by Smith (2001), Smith (2003), and Joshi and Smith (2008) this theoretical case is sharpened with a particular focus on the shelter organization providing a means to overcome some of these contextual obstacles by generating network externalities and decreasing risk for individual PCs. Since cooperatives, including PCs, differ from other organizational forms, such SOs would also benefit by some specialization in providing services to cooperatives. Again, Mondragon was advanced as a good example of the appropriate type of PC network as was the Lega in Italy. An even earlier line of argument for the need for cooperative support organizations and PC networks goes back to the early days of the cooperative movement and the identification of core cooperative principles-- the sixth Rochdale principle (Birchall, 1997) called for “cooperation among cooperatives.”

While this view was originally developed for PCs, and for PCs that initially were overwhelmingly start-ups, does the argument carry over to other types of EOFs, including U.S. EOFs, which are overwhelmingly conversions via ESOPs of conventional firms? Such a position might spring, not from such firms facing a “hostile environment”, but from the simple

recognition that EOFs differ from other organizational forms and, as such, would also benefit by specialized institutions providing targeted services to EOFs. Such services include legal and financing services for which the needs of EOFs are quite distinctive compared to conventional firms. Once established, US firms with ESOPs may have additional distinctive requirements, including their attempting to develop an ownership culture (Rosen and Case, 2022) and a probable need to educate all employee-owners in participatory management and abilities to understand accountancy (including open books). Approaches to employee training are needed that distinguish them from conventional firms and EOFs that have more modest degrees of EO and/or limited provision for most employees to participate in decision-making. Moreover, strong and multifaceted support organizations for EOFs would provide a means to overcome challenges facing EOFs, by generating network externalities and decreasing risk for individual EOFs. Arguably, the existence of many separate SOs might produce potential duplication in the provision of specific services, with the benefits from organizational competition being exceeded. Perhaps the transactions costs faced by individual businesses with ESOPs might be reduced if expertise on more matters than currently appears to be the normal case for an individual U.S. entity was to be housed in a single body rather than in multiple organizations? This point might carry over to conventional firms contemplating a conversion to EOF via an ESOP although, for such firms, arguably the key requirement is for assistance for matters surrounding financing of the ESOP. In turn, such needs for firms with broad based EO arguably will be best served by organizations that house services earmarked for EOFs under one roof. Such bundling of service provision may not be as acutely needed for EOFs that do not have broad based ownership or needs for a broader and distinctive range of services. And, as with PCs, the overall impact of SOs serving EOFs might be enhanced by closer networking among and between individual SOs.

Ostensibly the implication of these sets of literature that stress the benefits flowing from supportive SOs is that, other things equal, it is expected that the EOF sector and individual EOFs with broad based ownership will perform better over the long run, the richer and denser is the range of activities that support bodies are engaged in. That is, the need for specialist services tailored to EOFs requires specialist multifaceted support bodies. A formal centralized approach to service provision is preferred. In addition, a strong central coordinating body would help individual EOFs to control uncertainty and gain various economies of scale and scope and to provide services.¹¹

However, there may be a competing and less optimistic perspective that argues for a more cautious assessment of the benefits attached to a strong federation for all kinds of EOFs including PCs, but especially for firms with ESOPs and EOTs. This competing view calls for a SO that has more limited purpose, more trade association than SO. This position is derived largely from literature that often adopts a transaction cost approach. In a fast-changing world with heterogeneous EOFs being served by a SO, the relationship is apt to be more nuanced. Since there is no free lunch, while the potential benefits that flow from membership by an EOF in such a SO must exceed the sum of the financial costs of membership in the SO and this tradeoff will be evaluated differently by varying agents and at different times. Different agents will see varying appropriation hazards in joining/remaining in an organization with top-down features (Oxley, 1997). The determination of precisely which agents will pay and how much for membership in the SO is apt to be problematic. Agents will have dissimilar views on these

¹¹ For example, managers in PCs may require training in participatory management styles and workers in EOFs with a greater emphasis on employment stability than in conventional firms, may require cross training to facilitate job changes during times of extraordinary rapid technical change.

tradeoffs and different managers may display contrasting degrees of opportunistic behavior, and they will have varying views on the efficient nature and extent of networking and other benefits provided by the SO. Thus, firms with proprietary technologies and facing less competitive markets and may be less apt to be willing to share a large financial burden than EOFs operating in more difficult markets who perceive potentially larger expected gains from the activities of SOs. Times of accelerating globalization may require EOFs to prefer more flexibility and less control by SOs. Rather than commit to the provision of paying for diverse programs provided by a central body, some EOFs may prefer the possibility of informal learning from peers who attend events that cater in part to geographically dispersed EOFs. For some EOFs, the reduced fees and travel costs from proceeding this way may constitute a more cost effective method.

