

The Role of Cooperative Development Agencies in Developing Worker Cooperatives: Lessons from Philadelphia

Carla Dickstein
Trinity College

Cooperative support organizations have been increasingly recognized as an important part of developing integrated worker cooperative systems. This paper focuses on cooperative development agencies (CDAs), which have received public and private support mainly for the purposes of creating and retaining local jobs through cooperative development. This paper is a case study of two CDAs in Philadelphia, the Philadelphia Association of Cooperative Enterprise (PACE) and the O&O Investment Fund. It examines the context in which they have developed, the interests involved, their structures and financing, and the roles they have undertaken.

Introduction

The importance of cooperative 'support organizations' (Wright, 1979) or 'shelter organizations' (Vanek, 1975) in providing resources, advice and assistance to worker cooperatives has received increasing recognition (Commission of European Communities, 1981; Thornley, 1981; Lindenfeld and Rothschild-Whitt, 1982; Jackall and Levin, 1984). These support organizations have been formed to assist cooperatives, as well as other forms of worker-controlled and self-managed enterprises, in coping with hostile environmental conditions and in creating a stronger economic, political, and ideological base of power. The Commission of European Communities (1981: 28) notes that everywhere that worker cooperatives are flourishing, strong support organizations exist. Cooperative support organizations can either be formed from the 'bottom up' as when cooperatives join together or federate to undertake common functions, or they can be

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formed 'top down' by government or private sponsors who wish to stimulate cooperative development.

The first type of cooperative support organization is commonly called a 'second-degree cooperative'; it provides business, technical, and educational services to its member cooperatives. Second-degree cooperatives have developed in the advanced worker cooperative systems such as France, Italy, Mondragon, and Poland. All of these cooperatives systems have survived and grown over relatively long periods. In all these cases, a base of cooperatives developed first and then created federated support structures according to its needs.

In contrast to the 'bottom up' emergence of second-degree cooperatives, 'cooperative development agencies' (CDAs) are an example of cooperative support organizations formed 'top down'. CDAs have been set up in Britain, and more recently in the United States, mainly for the purpose of creating and retaining local jobs. Since the late 1970s public and private support for CDAs has become a more common intervention strategy for accelerating the development and expansion of worker cooperatives and other forms of employee ownership. In the United States most of the initial support has come from private foundations, churches, and in one case a union, whereas in Britain the CDAs have had mainly public support from central government and local authorities.

This paper focuses on the roles of two CDAs in Philadelphia: the Philadelphia Association of Cooperative Enterprise (PACE) and the O&O Investment Fund.¹ Initially called the Delaware Valley Federation for Economic Democracy, PACE had been trying to promote worker cooperatives and worker ownership in the Philadelphia area since 1976 without much support, and with very few successful worker cooperative models. A turning point for worker cooperatives in Philadelphia occurred in 1982. The Atlantic and Pacific Tea Company closed its Philadelphia division of A&P supermarkets and put 2000 people out of work. Most of the stores were reopened under a new subsidiary called Super Fresh Food Centers. However, two stores were converted into worker-owned and worker-operated cooperative supermarkets called O&O supermarkets. The United Food and Commercial Workers Union (UFCW) Local 1357 spearheaded the conversion to cooperatives with assistance from PACE and other consultants.

In addition to converting the first two O&O stores to cooperatives the union set up the O&O Investment Fund with the purpose of institutionalizing the cooperative development process and creating

new union jobs. The UFCW was the first union to back 100 percent worker cooperatives rather than employee stock ownership plans (ESOPS). Selecting the appropriate structure and design of the investment fund was new territory; no ready models were available given the union's role and various interests involved.

Before discussing the Philadelphia case study I briefly review the experience of CDAs in both Britain and the United States. CDAs were first established in Britain in the mid-1970s under similar conditions of decline and job loss, and provide a longer history than the newer CDAs in the United States. I then examine the Philadelphia CDAs: the interests involved, their structures and financing, and the roles they have undertaken. I conclude with a discussion of the key factors which have affected the development of the Philadelphia CDAs and the CDAs' impact on cooperative development.

The Emergence of CDAs in Britain and the United States

Although both Britain and the United States have a long tradition of worker cooperatives dating back to the late eighteenth century, the number of cooperatives formed represents only a tiny proportion of total business enterprises. Cooperatives have tended to develop during oppressive economic and social conditions and periods of high unemployment. In both countries the key 'enabling conditions' leading to their development have been economic hardships, unemployment, changes in the economic system and industrial relations, technological change and the rationalization of work and, more recently, deep social and cultural unrest (Jackall and Levin, 1984; Thornley, 1981; Aldrich and Stern, 1983). These external environmental conditions are similar to those that produced European cooperatives. However, many of the workers themselves held strong political values of worker control and socialism in France and Italy, and a cultural and labour tradition committed to cooperative values was important in the Mondragon cooperatives.² Unlike cooperatives in Europe, most of the nineteenth-century worker cooperatives in Britain and the United States did not create strong linkages with each other, and the movement was not sustained (Gunn, 1984; Thornley, 1981). Support organizations established in the late nineteenth century either did not survive,³ or failed to institutionalize new cooperative development.⁴ Nor did the nineteenth-

century cooperatives receive strong government or labour support, as has been the case in France and Italy.⁵

In the 1970s and 1980s both Britain and the United States have experienced a 'new wave' of cooperatives coming out of the alternative or counterculture movement, and also out of conditions of high unemployment, plant closings, and the negative economic and social impacts of such closings on local communities. In both countries economic restructuring has brought unprecedented public support for worker cooperatives and other forms of employee ownership, especially as a job creation and job retention strategy.⁶ Many of the early cooperative start-ups and worker buyouts of the new-wave cooperatives happened without any institutionalized support available. After experience working in an ad hoc fashion, and with the increasing crisis situations presenting opportunities for buyouts, various types of cooperative support organizations began springing up on a national and regional basis in both countries. National organizations and other outside consultants have provided specialized business and technical assistance, and have played a public education and lobbying role at the national level for cooperative and employee-owned firms. Local and regional CDAs have developed in each country according to their local context and opportunities presented to gain financial support.

