SCALING THE SOLIDARITY ECONOMY: REIMAGINING FRANCHISING FOR WORKER OWNERSHIP

GOWRI J. KRISHNA∞

ABSTRACT

Imagine if McDonald's, one of the most familiar franchises in the country, were owned and democratically governed by workers behind the counter. What would it mean to invert a model built on precarity into one grounded in equity, shared ownership, and community accountability?

What may seem like a radical inversion is part of a growing global movement known as the solidarity economy—an approach that seeks to transform economic life through democratic, community-driven alternatives. Enterprises within this movement offer a compelling counterpoint to investor-driven firms. Yet they face major barriers to expansion, as legal, financial, and operational systems are built for conventional businesses, not for models rooted in equity.

This Article proposes adapting franchising—a tool long used to grow capitalist enterprise—as a mechanism to scale the solidarity economy. While traditional franchises can open pathways to entrepreneurship, especially for immigrants and people of color, they often extract profit and control from the communities they serve. In response, the Article argues for the worker cooperative franchise ("WCF"), a hybrid model that combines the scaling power of franchising with worker ownership and community control. Franchisees are worker-owned cooperatives governed on a one-person, one-vote basis, and the franchisor is either a nonprofit with franchisee board representation or a cooperative owned by the franchisees. By reimagining the legal architecture of franchising, the WCF model offers a means to scale without extraction.

Drawing on the first implementation of this model in the United States, the Article analyzes legal design features that support its success, including governance practices, franchisor entity form, and contractual arrangements around royalties and intellectual property. It also explores tensions the model must navigate, such as balancing local autonomy with system-wide standardization and mitigating dependence on nonprofit intermediaries. Ultimately, the WCF model functions as a

∞ Clinical Professor of Law, Fordham Law School. This Article was awarded the Association of American Law Schools Section on Clinical Legal Education's inaugural Susan R. Jones Memorial Paper Competition. I am deeply grateful to Atinuke Adediran, Patricia Alejandro, Alina Ball, Bennett Capers, Courtney M. Cox, Patience Crowder, Norrinda Brown, Michelle Greenberg-Kobrin, Mike Haber, Carrie Hempel, Julian M. Hill, Katherine Hughes, Anika Singh Lemar, Ela A. Lesham, Brian Lincer, Alicia Plerhoples, Tomica Saul, and Jason Spicer for their thoughtful comments on earlier drafts. This Article also benefited from feedback received at the 2023 NYU Clinical Law Review Writers' Workshop. For excellent research assistance, I thank Dara Elpern, Natalie Klein, Ron Kourt, Anushka Sarkar, and Emma Woodruff. I am also grateful to Wilson Holzhaeuser for outstanding librarian support. Research and writing were supported by institutional funding from Fordham Law School and New York Law School. Thank you to the editors and staff of the *NYU Review of Law & Social Change* for their careful and dedicated editorial work. All errors are my own.

prefigurative legal form—one that puts into practice the democratic and equitable values it envisions for the future. While centered on worker cooperatives, the model provides insights for other solidarity economy institutions.

INTRODUCTION

To counter deepening inequality and insecurity, communities are turning to cooperative business models grounded in collective ownership, democratic governance, and ecological and social well-being. These efforts form the foundation of a framework known as the "solidarity economy."[1] The solidarity economy connects diverse practices—worker cooperatives, community land trusts, mutual aid networks, community-supported agriculture, public banking, and more—through shared commitments to cooperation and democracy.[2] Rather than promoting a one-size-fits-all model, it offers a unifying framework for strategies rooted in community self-determination and mutual support. Many of these practices have long existed in marginalized communities; the solidarity economy brings them into focus as interrelated efforts to challenge extractive systems and build alternatives.[3]

The boundaries of what constitutes solidarity economy practice are not fixed or absolute.[4] Not all models that claim a social mission align with the solidarity economy's democratic principles, such as social enterprises where workers lack decision-making power.[5] Thus, what distinguishes solidarity economy initiatives