The upshot of this line of argument is a competing perspective that reflects variation in the evaluation of such trade-offs and the importance of country effects so that there is unlikely to be a single preferred SO for either PCs or firms with other forms of EO. The preferred arrangements will likely vary considerably across countries and over time. In the US today where an essential imperative is to enlarge the ESOP footprint by more conversions, for such potential conversions, considerations such as training and governance programs may be distinctly of secondary concern. However, this may not be the case for established EOFs; once the financing issues have been resolved the potential payoff to other services is well established. Also, the choice between the two approaches may be better informed by empirical evidence.

III Inventory of SOs for EOFs and a Typology based on the functions of SOs

In developing an inventory of SOs for EOFs with ESOPs or EOTs, my focus is on SOs that cater primarily for firms that have at least broad based EO. I will give less attention to EOFs

that have limited EO or which focus on plans tailored for management.¹² As for sources for such SOs, I begin by drawing on the lists compiled by the NCEO and the European Federation of Employee Share ownership as well as organizations that are mentioned in Lowitzsch (2024), the most recent PEPPER report.¹³ I also include PCs as a separate category of EOFs. My main sources for information on SOs for PCs are Smith (2003), Spicer (2021) and Jones (2023)

The “master” list of SOs is reported in the appendix. The list is divided into two broad categories of SOs namely EOFs that are PCs and EOFs that are not PCs.¹⁴ Within each group I distinguish organizations serving EOFs according to their geographical focus—national, regional and city. In evaluating the range of functions offered by an SO, my main method is to go to websites for the different bodies and draw inferences as to the range and extent of functions. In the final column, individual SOs are classified into one of four categories in a typology of SOs.

Jones (2023) proposed a typology of SOs for PCs that drew on the list of functions for SOs for PCs proposed by Smith (2001, 2003) and Spicer (2021). Thus Smith (2001) identifies ten areas that are used to assess effectiveness.¹⁵ In constructing my own typology I focus on the

¹² In most cases this will mean that EO for most employees is coupled with a non-trivial degree of non-managerial involvement in firm decision-making. This means we focus on firms located in the lower cells of the grid in the typology of firms developed elsewhere by the author (See Ben-Ner and Jones (1995) or Jones (2018)).

¹³ See, respectively, NCEO, <https://www.esop.org/articles/whos-who-in-esops-employee-ownership.php>, European Federation of Employee Share Ownership <https://www.efesonline.org/fasuk61.htm> and Lowitzsch (2024) <https://www.eurofound.europa.eu/sites/default/files/2024-05/pepper-v-report.pdf>.

¹⁴ Eventually I would like to determine which SOs have a range of functions that do/do not focus on EOFs with broad based EO.

¹⁵ The 10 elements are as follows: 1. the entry problem of individual co-operatives; 2. the problem of co-op exits including the co-op ‘degeneration’ problem; 3. relations with government and its possible role in individual co-op and network success; 4. decision making procedures, with an emphasis on the role of worker voice; 5. the types of consortia and second level co-ops, and their roles in solving management and organizational problems; 6. the role of,

range and intensity of services provided to member firms in seven broad areas¹⁶: (i) what were the major services provided by the network such as those to individual EOFs including (i) training of members, banking services and succession planning; (ii) what is the extent of vertical and horizontal co-ordination; (iii) whether there is a clear political footprint with, for example, funded activity to provide favorable political support; (iv) whether there are financial links beyond basic banking such as shared ownership; (v) whether there are other risk sharing activities, such as profit pooling to provide insurance during lean times; (vi) whether the SO played a role in facilitating entry of new EOFs and in looking ahead for new products or innovations; (vii) whether the SO engages in research .¹⁷ I end up with four categories of SOs.

One case in this simple typology is the *maximalist* set-up—the SO provides an extensive range of services in all areas. SOs in the next *moderate* level in this typology are active in only some (three or four) of these matters and then typically provide less support services in these areas than in the maximalist case. SOs in the third *minimalist* case in the typology provide an even more limited range of services (only one or two) and do so on a more limited basis than in the maximalist SO. A fourth case is the complete absence of a SO for EOFs—i.e. no functions in

and policies toward, joint ventures and inter-firm alliances; 7. innovation and technology transfer strategy; 8. finance and investment instruments and institutions; 9. institutions and instruments for risk mitigation; 10. employment policy

¹⁶ I recognize the limitations of such a typology. Here, since the exclusive focus is on formal functions, the context within which the SO is situated is ignored. Matters such as the legal infrastructure (e.g. laws at both the state and federal level) and the interaction with the functions of SOs is ignored. But, as May et al. (2019) show, the legal context and measures to facilitate the provision of finance for conversions may be crucial to the functioning of particular SOs (such as ownership Associates).