The British CDAs have spread very quickly since the first CDAs appeared in the mid-1970s. By 1984, forty independent CDAs had been established in Britain, and ten local authorities employed a cooperative development officer to provide additional cooperative support (Cornforth and Lewis, 1985). Where cooperatives have grown most rapidly there have been active CDAs providing advice and assistance (Taylor, 1983; Cornforth and Lewis, 1985). The number of worker cooperatives grew from 305 at the end of 1980 to 911 by the end of 1984 (Luyster, 1984: 101) although Stott (1986: 8) estimates that only 800 of these were actively trading. In 1984 worker cooperatives were represented in all sectors of the economy but were concentrated in the service sector (62 percent of total cooperatives), wholesale/retailing (24 percent) and manufacturing (14 percent) (Stott, 1986: 9). Figures available for June 1986 do not represent an accurate picture of the growth of worker cooperatives. The National Cooperative Development Agency reports a total of 1476 cooperatives in Britain, but this figure also includes community businesses (Nesbitt and Ponks, 1986: 135–6).

The bottom line for CDA performance is job creation, particularly targeted to minorities and the disadvantaged. Providing employment for these groups is the priority of the CDAs' funding sources. Thus most of the cooperatives formed are small, in labour-intensive, marginal businesses that can employ unskilled and disadvantaged workers attracted to cooperatives. The CDAs' performance in terms of numbers of jobs created and costs per job have compared favourably to other job creation programmes in Britain (Cornforth and Stott, 1984; Taylor, 1983; Cooperative Advisory Group, 1986). However, the failure rate was shown to increase with the age of the agency.⁷ Government financing for CDAs has become tighter over the past year, and CDAs find they cannot gain support purely from political pressure, but according to their performance. Currently there is a trend towards community businesses and community cooperatives in Britain. As the financial support in this area has grown, local CDAs have begun to promote community businesses and cooperatives rather than focusing solely on worker cooperatives.⁸

Without the government backing of their British counterparts the US cooperative support structure is developing on a smaller scale than in Britain. No precise figures exist on the numbers of worker cooperatives and democratically controlled firms in the United States. It is estimated that between 500 and 800 such firms existed in 1987.⁹ Approximately fifteen organizations and individual consultants specialize in providing technical assistance to worker cooperatives and democratically controlled firms, but only a handful of these could be defined as true CDAs, which are actively initiating cooperative development or conversions of existing businesses to cooperatives as their major activity. Local and regional CDAs have emerged in Boston, Philadelphia, North Carolina, New York, Detroit and Ohio.¹⁰ Aside from the Boston-based Industrial Cooperative Association (ICA), which has become a national support organization rather than a regional CDA, the CDAs in North Carolina and Philadelphia have the longest track record. In North Carolina, church and foundation support have been crucial for establishing a network of local support organizations: the Center for Community Self-Help (CCSH), a CDA in Durham, the Center's Self-Help Credit Union, and Twin Streams Educational Center in Chapel Hill. In addition, North Carolina Legal Services in Raleigh provides extensive legal and organizing assistance for cooperative development, and Guilford College, in Greensboro, now offers a

curriculum in democratic self-management in its management department. Whereas Philadelphia CDAs built from a base of union contacts and support, the North Carolina network is building on local grassroots institutions, such as churches and credit unions, and tapping regional sentiment to promote cooperatives. The credit union strategy in North Carolina has become a key for building a financial base for the cooperatives in the absence of union or government support.¹¹ CCSH has concentrated on conversions of existing viable businesses to cooperatives, rather than playing an active development role in cooperative start-ups or rescues.¹²

Philadelphia has gone the furthest in establishing a system of cooperative firms. Six O&O supermarkets have started, with five still in operation. In addition to the O&O stores, PACE was instrumental in converting the Atlas Chain Company in West Pittston, Pennsylvania, into what has been called a 'democratic ESOP', or employee stock ownership plan where workers have control of the ESOP. It has also worked with a lobster fishermen's cooperative in Boston, a few smaller cooperatives — a natural foods retail bakery and wholesale bakery in Pittsburgh and an existing printing cooperative in Philadelphia. PACE estimates that it created or retained approximately 400 full- and part-time cooperative jobs between 1982 and 1987 through its direct development work. This figure does not include the eighty jobs in the supermarket which failed. In addition to PACE's record, a cooperative pizza restaurant, called Pizzaz, opened in the spring of 1986 in Philadelphia, and is now employing twelve people as a direct result of the development work initially begun at the O&O Investment Fund.

The Philadelphia Breakthrough

The key factor leading to the breakthrough of worker cooperatives in Philadelphia was union backing of a worker buyout of the forty-four A&P stores that had closed down in January of 1982.¹³ Wendell Young, president of Local 1357 of the UFCW, and Jay Guben, a consultant to the union who had built a reputation in Philadelphia as a successful entrepreneur in the restaurant business, hired Sherman Kreiner and Andrew Lamas of PACE to assist the union in formulating the worker-buyout strategy. Rather than watching another store close in Philadelphia,¹⁴ Young launched an aggressive buyout effort and, after obtaining market studies on each of the

stores, decided to submit a block bid to buy twenty-one of the stores. The union's initiative convinced A&P that, with a reorganization of the stores into an independent subsidiary called Super Fresh, and with initial wage concessions from the union, the stores could operate profitably. The details of the union's contract with A&P have been discussed elsewhere (see Clark and Guben, 1983; Whyte, 1983). For the purpose of this paper the important results were the conversion of two of the closed stores into worker cooperatives; a ninety-day right of first refusal to the workers to purchase any other Super Fresh stores that A&P would sell or close in the future; and the provision to establish an Employee-Controlled Trust and O&O Investment Fund directly out of 1 percent of the gross annual sales of the Super Fresh store. Of this 1 percent, initially 50 percent was to go to annual bonuses for Super Fresh workers, and 50 percent was to go to capitalize the Investment Fund that would provide capital to workers for future buyouts of supermarkets or for start-ups of other worker-cooperative businesses.¹⁵ (The percentage to the Investment Fund was subsequently reduced, first to 35 percent and then to 10 percent.) Besides pushing for provisions in its collective bargaining agreement with A&P that would institutionalize the process of cooperative development, the union put up over \$300,000 to launch the experiment and used its influence to obtain financing for the first two cooperatives, as well as obtaining extensive media coverage. Union backing also validated the concept that cooperatives were a legitimate option for the mainstream labour movement.

Members of the initial coalition of interests that worked together successfully to create the first two O&O cooperatives — the union, Jay Guben (who became director of the Investment Fund), PACE, and the workers — found themselves increasingly at odds over issues concerning the purposes and control of the Investment Fund, the Fund's relation to the role PACE was playing in cooperative development, and the Fund's relation to the O&O cooperatives. Despite the auspicious beginnings and the unique financing design of the O&O Investment Fund, it actually received very little funding from the Super Fresh workers' Employee Incentive Fund. Only \$16,500 was pledged from Super Fresh workers, compared to the \$700,000 the Fund had anticipated receiving in the first year. Once the Super Fresh workers were re-employed most of them did not want to contribute a portion of their Incentive Fund to the O&O Investment Fund. They no longer saw the Fund as a form of social insurance in case of future store closings.¹⁶

As a result of the loss of Super Fresh financing the Fund had to redefine its funding strategy and roles, and became like other non-profit organizations faced with the difficulties of raising funds. Instead of acting primarily as a financial intermediary the Fund assumed a broader development and educational role that was similar to PACE's role. The Fund was interested in developing cooperative franchises that could be replicated all over the country. It hoped that franchises would not only have a greater impact on the numbers of ventures and jobs created, but would enable the Fund to become self-supporting through development fees and franchise fees received from the cooperatives. It did considerable development work on two models, Neighborhood Markets and Pizzaz, a pizza restaurant, but was unable to bring either of these to the point of start-up.¹⁷

After two years of operation the Fund was in considerable debt, and could not continue its operations without new capital investment. Management of the Fund was turned over to PACE on a contract basis. Once again the Fund was restructured to serve a different role as a second-degree cooperative and provide ongoing services to existing member cooperatives on a fee-for-service basis. The promise of the Fund as the key cooperative support organization in Philadelphia was never realized. PACE, on the other hand, continued to expand and develop worker cooperatives.

The first two O&O stores have performed well according to economic criteria; one exceeding all projections. However, the cooperatives have not lived up to performance criteria based on cooperation and democratic management. The founding O&O members have not allowed new members to join, and have created a dual labour structure of owners and hired workers, or as Whyte (1983) puts it, the tendency towards 'collective selfishness'. It is still too early to evaluate the performance of the other O&Os which, as of this writing, have not made it through their first two critical years. Two supermarkets started operations in the spring of 1986, while the last store started up in the autumn of 1987.

The third O&O closed in the spring of 1987 after two years of operation. The store was a start-up in the inner-city Strawberry Mansions neighbourhood of Philadelphia. The Strawberry Mansions O&O had management difficulties as well as political conflicts with the local community. Part of the conflicts resulted from the cooperative's financing and representation on its board, which differed from the first two O&O cooperatives. PACE developed the

cooperative in conjunction with the Community Development Corporation of Philadelphia. The Development Corporation and a private developer controlled the supermarket site. As a non-profit, tax-exempt, neighbourhood-based organization the corporation was able to receive government subsidies to write down the costs of land and construction for the new supermarket building. The O&O cooperative leased the building and also gave the local community corporation representation on its board, and participation in the process of selecting cooperative members and management. The cooperative was committed to hiring a number of unskilled residents from the neighbourhood who needed to be trained both in supermarket operations and in self-management processes. The community representation on the board allowed a powerful community leader to dominate the board and intervene in the policy and business of the cooperative.

It remains to be seen what impact the problems with the Strawberry Mansions O&O will have in the long run on cooperative development in Philadelphia, particularly since the cooperative was promoted as a job-creation strategy for a depressed inner-city neighbourhood. Nevertheless, with the economic success of the first two O&O stores and activity of both the Fund and PACE, worker cooperatives and employee ownership have become a recognized option among unions and government agencies in Philadelphia and the state of Pennsylvania, and new cooperative development is still taking place.

The Formation of the CDAs

Philadelphia's two CDAs demonstrate two different starting points and development processes. PACE was begun by a group of people generally committed to workplace democracy and self-management, but without a financial interest or strong personal investment in the organization. The board was supportive of the staff's direction. A more diverse group of interests, including the union, Jay Guben (who became Director of the Fund), PACE, and the O&O cooperatives, formed the O&O Investment Fund. Both the union and Guben had considerable financial and personal stakes in the Fund. Each had loaned the Investment Fund close to \$300,000. During the crisis period of the A&P closings these interest groups worked well together under heavy pressure, each contributing valuable knowledge and

skills to the negotiations and worker buyout. After they settled into the longer-term process of institutionalizing cooperative development their differences rose to the surface. For the union, employee ownership was a means to create union jobs with union benefits and provide job security. Guben had an experimental interest in worker cooperatives as an alternative model of work organization. He was also an entrepreneur, and had set up a consulting firm called Grey Areas, which specialized in the emerging field of employee ownership. He stood to gain considerably if the Fund was a success. PACE, the first CDA in Philadelphia, saw the Fund potentially as a competitor as well as a resource for its own efforts to develop cooperatives. The success of the Mondragon cooperative system was a major influence on PACE's thinking. It felt that the union's support for the Investment Fund made it possible to adapt the Mondragon model and to design a network of cooperatives linked to support organizations that were controlled by the worker cooperatives. Neither the Super Fresh workers nor the O&O workers initially played an active role in the formation of the Fund, although representatives from the cooperatives, and later from Super Fresh, did become board members after the Fund was established. The O&O worker representatives were caught up with operational and policy problems in starting up their stores, and initially did not pay much attention to the Fund. Some of the O&O workers feared the Fund would end up controlling their stores if it was allowed to get too close to their operations, or if it provided financing directly to the stores.

The conflicts that the Fund encountered raise several important questions for structuring CDAs. First, is a strong union role a help in the long-term process of cooperative development, or will the union's priorities and traditionally adversarial style of operating create conflict, and make it difficult for the development organization to play an integrating role in building new organizational structures? Second, if a CDA is formed from a coalition of disparate interest groups, without a common philosophy or shared vision of cooperatives, is conflict inevitable over the long run in attempts to institutionalize cooperative development?

Without question the union was the catalyst for the O&O experiment and provided crucial ongoing financial and political support for the cooperatives and the Investment Fund. However, the union's central role also created negative reactions from O&O workers, who distrusted potential union interference in their affairs. The union had invested heavily in the cooperative strategy, and

Young's position in particular was on the line for his unorthodox direction. He was anxious for results (i.e. the creation of union jobs). Nevertheless, Young placed considerable faith in Guben's entrepreneurial track record and gave considerable leeway to the staff to produce cooperatives and jobs.