¹⁷ Some of these areas apply especially to PCs such as (ii), (iv) and the extent to which accepting some of these services from the 2nd degree cooperative, has led to a surrender of sovereignty by the primary PC. Other issues apply especially to EOFs that are not PCs, such as US ESOPs and the importance of succession planning

any area are provided by an association/SO (labelled, *none*). I apply this classification to both PCs and other EOF with broad based EO.

A glance at the categorization of SOs for PCs in the Appendix shows that many of the best-known PC cases, such as Mondragon in the Basque Country and the Lega Cooperatives in Italy, are in the maximalist category. In such SOs, services are provided to member PCs in all seven categories of services identified earlier. In addition, it appears that there are few distinct SOs, and that close and deep working relations exist between apex bodies. The principal exception concerns US PCs in the past where SOs were non-existent.

The contrast with organizations serving US EOFs with broad based ownership is striking. My classification, which relies mainly on interpretation of descriptive information (such as from organizations' websites), indicates that I find no examples of maximalist organizations. All such SOs are, at best, labelled "moderate". Thus, US SOs for EOFs do, to varying degrees, provide services in categories (i) (finance, succession planning), (iii) lobbying, (vi) encouraging entry of new firms (predominantly by conversions or sales to ESOPs of going concerns) and some research (vii). But even in those categories the extent of service provision is often thin (e.g. little provision of specialized training; limited success with conversions). And no SOs for US EOFs appear to be engaged in services in the three remaining categories—limited or no vertical and horizontal co-ordination (ii), limited or no financial links among EOFs (iv), and no risk sharing (v) or well-resourced help with the entry of new firms.¹⁸ Also, information on the resource base for these SOs is quite slim and one senses that most bodies are not that deep, certainly by comparison with some of their PC counterparts. Finally, there is no single overall umbrella body

¹⁸ A holding company ESOP structure may help address some of these concerns. See Goldstein (2024).

to which US SOs belong. Apparently, the extent of formal cooperation between US SOs for EOFs is limited (though informal ties appear to be quite strong.)

In addition, it does not seem that the available infrastructure outside those targeted private sector institutions, for example state and federal organizations in the U.S., is very deep or knowledgeable to assist existing EOFs or firms contemplating conversions to EO. For example, the SBA does not have a compliance officer with expertise in EO areas, although the recently adopted WORK act has provisions for EO that may affect this, including the creation of an EO advocate within the department of Labor.¹⁹

IV Evidence: Is there a Relationship Between SOs and Outcomes?

Eventually I would hope to be able to provide evidence on diverse indicators of “performance” for EO sectors around the world. Performance would be measured by various indicators including the extent of the sector, recent growth rates of the sector, the size of ownership stakes, intra firm and intra sectoral-income differences, and employment stability. I would endeavor to examine the relationship between such performance data and the classification of different SOs using the simple typology for countries around the world with very different forms of EOF and support structures, not only in North America and Europe but also important Asian examples, such as in Japan. However, to date I have not accomplished much on this front for EOFs that are not PCS. In this draft, my focus is on the US and a single outcome variable—the extent of the EO sector.

But for PCs there is some evidence that attempts to assess the nature of PC support structures and their contribution to the success of individual PCs. One of the earliest qualitative

¹⁹ See Rosen (2023). Also, the EEIA may provide additional improvements in this area.

empirical attempts of this kind is Jones (1980). Two of the main subsequent empirical efforts were Smith (2001) and Spicer (2021). As already mentioned, to develop a profile of PC networks and associated 2nd degree cooperatives, Smith (2001) identified ten areas that were used to assess effectiveness. This conceptual framework is then applied to the two cases of the Lega in Italy and the Mondragon PCs to essentially show that these networks embrace these ten dimensions well. Hence, this provides reasonably strong qualitative evidence that rich and deep 2nd degree coops that emphasize and encourage PC networking and are well resourced and can pursue a large list of tasks, are well-positioned to help PC sectors survive and thrive.