The presence of a strong union and other varied interests in the Fund's formation did not in itself lead to conflict. Conflict developed as the union and staff increasingly bankrolled the Fund and staked their reputations on the Fund's success. The loss of the anticipated financing from Super Fresh also meant the Fund had less to offer PACE and the two existing cooperatives. In fact the Fund became more competitive with PACE for grant money, and more dependent on charging the cooperatives fees for services, as discussed below.

Had the various interests been more aligned to start with, and shared a common vision of cooperatives, it is possible they could have overcome the shrinkage of Super Fresh financing without the continual conflicts with PACE and the O&O workers. Or had there not been a financial setback, it is more likely all the participants would have considered it worth their while to overcome differences, given the Fund's financial potential to serve their interests.

The experience in Philadelphia provides some support for the proposition that the ability of those interests to work together successfully is affected by the commonality of vision for cooperative development among those forming the CDA, how big a stake those interests have in the CDA, and the resources available.

Structure

The Philadelphia CDAs were structured to reflect the pluralistic interests of the wider community, external financing sources, and cooperatives they served. Because they had a broader purpose of job creation and retention, and because initially they had to be accountable to external funding sources, they included representatives from the wider community who could provide expertise and make them more credible and accountable to their outside funding sources.

Neither PACE nor the Fund was structured so that cooperatives held majority control of the board. When PACE was established few worker cooperatives existed in Philadelphia. As more cooperatives were created PACE added representatives of cooperatives to the board. PACE, however, advocated that the O&O Investment Fund

should incorporate a provision for eventual majority cooperative control because the Fund was expected to control a large pool of financing that would directly affect the future of the O&O cooperatives. The Fund's staff and the union thought majority cooperative control to be a liability for establishing credibility for raising funds externally. Instead, the dominant view was toward a 'political' board with recognizable people of influence.

Another option for structuring CDAs is to set them up as worker cooperatives or worker-controlled organizations, accountable to the funding sources and to the cooperatives they serve, based on their performance, rather than controlled by an outside board or management committee. There is greater justification for structuring a CDA as a worker cooperative if the CDA becomes supported mainly through consulting or development fees based on the services it provides rather than from outside grants or contributions. PACE made a transition to a worker-controlled organization in 1986. Since 1985 it has received the majority of its income from development and consulting fees. It has retained its non-profit legal structure, but all board members are now workers. The former board of directors became an advisory board only, without liability for PACE's operations.

Financing

Financial support for the CDAs came initially from external private sources rather than from the government. Both PACE and the Fund were able to raise government funding for specific cooperative ventures. As in Britain, the external source of financing was an important constraint on the goals and priorities of the CDAs. The union's interest and participation in the O&O Investment Fund, at least over the short run, was tied to the number of union jobs created and retained in Local 1357. Consequently the Fund's by-laws specified that it would target job creation and retention efforts in industries involving retail operations, meat packing, food processing, barbers and beauticians, general clerical workers, and professional employees — those areas where Local 1357 had jurisdiction.

The union's local interest in job creation conflicted with the staff's interest in expanding the Fund's focus and developing national cooperative franchises. Government funding for the inner-city O&O supermarket stipulated that a portion of the cooperative jobs be

created for unemployed people in distressed neighbourhoods. Foundation and church funding appear to be the most flexible in the United States, and have allowed CDAs, both in Philadelphia and other parts of the country, to do extensive educational work.

With the absence of ongoing governmental support the CDAs in Philadelphia have been concerned about creating a base of funding that is independent of grants. They have charged fees for consulting services and front-end costs of developing new cooperatives. After its initial failure with Super Fresh financing the Investment Fund was successful in obtaining set-asides from private supermarkets through the union's collective bargaining efforts.¹⁸ However, their ability to tap financing by charging fees to existing cooperatives or tapping contributions from other union workers, such as workers at Super Fresh, has depended on the degree to which the workers had a stake in the purposes of the CDA, and what they got in return for their money.

It is not surprising that the Super Fresh workers withdrew their support of the Fund. Had they participated fully from the start in the Fund's formation they might have had a stronger identification with the Fund and its purposes, but there was no tradition of worker solidarity or political values to indicate they would be willing to contribute a percentage of their bonuses as social insurance against future closings and job loss, much less for the purpose of starting new cooperatives.¹⁹ The direct payback on their investment appeared remote after they had secured their jobs. Their incentive, quite rationally, was to take advantage of the union's initiatives to institutionalize cooperative development, without covering the costs.

The Fund also encountered strong opposition from O&O workers and from PACE when it proposed becoming a membership organization and charging a membership fee to existing and new O&O cooperatives for the right to use the O&O logo, and receive technical services the Fund would provide. The Fund argued that the O&O franchise would give new cooperatives the benefit of the O&O name, the public relations that had been done over the preceding two years, and the political clout of the union, as well as support of existing cooperatives. The initial membership fee suggested was high: 1 percent of the cooperatives' sales. Whether the Fund had a right to franchise the O&O logo became an issue. The O&O store located in Roslyn, a suburb of Philadelphia, was the first store to use the logo and therefore had a legal right to control it, despite the fact that the union had paid for the creation of the logo as part of the initial

development costs of the O&O stores. The O&O stores feared that if they gave up their right to control the logo they might be in jeopardy of losing it over the long run. A second issue was whether the workers were receiving anything in return to justify the high fees. PACE took the position that the fees proposed had no relation to the Fund's costs of developing new cooperatives. It charged that the Fund was amortizing its high operating costs 'off the backs of the workers'. A compromise settlement was reached in principle after over a year of negotiations, whereby the Fund would retain the O&O logo and become a membership organization, and PACE would receive a portion of the membership fee for its work developing O&O supermarkets. However, the membership structure was not implemented until PACE took over the management of the Fund in 1986.

Roles of CDAs

The Philadelphia CDAs devoted most of their time to playing either a direct entrepreneurial role or a consulting role with other organizations to develop new cooperatives. The CDAs first focused on providing technical and legal assistance for new cooperatives; engaging in some kind of educational process about cooperative structures, decision-making, and orientation; and mobilizing the necessary resources and support for cooperatives from external sources.

Formulating a Cooperative Development Strategy

In both PACE and the Fund, the staff played the key leadership and entrepreneurial role in cooperative development. The staff created the field of interest in cooperatives, instituted the structures, and introduced cooperative principles. It usually had the most self-interest in the success of the CDA. Strong union leadership was also prevalent in the Fund but not in the day-to-day cooperative development work.

The staff selected the roles and priorities it undertook for developing cooperatives according to the interests and constraints of its financing sources, as well as the cultural, economic, and political environment in which it operated. The financing source influenced the development strategy considerably.

In Philadelphia the union's financial backing was for creating local union jobs, and government financing was for creating jobs for the unemployed and disadvantaged in the inner city. The Philadelphia CDAs have focused primarily on the supermarket industry and related food businesses because of the initial A&P closing, strong union backing, and the experience gained in the supermarket industry. Inner-city supermarkets were also an eligible social project for government grants, since they filled a market gap by providing needed services to the inner city, as well as creating jobs for local residents. Compared to most of the British CDAs, both the Investment Fund and PACE attempted to develop larger-scale cooperatives that created more jobs but also required more up-front development time.

Both Philadelphia CDAs adopted a 'top-down' approach to cooperative development. They targeted specific projects, developed the business plans (sometimes in conjunction with a private developer or community development corporation), packaged the financing, and recruited and trained workers to take over the cooperative venture. They responded to outside inquiries but did not solicit bottom-up development. They both saw top-down development as a much more efficient use of their resources.

PACE and the Fund differed in the way they promoted cooperatives. The Fund tended to stress the entrepreneurial opportunities and benefits, whereas PACE emphasized worker control and empowerment. There were also differences in the kinds of cooperative systems being developed. The staff of the Fund was interested in developing franchises that could be easily replicated on a nationwide scale. PACE's vision was building an integrated regional cooperative sector.

Mobilizing Capital

The CDAs assisted the cooperatives in mobilizing capital, both through the design of the cooperative's internal structure and creation of specialized external financial institutions or financial instruments. The internal structure of the cooperative, which designates mechanisms for raising capital and mechanisms for distributing property and voting rights, must be balanced with the external financial instruments or institutions that are available, or can be created, to meet the cooperative's needs for capital. In

Philadelphia an equity investment, either from the workers or from outside shareholders, was accepted as the logical way of raising financing from either conventional lenders or government loan funds.

PACE experimented with a variety of legal and financial structures for the O&O supermarkets. The first two cooperatives, based on the Mondragon cooperative model, required members to make a \$5000 equity investment. An internal capital accounts system was set up for members to participate in the growth of the assets of the cooperative. For those workers who did not have the \$5000, the union's credit union made a loan to cover their contribution.

Voting rights in the first two stores were based on the principle of one member, one vote. However, new workers hired as part-time workers were not members. Subsequently, PACE attempted to overcome the structural problems that led the first two cooperatives to bar entry to new members. In the next O&O supermarket, which eventually failed, part-time workers had equal voting rights but paid only half the equity contribution of full-time workers and received a lower wage than full-time members. PACE anticipated that the pay differential would eliminate the fear that new part-time members would increase labour costs. As much as it attempted to base the right of membership in, and control of, the cooperative on workers' labour contribution rather than on their capital contribution, the workers still associated the right of control with the money they had invested.

In order to create a labour-based system PACE structured the next two O&Os as non-leveraged ESOPs,²⁰ which by law required that all workers be members. The workers had the option of putting up equity in the supermarkets. One-third of the equity came from some of the workers and two-thirds came from two development corporations, which were wholly-owned subsidiaries of PACE. The remaining financing came from conventional bank loans. The development corporations raised the venture capital from a loan made by the Interfaith Revolving Loan Fund of the Philadelphia Catholic Archdiocese. PACE helped to establish the loan fund in 1985 when it was becoming clear that the Fund would be in no position to fulfil its initial purpose of serving as a financial intermediary. Because of PACE's role in the O&O system it holds two seats on the seven-member board of directors on a permanent basis. For the first year of operation PACE also had control over management by virtue of its control of the subcommittee of the board (made up of the two PACE directors and the board's President) which oversees management.

The newest O&O was set up as a joint venture between yet another PACE development company and the first O&O store in Roslyn. It is a straight stock corporation with each party owning half the shares. The shareholders have a written agreement to create a non-leveraged ESOP by the end of the first year of operation, which would include all non-probationary employees of the store and would create a benefit plan. The ESOP, PACE and the Roslyn O&O will each have one-third of the ownership and control of the company. Although O&O workers will have two-thirds control over the store (if we count both stores), the Roslyn workers are owners in relation to the new O&O, and benefit from their capital contribution rather than from their labour contribution. The effect this model will have, in terms of both the store's performance as well as regarding future O&Os, is unclear at this time.

Maintaining Cooperative Principles

A major problem for the CDAs has been creating the essential cohesion and integration with cooperative principles and norms of behaviour in the absence of an existing common culture or co-operative ethic, and without many existing models of worker cooperatives. The lack of a supportive environment for cooperatives made it difficult for the CDAs to balance dual goals of developing economically viable cooperatives and, at the same time, maintaining cooperative principles. One way that the CDAs attempted to compensate for the lack of examples of cooperative norms of behaviour was by creating democratic and cooperative standards through legal structures and governance processes in the cooperatives, as discussed above.

A second way to instill cooperative behaviour has been through educational processes and inculcation of cooperative principles and self-management. Educational approaches include formal pre-start-up courses and on-the-job training, in which situations and problems are real to the workers. In Philadelphia, where the new cooperatives were quite large, both CDAs ran formal pre-start-up worker-education programmes to train in business skills, problem-solving, and democratic decision-making processes. The courses anticipated and simulated situations workers would face, and provided assistance to the various committees of workers to deal with real problems they would encounter in actually starting up the cooperative.

A key issue in design of educational programmes has been whether formal educational programmes should attempt to educate workers in cooperative values or a specific ideological orientation, or whether those values can only be expected to emerge through the process of working in a cooperative. The idea of 'cooperativism' was simply not rooted in the values and orientation of most American workers. Both PACE and the Fund took a very pragmatic approach to worker education by emphasizing skill development and the personal growth of workers in the process.

PACE found that ongoing education — often two to three years after start-up — was needed to assist workers to solve new problems and to reinforce cooperative principles and self-management processes. This ongoing education became especially difficult once the cooperative members were fully absorbed in working for the business's survival and were no longer willing to allocate the time to education. The best type of ongoing education appeared to be done on the job. PACE has done ongoing educational work in conjunction with specific technical assistance projects. The Fund also recognized the need for ongoing consultation with cooperatives, but was much more fearful that the cooperatives would become dependent on their continued assistance if they did not wean them early.