More recently Jones (2023) applies an abbreviated list of criteria to the cases of the Lega and Mondragon, and reaffirms that these support structures are very effective—they continue to constitute maximalist SOs, even after the focus on start-ups has receded. Moreover, other work for Mondragon (e.g. Arrando et al., 2011) and Italy (Pencavel et al., 2006) shows that in both countries individual PCs and the overall PC sectors have performed very well over extended periods and according to diverse success indicators. I also examined another case, the Cooperative Productive Federation (CPF) that existed to support what have been labelled “long-established” UK PCs (e.g. Jones and Backus, 1977). By drawing on various sources I classify the CPF as an example of a SO in the second category in the typology of PCs SOs. In investigating the relationship between the nature of this second level SO and performance of the PCs within its aegis, I find the record to be mixed and that, overall, this second level SO has a performance record that is inferior to that of maximalist PCs such as Mondragon.

One example of a SO that falls in the third minimalist category, is that of contemporary US PCs. While there is a national federation for US producer cooperatives (the United States Federation of Worker Cooperatives), as with other related institutional set-ups in the U.S., such

as for labor unions, the national federation appears to be weak. That US SO has modest functions, including some lobbying and data gathering from member PCs to present a profile of the US PC sector. Alongside the national federation we find many bodies at local levels and these bodies are essentially autonomous, constituting a large decentralized/city network of such supporting institutions. I do not know of any empirical work that examines the impact of these arrangements on PC sectoral performance.

Finally, there appear to be many examples of PCs that do not appear to have a formal federation at all--i.e. examples of the fourth category of PC SO ("None"). This is apparently the case for many of the defunct PC clusters in the US, such as shingle weavers and cooperages (Jones, 1979). There may have been regional clustering (e.g. Aldrich and Stern, 1978; Conte and Jones, 2015) but no formal federating. For all these U.S. cases, as for the UK, there is evidence of a solid record using criteria such as business performance compared to conventional investor-owned firms and survival over many years. The evidence is especially strong for US plywood PCs (e.g. Craig and Pencavel, 1992). But in all cases the clusters of PCs eventually disappeared. Arguably in all instances, to some degree at least, this reflects there not having a strong support structure, especially a federation that would have been empowered to act when confronting major technological changes and the need for PCs to move beyond traditional methods, markets and processes.

However, this positive assessment of the performance of SOs such as Mondragon is not universally held. Many researchers highlight pressures facing individual multinational PCs and their support structures and are more pessimistic of the ability of PC federations (and constituent PCs) to work effectively in this more challenging global environment and where the emphasis has shifted to new PCs that start initially as acquisitions rather than start-ups. They argue that

globalization and a shift to M & A activity inevitably strengthens management's hand and weakens participation by worker members. They stress the necessary degenerative implications that follow from establishing capitalist subsidiaries in which many workers in these parts of the cooperative are excluded from ownership and decision-making. The closure of Fagor, an important PC in the Mondragon complex, gave fresh impetus to theoretical and empirical issues surrounding some of these issues. Thus Errasti et al. (2016), amongst others, contend that the pressures perceived by top management to become a multinational, led to the opening of branches around the globe in Eastern Europe and Asia, as well as the acquisition of a French company. For diverse reasons it was decided not to export the PC model to these branches outside of the Basque county--arguably thus producing de facto degeneration. However, for others these issues are not so clear cut. Thus Basterretxea and Cornforth (2020) and Storey et al. (2014) outline ways in which it is possible to resist degeneration, even in a globalized world. Also, Jones and Kalmi (2012) and Arando et al. (2011) arrive at more optimistic conclusions and argue that there is no necessary trade-off between efficiency (requiring bigger scale) and democracy within individual PCs. They illustrate ways in which organizational architecture has been adapted by networks of cooperatives to respond to co-ordination problems among and between groups of coops in a network, or second tier co-ops, and how innovative forms of monitoring and forms of corporate governance may be expected to emerge in response to these potential difficulties. The positive effects on performance of strong and deep supporting structures for the case of the Lega and Mondragon have continued to be demonstrated and, if anything, that need may have been enhanced in a globalized world.

Turning to other (non-PC) forms of EOFs from the list of organizations identified in the

appendix for the US, as already discussed, it appears that here are no examples of maximalist SOs. Most SOs are assessed as falling in the minimal or moderate categories. The available (mainly website) data appear to show that individual SOs are often focused on a particular area, such as finance or research. While other SOs may cover several areas (such as the NCEO) apparently, they are not active in many other areas, so they do not come close to being classified as falling in the maximalist category.