Educational programmes require further research to document their effectiveness over the long run. From discussions with CDA staff it appears that workers tend to learn skills for their specific business fairly well and build their self-confidence, but that inculcation of cooperative values is a slow and difficult process. Often cooperative members learn the cooperative vocabulary and mouth the words, but do not practise participatory decision-making or open up cooperative membership. Nor are there many indications that cooperative principles spill over into other aspects of workers' lives, such as eliminating racist and sexist attitudes among workers or creating a greater political consciousness.²¹ The difficulty of instituting education in cooperative principles supports the points raised by Gamson and Levin (1984) that without early reinforcement of cooperative values, and experience in cooperative decision-making in the school system or in other areas of society, it is difficult to intervene at a later stage to create those values.

Strengthening Intercooperative Linkages

The Philadelphia support organizations initiated second-level organizational structures and linkages among cooperatives from the very beginning. PACE created the legal structure for an Umbrella Association of O&O cooperatives during the start-up of the first two O&O cooperatives in order to achieve the benefits of a vertically integrated system, as had been so successful in Mondragon. The purpose of the Umbrella Association was to act as a mutual support and problem-solving organization. It would help the stores operate more efficiently through joint purchase of goods and services. The Umbrella would also develop educational materials for members, encourage the development of additional worker-cooperative supermarkets, and franchise the O&O trademark for supermarkets in order to control the standard of cooperative ownership as well as maintain the financial viability of the cooperatives that entered the system.

PACE thought the cooperatives should have control over services they used through their own trade organization, rather than depending on the O&O Investment Fund, which was not under their direct control. Initially six representatives from each O&O store participated in the Umbrella and attempted to define its role vis-a-vis the emerging role of the Investment Fund. The first two O&O cooperatives, however, did not place the same priority on implementing the Umbrella Association as PACE did, and questioned whether an Umbrella with only two member cooperatives could provide joint services more cheaply than their present supplier. PACE, however, felt that the O&O workers backed off from the Umbrella Association when they encountered opposition to the idea from the Fund's director and from the union. At the same time PACE was promoting the Umbrella Association as an independent second-degree cooperative, the Fund made plans to become a membership organization, mainly because of its need to create a financial base to support its ongoing activities, rather than because of the demand of the cooperatives for provision of joint services.

In fact, neither the Umbrella Association nor the Fund's initial plan to become a membership organization was implemented. Rather than emerging out of the felt needs of the cooperatives, these attempts at forming second-degree structures came out of the interests of the CDAs. The Fund was later reorganized to serve as the Umbrella Association for food-related cooperatives after PACE took over its

management. This attempt to form a second-degree cooperative appears to be successful now that more cooperatives are operating that can benefit financially from joint services. The supermarkets are now communicating with each other on both a formal and informal basis. They have bought a joint insurance package and have also started to put financial deals together on an ad hoc basis.

Creating a Supportive Environment for Cooperatives

As few cooperatives existed to provide internal support, the CDAs were dependent upon the wider environment for resources to initiate cooperative development. Thus the CDAs intervened to create a more supportive external environment for cooperative development. Initially the main role the CDAs played in environmental change was to demonstrate successful cooperative models and to change the climate for acceptance of cooperatives as a viable business option. Cooperatives have become much more of a mainstream idea for the government and business communities in Philadelphia and across the state of Pennsylvania. PACE has also become involved in drafting legislation in order to mobilize further resources for cooperatives.

The Philadelphia CDAs did not attempt to 'transform' the external economy or culture through direct political action. Rather they strengthened and buffered cooperatives within the existing system. Overt political activity would have threatened their intermediary role between the cooperatives and the wider environment, and might have jeopardized their ability to obtain necessary resources from the wider system. At best the CDAs played an indirect role in restructuring local economies and creating a greater capacity to participate in democratic decision-making and planning processes, which is the basis for more democratic participation in society at large.

Conclusions

The Philadelphia CDAs were formed to promote worker cooperatives and other types of cooperatively managed enterprises. With few existing cooperatives they first had to create a cooperative base. The CDAs acted as a 'referent organization' (Trist, 1979) in order to create the wider 'domain' of interest among the public in cooperatives

and to create some models of successful cooperatives.²² The key factors which have influenced the development of the Philadelphia CDAs are:

1. The enabling conditions for cooperative development that arose because of economic crisis, plant closings, and job displacement.
2. The availability of external financial support for cooperative development, mainly as a part of a job-creation and job-retention strategy arising from these enabling conditions.
3. The degree to which the interests coming together to form the CDA shared a common vision of cooperatives and had a strong stake in the CDA.
4. The leadership, background, and ideological orientation of the staff who influenced the roles and priorities of the CDA.

In what ways can these factors be influenced or controlled in order to accelerate the process of cooperative development? The discussion that follows offers a number of propositions requiring further research.

The CDAs initially had little control over environmental factors leading to interest in cooperatives and financial support for cooperatives, although by creating successful cooperative models they hoped to influence these external variables over time. Without an existing base of cooperatives to support the CDA, external operational subsidies were needed in order to establish a long-term development strategy. The interests of the financing source were an important influence on the goals and priorities of the Philadelphia CDAs. We would expect that, whether support comes from government, foundations, or unions, the CDA is constrained due to the latent control, and at times active control, the external financing interests have over it. The CDA is also vulnerable to potential shifts of priorities among its funders.

Over time the CDA can expand its financial base and create 'internal' financing from the cooperatives themselves, by charging fees for development work or for other services. Or if it has established a financial institution, such as the Self-Help Credit Union in North Carolina, some of its costs can be absorbed by the financial institution, which earns income from its loan spread. PACE has had considerable success in charging for its work, but still finds that the

fees for service fall short of its development costs. It will take a long time before a CDA can operate without external subsidies. Meanwhile a CDA's funding strategy will have to be largely opportunistic, and it will have to find whatever niche of interest it can for cooperatives.

A CDA has some flexibility in determining its internal structure, representation, and control. Although it can attempt to minimize potential conflicts by assembling like-minded people on the board who share a common vision of cooperative development, the reality is it must draw in a broad enough coalition of interests or influence to raise the initial financial support it needs. Members who have a high stake in its operation, such as the union, which had an interest in the Fund, are likely to play an active role. A CDA that becomes self-supporting from fees for service has more reason to make a transition to a worker cooperative or worker-controlled firm as PACE has done.