Attempting to see whether there is a relationship between US SOs and sectoral performance of US EOFs is perhaps an impossible task to undertake now, in part because of the paucity of detailed empirical data for the EO sector. And I share the view that the major cause of the stalling in the growth of the US EOF sector is inadequate financing structures, both for initial conversions to ESOPs as well as on-going costs to sustain the ESOP. But there may be at least a modest role for inappropriate architecture in the design of SOs as a drag on growth. Thus, my sense is that the take-off years in the growth of EOFs following the Kelso initiative, were accompanied by the existence of few SOs. By contrast, the overall footprint of the EO sector in the US has remained essentially stable over the last twenty years or so, while it would appear that at least the *number* of SOs serving those EOFs has increased substantially. One interpretation of this inertia in the size of the EO sector alongside an increase in the number of SOs, is that there may be a mismatch between the needs of EOFs and the institutional capacity and quality of supporting organizations. Perhaps this reflects some US SOs not being active in as broad a range of areas as is required by current EOFs in the U.S.? And while the number of SOs has increased, the lack of growth in the EO sector may result in part from weak connections between these bodies—the network is too loose? Such considerations may grow in importance as the effect of the WORK ACT kicks in and especially if the EEIA is implemented. That is, there may

benefits to a closer look at SO design and some initiatives to guide its evolution, rather than to let this institutional set-up evolve in a vacuum.

V Conclusions and Implications

In this preliminary paper, I investigate the role of support organizations for two different kinds of EOFs, the PC and the US ESOP. I build on Jones (2023) where I argued that the neglect of institutional design is an important shortcoming in the economics literature on PCs. One issue I discussed was that of optimal SOs. In this paper I extend the argument concerning the importance of the neglect of institutional design and now examine EOFs that are not PCs. I recognize that the two types of EOF have striking differences, with PCs being fundamentally worker-centric and individual PCs typically viewing themselves as part of a larger movement. Also, the growth spurts in the two types of EOF were quite different with many PCs being start-ups while the bulk of US EOFs were conversions using an ESOP. Nevertheless, I argue that better understanding of the scope and nature of institutional design for SOs for EOFs may be needed to provide a richer analysis of the overall record for real world heterogeneous EOFs. The need for this sort of comparative institutional analysis has been given more urgency in view of recent crises and the plethora of public policy initiatives aimed at nurturing diverse forms of member-owned organizations, including EOFs. Might greater consideration be given to the design of U.S. SOs? Should the improved design of the set up for SOs in the US lead rather than follow a focus on problems for individual EOFs?

To examine such matters, I develop a simple typology for U.S. SOs. Based on my interpretation of descriptive information on actual U.S. SOs, I use the typology to evaluate the scope and nature of the set-up for U.S. SOs. I conclude that U.S. EOFs are probably faced by

SOs with limited institutional capacity. Relative to some categories in my SO typology, I observe that most SOs supporting US EOFs have limited functions, and thus limited institutional capacity. The number of and links between US SOs also appears to be not well designed. This actual situation does not appear to be the preferred set-up. Arguably there is a mismatch between the needs of broad-based EOFs and the SOs serving them. In reaching the tentative conclusion that the current SOs serving EOFs in the U.S. are not most efficient, my finding is comparable to those reached concerning institutional design on other issues (e.g. Acemogolou, 2020). In turn, the limited institutional capacity of current support organizations in the US for EOFs may contribute to the recent slowdown in growth of the overall EOF sector.

Based on my interpretation of the limited theoretical and empirical evidence for U.S. SOs, the answer to the question posed in the title of this paper must be in the negative. Hence, I make some tentative suggestions for institutional innovations, mainly in the private sector. While competition between organizations is often good, there may be some duplication in services for SOs serving EOFs. Rather than spreading specific functions across many separate organizations, perhaps consideration should be given to consolidation of those functions within a single or fewer bodies? This would achieve some economies of scale and probably reduce transactions costs for individual EOFs who would now face a concierge-style organization. A concierge SO with a holistic approach would reduce transaction costs for individual EOFs and facilitate one-stop-shopping by individual EOFs and enable diverse matters to be addressed rather than individual EOFs needing to interact with multiple institutions that are specialized in one or two endeavors. This point might carry over to conventional firms contemplating a conversion to EOF. Moreover, there may be many gaps in the services currently offered to US EOFs by individual EOFs. For example, while academic research is growing and plentiful, this is

mainly by social scientists and additional benefits might flow from research with a more product-related focus (as with “engineering research” in the Mondragon set-up.) A closer examination of the preferred scope and nature of a larger and deeper umbrella SO should be undertaken. Also, as has been argued for some other organizations (Hendrikse and Feng, 2013), arrangements to foster more formal networking among SOs would likely yield dividends rather than EOFs bowling alone. Adoption of measures of these types would lead to substantial changes in the configuration of the SO sector.

I am conscious that the paper is a work in process. Since my findings are based on incomplete empirical data, my findings are very tentative. In the future, one issue I would like to address more fully is to enhance the database of SOs. The list of SOs and their functions both within and without the U.S. needs much attention. Better knowledge of what such bodies do in practice is also needed. Interviews with key players from these institutions would be helpful. Most useful, however, might be surveys and additional structured interviews. Surveys of extant SOs would provide a better sense of their institutional capacity (revenues, staffing, time staff devotes to different tasks ...), and what SOs see as their strengths, shortcomings and needs. In parallel, a survey of a random sample of existing EOFs to generate harder data on what firms see as the strengths and gaps in available services provided by private and government bodies, potentially would also be very helpful in improving knowledge. The design of the organizational typology for EOF SOs probably needs revisiting. Finally, if the role of government bodies in this space were to be revamped, consideration might be given to their exercising an industrial policy role. Are there particular business for which EO is the preferred form of organization²⁰ and whose growth could be stimulated in part by government contracts. And a stronger umbrella

²⁰ As is believed by some prominent actors in the P-E space.

SO that included some collective entrepreneurship activities might interact productively with government agencies charged with such industrial policy tasks.

When these steps have been completed, it will be crucial to provide more robust evidence on links between SOs and empirical outcomes, including providing more rigorous quantitative data. The range of outcomes to be investigated would not be restricted to sectoral size but also include metrics used in recent research including gender equality, formation of individual ownership stakes and job creation. At the same time, arguably the theoretical basis for the proposed need for a more robust and comprehensive SO is reasonably strong.

I am also aware that there are additional lines of inquiry that need to be studied. One is whether there is a relationship between the actual/preferred SO for EOFs and the actual/preferred internal organization for an EOF. The issue of the optimal form of EOF has been examined in a rich recent literature.²¹ But are there other linkages? Do SOs that support differing types of EOFs lead to varying outcomes. Might there be complementarities between a strong and richly resourced SO and good institutional design for individual EOFs?²²

²¹ For example, see recent issues of the JPEO on debates including the pros and cons of ESOPs vs EOTs., prompted in part by the explosion of numbers of EOTs vs a constant number of ESOPs

²² Thus, the argument of Burdin and Kato (2021) would be extended.

Appendix: Inventory of EOF support organizations

(1) FOR PRODUCER (WORKER) COOPERATIVES

A, NATIONAL

TYPOLOGY CLASSIFICATION

Italy.

- | | |
|---|-----|
| 1) La Lega (Legacoop)
Established 1891
Broad range of activities (Smith, 2002). All 6 categories. | MAX |
| 2) FEDERLAVORO - Confcooperative - Federazione de Cooperative de Lavoro
https://www-lavoro-confcooperative-it.translate.google/La-federazione/organi?_ | MAX |

Spain.

- | | |
|---|-----|
| 1) Mondragon Corporation
https://www.mondragon-corporation.com/en/
broad range of activities; all 6 categories | MAX |
| 2) COCETA (Spanish Confed. of worker Coops)
https://www.coceta.coop
Established in 1986
Focus on (ii), (iii) and (iv).
“aim to raise awareness of WCs and to promote their growth and development” | MOD |

France

- | | |
|--|-----|
| 1) CGSCOP (General Confed, of PCs)
Main activities include networking, representation and support for development.
Broad range activities; all 6. | MAX |
|--|-----|

UK

- | | |
|--|-----|
| 1) In the past CPF (Cooperative Productive Federation)
Limited to (ii), (iii) and (iv) | MOD |
| 2) Today workers.coop
Limited? | MOD |

US

- | | |
|--|---------|
| 1) past | NONE |
| 2) today United States Federation of Worker Cooperatives (USFWC):
Members include individual firms and individuals
Limited to (i), (ii) and (iii) | MOD/MIN |
| 3) ICA group
icagroup.org
start new WCs and assist with conversions
research
established 1977; oldest national organization aims foster PCs
emphasis on worker ownership networks in home care, alternative staffing, childcare and conversions
Focus on to (i), (ii) and (iii) | MOD |

Uruguay

?