Selection of staff by the CDA is the variable of greatest immediate impact for launching an effective development strategy and broadening support for cooperatives. The staff of the CDAs is the initial bridge between the cooperatives and the wider competitive and political environment in which the cooperatives have to survive (Cosyns and Loveridge, 1981). Despite powerful environmental constraints the staff have some leeway to make what Child (1972) calls 'strategic choices', which reflect their own background and experience. Staff need to be both entrepreneurs, who can mobilize support for cooperatives, and teachers, who can inspire potential cooperative members. Even with strong staff leadership and vision of cooperatives, market and cultural forces can be powerful influences undermining cooperative principles, as seen in the O&O supermarkets. CDAs found they must play critical educational roles in reinforcing self-management processes.

Given these environmental constraints, what impact have the Philadelphia CDAs had on cooperative development? The Fund has played neither the financial nor development role originally envisioned, although now, as an umbrella association, it is an important link in strengthening the existing O&O supermarkets. PACE has continued to act as a CDA and has accelerated the process of cooperative development in its region. It is unlikely the O&O chain would have grown without PACE's initiative. PACE has expanded its role to one of a venture capitalist where it is taking equity positions in the cooperatives, sitting on the board of directors and overseeing the management in the first year of operation. A development

strategy based on such a high degree of involvement may increase the chance of the cooperatives' success, but will limit the numbers of cooperatives PACE can assist. Sustained growth of cooperatives will require attracting a broader pool of talented people to the cooperatives themselves; people who are committed to cooperative principles and who can undertake entrepreneurial and managerial roles.

Notes

1. The Philadelphia case study is based on several rounds of interviews with staff of the O&O Investment Fund and PACE, workers in two O&O cooperatives, the union, as well as other board members of the CDAs, which I conducted during the period 1982–85. The case material was updated by phone calls in 1987. Besides the interview data I was able to draw on internal documents and publications and other published material on cooperative development in Philadelphia, as well as limited observations at meetings.

2. On conditions leading to worker cooperative development, see Thornley (1981) and Batstone (1983) in France; Thornley (1981) in Italy; and Thomas and Logan (1982) in Mondragon.

3. For a description of the rise and fall of two support organizations established in Britain in 1884, the Labour Association and the Cooperative Aid Association, see Thornley (1981: 16). Also see Montgomery (1979: 102) for a history of the Knights of Labor's Cooperative Board serving as a cooperative support organization in the United States during the 1880s.

4. The Cooperative Productive Federation, established in 1882 by existing worker cooperatives in Britain, had a steady decline in importance after an active period between 1894 and 1899 when over 100 cooperatives were in operation. By 1978 only eight cooperatives remained in the CPF, and in 1980 it was absorbed into the Cooperative Union, the support organization for the consumer cooperative movement. See Thornley (1981: 38–9).

5. In Italy and France favourable legislation gave cooperatives advantages in government contracts, taxation and specialized financing.

Aldrich and Stern (1983) argue that political organizations and unions were not strong enough in the US to generate the level of commitment needed for the widespread diffusion of cooperatives. Political parties committed themselves to the ideology of cooperatives but could not provide material incentives to attract cooperators. While unions had sufficient incentives to promote cooperatives, Aldrich and Stern point to three problems that stood in their way. First the interest of many local unions in cooperatives was purely opportunistic; once a strike was settled the cooperative idea was abandoned. Second, cooperatives were often attacked as another form of capitalist enterprise and accused of undermining union shops through wage and price cuts. Third, the centralized organization of unions often contradicted efforts to push for the creation of local, autonomous production units. Unions were not competent to monitor local cooperative activities.

6. In Britain the first big government support for worker cooperatives came in the

mid-1970s when the Labour government provided an estimated £14 million in state grant and loan money to worker buyouts of Meriden Motorcycles, Kirby Manufacturing and Engineering, and the *Scottish Daily News*. Under Thatcher's government, support for worker cooperatives has come more from local authorities than from central government. The metropolitan county councils and the Greater London Council were abolished in 1986, but have been survived by enterprise boards, such as the West Midlands Enterprise Board and the Greater London Enterprise Board, which have been in the forefront of cooperative development, see Stott (1986: 21–4).

In the United States cooperatives and employee-owned firms have received financial support from the National Consumer Cooperative Bank and through changes in 1980 in the Small Business Ownership Act authorizing the Small Business Administration (SBA) to make and guarantee loans for worker-owned firms as part of its existing programme. At the state level, Michigan and Maryland passed legislation promoting worker ownership and buyouts of plants in 1979. Massachusetts and Connecticut have passed legislation creating a legal structure for cooperatives. Massachusetts, New York and Pennsylvania provide assistance for employee-owned and -controlled firms. The most significant state initiative has been Pennsylvania's Employee Ownership Assistance Program, which has set up a \$15 million dollar revolving loan fund for feasibility studies and loans for employee-owned firms. However, the majority of worker-owned firms in the United States are employee stock ownership plans (ESOPs). Federal and state support for cooperatives and worker ownership pales in comparison to the huge tax write-offs given to ESOPs. In fiscal 1986 alone the estimated tax write-off was \$2.5 billion. See 'ESOPs: Revolution or Ripoff?', *Business Week*, 15 April 1985, p. 94.

7. Cornforth and Lewis (1985) found the increased failure rate consistent with their hypothesis that cooperatives are unlikely to fail in the first couple of years because of the intense worker commitment that they generate. In fact, most cooperatives are buffered in the first year of trading by the availability of Enterprise Allowance grants, which give unemployed people starting a business, including new cooperative members, £40 a week for a year. This has been an essential piece of support that provides the equivalent of working capital for the first year of operation. If cooperatives are going to fail they would not do so until at least the second year of trading.

8. The Industrial Common Ownership Movement (ICOM), a national cooperative support organization, has begun registering community cooperatives. The membership is based on a geographic community or community of interest rather than on the labour of workers.

9. According to the ICA it has been difficult to keep track of new cooperative formations. Some cooperatives have formed using the technical materials available from the ICA and other support organizations, but without seeking direct assistance. Some of the larger consumer food cooperatives have been converting to worker cooperatives over the past few years, but the number is not known.