B. INTERNATIONAL

1)CICOPA Part of ICA. Active in 30 countries supporting Worker coops and producer cooperatives MOD

C. REGIONAL/CITY

US SOs in several cities, including NYCity and Philadelphia
owner2owners.nyc
fc3philly.org

(2) FOR EOFS THAT ARE NOT PCS

US

A. National Organizations.

- 1) The National Center for Employee Ownership (NCEO): MOD
Nceo.org
A 501(c)(3) nonprofit membership
research organization
founded in 1981
members include companies, policy advisors and academics.
- 2)The ESOP Association (TEA) MOD
<https://www.esopassociation.org/>
primarily EO advocacy organization
national trade association
18 state chapters
Lots networking meetings at national AND REGIONAL LEVELS
- 4) Employee Ownership Foundation (affiliated with TEA) MOD
<https://www.employeeownershipfoundation.org/>
Promotes EO to the public. And independent academic research on
Issues of interest to EOF
- 5) Employee-Owned S Corporations of America (ESCA): MOD
WWW.ESCA.usa
Headquartered in Washington, D.C.,
ESCA advocates for ESOP-owned S corporations
“works with policy and academic experts to produce intellectual capital and
provide data to show the benefits of EO in S corporations”
- 6) Ownership Associates (and American Working Capital) MOD/MIN
Ownershipassociates.com
Founded 1987; private consulting
Strategic advisor to both seller and employee groups interested in EO
Also provides governance, training and organizational development services
- 7) Transform Finance MIN
Research, education and implementation partner. Supports all stakeholders
(including EO).
- 8) ESOP Holding companies
Folience
OwnersEdge
Houchens
SRC Holdings
- 9) Others.

The appendix to Lyons and Menter (2024) lists 53 organizations (funds) in a database of alternative ownership investment funds and vehicles. All have some interest in EO; for many apparently EO is their primary alternative preferred form of ownership.

ALL MIN

B.State-Level Organizations and Government Offices

- 1) Employee Ownership Expansion Network (EOX): A national nonprofit that creates and supports state-level employee ownership centers. EOX is collaborating with the NCEO through the NCEOX Initiative to drive the growth of all forms of employee ownership. EOX's current state centers are listed below: ALL MIN
 - o Connecticut Center for Employee Ownership (CTCEO)
 - o Florida Center for Employee Ownership (FLCEO)
 - o Georgia Center for Employee Ownership (GACEO)
 - o Illinois Center for Employee Ownership (ILCEO)
 - o Michigan Center for Employee Ownership (MICEO)
 - o Minnesota Center for Employee Ownership (MNCEO)
 - o Missouri Center for Employee Ownership (MOCEO)
 - o North Carolina Employee Ownership Center (NCEOC)
 - o Tennessee Center for Employee Ownership (TNCEO)
 - o Texas Center for Employee Ownership (TXCEO)
 - o Wisconsin Center for Employee Ownership (WICEO)
- 2) California Center for Employee Ownership (CCEO): An independent nonprofit at the Beyster Institute, Rady School of Management, UCSD.
- 3) Colorado Employee Ownership Office: Part of the Colorado state Office of Economic Development and International Trade, where it manages the state's outreach, grant, and tax incentive programs.
- 4) Indiana Center for Employee Ownership (INCEO)
- 5) Iowa Center for Employee Ownership (IA-CEO):
- 6) Massachusetts Center for Employee Ownership (MassCEO): Promotes employee ownership in Massachusetts; administered by the ICA Group.
- 7) NJ/NY Center for Employee Ownership (NJ/NY CEO): A program headquartered in the Rutgers University School of Management and Labor Relations.
- 8) Ohio Employee Ownership Center (OEOC): A nonprofit outreach center based at Kent State University.
- 9) Pennsylvania Center for Employee Ownership (PaCEO)
- 10) Rocky Mountain Employee Ownership Center (RMEOC)
- 11) Vermont Employee Ownership Center (VEOC): A nonprofit promoting employee ownership in Vermont.

A. Other Bodies

Many listed on <https://www.esop.org/articles/whos-who-in-esops-employee-ownership.php> . Include Aspen Institute, Institute for the study of employee ownership and Profit sharing (Rutgers), Beyster Institute. Mainly research and advocacy.

MIN

EUROPE

A. NATIONAL

ALL MIN

EOLE - Employee Ownership Learning & Education (EFES specialized website)
actionnariat-salarie.be (Belgium)
werknemers-aandeelhouderschap.be (Belgium)
Sociedades Laborales (information website in English) (Belgium)
Sociedades Laborales (information website in French) (Belgium)
Sociedades Laborales (information website in Nederlands) (Belgium)
Finnish Association of Personnel Funds (Finland)
FAS – Fédération Française des Associations d'Actionnaires Salariés (France)
FONDACT – Association pour la Promotion de la Gestion Participative... (France)
jetransmetsamessalaries.fr (France)
La finance pour tous (Institut français pour l'Education financière du public) (France)
Partageduprofit.com (France)
AGP – Arbeitsgemeinschaft Partnerschaft in der Wirtschaft (Germany)
Vergütungsmanagement, Mitarbeiterbeteiligung: Mitarbeitermotivation und Mitarbeiterbindung (mit-unternehmer.com) (Germany)
MitErfolg GmbH (Germany)
S-MBS MitarbeiterBeteiligungsService (Germany)
IPSA Irish ProShare Association (Ireland))
Captin Equity Management Services (Netherlands)
Share Council - The Dutch platform for empowering employees to become co-owners (Netherlands)
SNPI – Stichting Nederlands Participatie Instituut (Netherlands)
Aksjenorge (Norway)
Inštitut za ekonomsko demokracijo (Slovenia)
ASLE - Sociedades laborales in the Basque Country (Espagne)
COCETA Confederacion Espanola de Cooperativas de Trabajo Asociado (Spain)
LABORPAR Confederacion de Sociedades Laborales (Spain)
Centrum för personalägande (Sweden)
Coompanion (Sweden)
British Government's Department for Business, Innovation & Skills - Employee Ownership (UK)
HM Revenue and Customs – Employee Share Schemes (UK)
Employee Ownership Association (former JOL - Job Ownership Ltd) (UK)
The Ownership Hub (UK)
ProShare (UK)
ESOP Centre (UK)
ESOP Institute - Diploma in employee ownership studies via the internet (UK)
IPA – Involvement and Participation Association (UK)
Equity Incentives Ltd (UK)
Co-operative Party (UK)

B. International

ALL MIN

EFES CEEOnet - Central European Employee Ownership Network (CEEC)
EFES – European Federation of Employee Share Ownership (Europe)
FEAS – Fédération Européenne de l'Actionariat Salarié (Europe)
European Trade Union Institute - Worker-participation.eu (Europe)
Curriculum Library on Employee Ownership (CLEO)
GEO – Global Equity Organization (World, mainly US)
CESJ - Center for Economic and Social Justice (World)
Deloitte - Global Share Plans website (World)

OTHER

ALL MIN

Employee Ownership Australia & New Zealand (Australia)
ESOP Builders Inc (Canada)
ESOP Association Canada (Canada)
ESOP Direct (India)
Paradigm ESOP (India)
Japan Employee Ownership Association (Japan)
Center for Employee Stock Ownership (South Korea)
ESOP Korea (South Korea)
Southern Africa Employee Ownership Association (South Africa)

Notes to Appendix

a. The main sources for this list are the NCEO, Euro Federation, Pepper reports and websites of individual organizations.

b. I exclude organizations that support EO at individual company level.

c. The European Federation reports that Some organizations have disappeared over time including:

Exercising employee shareholders' rights in European companies - dedicated website

www.employee-share.eu (Europe), Plattform Mitarbeiterbeteiligung Österreich (Austria), KSLP Czech Society for Self Management Enterprise (Czech Republic), Dansk Center for Medarbejdereje (Denmark), IAS – Indice de

l'Actionariat Salarié (France), Blog zum Thema Mitarbeiterkapitalbeteiligung (Germany),

Mitarbeiterbeteiligung.org (Germany), IBU NachfolgeManagement - Spezialisiert auf die Nachfolge durch

Mitarbeiter/-innen (Germany), Instituts für Arbeitsmarkt- und Berufsforschung: Gewinn- und Kapitalbeteiligung von Beschäftigten (Germany), Bundesministerium für Wirtschaft und Technologie - Informationsportal

Mitarbeiterbeteiligung (Germany), MRP – Hungarian ESOP Association (Hungary), Conapa (Italy), DirCredito -

FederDirigentiCredito (Italy), FIADA – Federazione Italiana delle Associazioni dei Dipendenti Azionisti (Italy),

ANCPL - Legacoop = Associazione Nazionale Cooperative Produzione e Lavoro (Italy), Forum for Employee Share

Ownership Development (Poland), DEZAP Slovene Association for Employee Share Ownership (Slovenia), Co-

operative Education Trust Scotland and the University of Aberdeen (UK), Workplace Savings & Benefits -

Employee Share Schemes (UK), British Business Succession www.business-succession.coop (UK), London

Business Succession (UK), Centre for Economic Democracy (Ukraine)

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