In addition to worker cooperatives there are ten to fifteen democratic ESOPs (employee stock ownership plans) which have similar characteristics to worker cooperatives. Presently there is no accurate estimate as to how many ESOPs are majority worker-owned and also have extensive employee participation and control.

10. These include the ICA in Somerville, Massachusetts outside of Boston; PACE in Philadelphia, Pennsylvania with a branch in Pittsburgh, Pennsylvania; the Center for Community Self-Help in Durham, North Carolina; the New York Center for

Employee Ownership in New York City and the Employee Ownership Project of the Albany Region in Albany, New York; WARM (Weatherization and Retrofit Maintenance) in Detroit, which started as a job training programme and now sees itself as a cooperative development agency; and Workers' Owned Network in Athens, Ohio and Common Wealth in Youngstown, Ohio.

11. As of November 1987 the Self-Help Credit Union had assets of \$7.5 million. In addition a high-risk revolving loan fund and an equity fund have assets of \$2.5 million.

12. The largest conversion that CCSH has been involved with is Ragan-Thornton Mills, a hosiery firm in Thomasville, North Carolina, employing 125 people. By spring of 1988 it expects to complete a second major conversion of a firm located in the depressed region of Western North Carolina called River Rafting Company, which employs 275 people in the summer and 75 year round.

13. At one time the Philadelphia division of A&P had been one of their most profitable. However, by the time a German conglomerate, the Tengelmann Group, took over in 1979, it found its supermarket division increasingly unprofitable and began to streamline operations. A&P could not compete. In Philadelphia A&P had very high labour costs (14 percent) compared with the industry standard (10–12 percent) due to a higher proportion of senior employees than most supermarkets. Many industry experts and A&P workers also attributed the company's financial problems to excessive bureaucratic centralized markets, and to management that was costly and out of touch with local markets.

14. Since 1977 the UFCW had lost 7000 members in Philadelphia due to a series of retail store, restaurant and supermarket closings, including Lit Brothers in 1977, and Food Fair, Corvette, Two Guys, Horn and Hardart, and JM Fields in 1979.

15. William Foote Whyte (1983) points out that the proposed financing for the Investment Fund, directly from Super Fresh's Employee Incentive Fund, represented the first time that a financial link between cooperatives and a private corporation had ever been attempted in the United States. This source of financing differed from the model of second-degree cooperatives, which are financed directly from their cooperative members. It also differed from the British CDAs, which are funded mainly from government.

16. The union took a vote among Super Fresh workers to determine whether they supported the union's proposal that 10 percent of the Incentive Fund be set aside automatically to the Investment Fund as a tax-deductible contribution of the employees. A majority supported the union, and it was agreed the money would be set aside in September of 1983 after the first year of Super Fresh operation. However, five workers in two of the most profitable Super Fresh stores in northeast Philadelphia challenged the legality of forcing workers to make a contribution to the Fund in the contract. The union's lawyers advised that they would lose in court because the language in the union's contract for implementing an automatic check-off system from payroll to the Investment Fund was inaccurately worded. Meanwhile, Young, who was up for re-election as union president, found his opponent raising, as a campaign issue, the Investment Fund and mandatory contributions from Super Fresh workers. Although Young won the election by a five to one margin he was shaken by the opposition — the largest he had encountered in his twenty years as president. Instead of pushing union members to honour the automatic check-off, Young encouraged workers to make voluntary contributions to the Investment Fund and receive a tax deduction.

17. As mentioned above, a Pizzaz restaurant did eventually open, but not under the auspices of the Fund. Jay Guben completed the project through his consulting firm,

Grey Areas, after he left as the Director of the Fund. The transition of the Fund is discussed in the next section.

18. Young attempted to reconstruct the Super Fresh financing scheme for the Fund on a smaller scale in upcoming supermarket contracts. He negotiated for employers to pay a few cents per hour of each employee's pay directly into the Investment Fund. Direct employer contributions eliminated the need for any individual pledges from the workers, which had bogged down the original Super Fresh agreement. In 1985 Shop'n Bag agreed to put in 5 cents per hour, and Foodarama 2 cents per hour. Young initially had hoped to include Super Fresh in its set-aside plan. However, Super Fresh management has regarded the O&O's as competitors, and has been unwilling to contribute to its competition.

19. Aldrich and Stern (1983: 396–7) show that in 1884 the Cooperative Board, an early cooperative support organization established by the Knights of Labor, also encountered resistance from members in making mandatory contributions to the board to support cooperative development and promotion.

20. Non-leveraged ESOPs transfer ownership of the company to the employees. The company makes an annual contribution to an employee stock ownership trust (ESOT). From these funds the ESOT purchases company stock. The stock vests according to a schedule which is determined in the ESOT agreement. Gradually all the stock of the company is transferred to the employees.

21. In his study of the political effects of participation in the plywood cooperatives in the Pacific Northwest, Greenberg (1986: 169–70) finds that workers' experience of self-management not only fails to create values and commitments consistent with democratic, self-governing socialism, but 'actually encourages values and commitments inimical to and destructive of these goals'. He notes that American plywood workers in cooperatives 'identified less with the working class over time; failed to develop a critical stance toward prevailing economic, social, and political arrangements; became more committed to basic values associated with market capitalism; and grew less willing to support mass democratic control of the economic life of the nation'.

It should be noted that the plywood cooperatives are structured on an individual share basis, and allow each worker to participate in the growth of the firm's assets, as is the case in Philadelphia. However, they are not representative of all cooperative models, such as the common ownership cooperatives in Britain.

22. According to Trist (1979: 13–15) referent organizations have three broad functions:

1. Regulation or setting the ground rules, determining the criteria for membership into a domain that is defined around a shared appreciation of a problem, maintaining the values from which goals and objectives are derived, undertaking conflict resolution, and sanctioning activities.
2. 'Appreciation of emergent trends and issues; developing a shared image of a desirable future'.
3. Infrastructure support through resource mobilization and information sharing, and developing special projects.

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Carla Dickstein

is teaching at Trinity College in Hartford, Connecticut and is an active member of the Renaissance Universal Institute in Minneapolis, Minnesota, a Progressive writers' association. Her research has been in the fields of community economic development and worker-owned self-managed enterprises. This article is based on her dissertation at the University of Pennsylvania in 1986, 'The Roles of Support Organizations in Worker Cooperative Systems'.