1. Ethan Miller, *Solidarity Economy: Key Concepts and Issues* in SOLIDARITY ECONOMY I: BUILDING ALTERNATIVES FOR PEOPLE AND PLANET 4 (Emily Kawano, Tom Masterson, & Jonathan Teller-Ellsberg eds., 2010) (defining solidarity as a mode of relationship rooted in the recognition of interdependence, in which individuals acknowledge that their lives are bound up with others across lines of power and privilege, and take active responsibility to reshape those relationships); Julie Matthaei and Matthew Slaats, *The Solidarity Economy: A Way Forward for Our De-Futured World*, 7 J. SOC. ENCOUNTERS no. 2, 2023, at 24, 25. Various terms have been used to describe economic practices situated between the market and the state, including "third sector," "social economy," "solidarity economy," and more recently "social and solidarity economy." *See generally* Julie Rijpens & James Hermanson, *What Is the Social and Solidarity Economy? A Review of Concepts*, ORG. FOR ECON. COOP. & DEV. [OECD] LOCAL ECON. & EMP. DEV. (LEED) PAPERS (2023), https://www.oecd.org/content/dam/oecd/en/publications/reports/2023/09/_what-is-the-social-and-solidarity-economy-a-review-of-concepts_4b3d724b/ dbc7878d-en.pdf [https://perma.cc/G8WN-2TWE]. This Article uses the term "solidarity economy" to emphasize the framework's normative grounding in mutual aid, democratic governance, and systemic transformation.

2. *See* EMILY KAWANO, NEXT SYS. PROJECT, SOLIDARITY ECONOMY: BUILDING AN ECONOMY FOR PEOPLE & PLANET 1, 23 (2018), https://www.solidarityeconomy.coop/wp-content/uploads/2017/06/Kawano-E.-2018_Solidarity-Economy.pdf [https://perma.cc/5ZDM-MKEX]; *see also* Miller, *supra* note 1, at 5; Renee Hatcher, *Solidarity Economy Lawyering*, 8 TENN. J. RACE, GENDER & SOC. JUST. 23, 25 (2019).

3. *See* Jessica Gordon Nembhard, *Community-Based Asset Building and Community Wealth*, 41 REV. BLACK POLIT. ECON. 101, 106 (2014) (noting that African Americans have used cooperative businesses throughout history as a means of providing social services and access to goods, services, and capital); *see also* Rijpens & Hermanson, *supra* note 1, at 6 (tracing the roots of solidarity economy practices to ancient and Indigenous traditions).

4. KAWANO, *supra* note 2, at 23 (stating that there is "room for a great deal of diversity as well as debate").

5. *Id*. at 25.

is not legal form alone, but their substantive alignment with core principles and practices.[6]

Worker cooperatives are a cornerstone of the solidarity economy. When meaningfully aligned with solidarity principles, they exemplify the model's transformative potential. These are businesses owned and democratically controlled by their workers, typically on a one-worker, one-vote basis.[7] Workers share in profits based on their contribution of labor.[8] A leading example is Cooperative Home Care Associates (CHCA) in the Bronx, the largest worker cooperative in the United States, with more than 1,600 home care aides.[9] CHCA invites workers to become owners after three months, gaining rights to share in profits, elect board representatives, and participate in key decisions.[10]

Worker cooperatives offer a proven model for improving job quality and advancing economic inclusion, particularly for marginalized communities. Research shows that worker ownership enhances dignity, control, and stability for low-wage workers, while improving retention, compensation, and job satisfaction.[11]

---

6. *See, e.g.*, Julian M. Hill, *Integrating Healing Justice into Worker Cooperative Counseling*, 52 FORDHAM URB. L.J. 881, 901–05 (2025) (distinguishing between cooperatives as a legal form and those embedded in a solidarity economy movement committed to collective liberation, healing, and economic justice). Hill builds on the author's earlier work arguing that worker cooperatives must be intentionally structured and supported to advance broader political and social change. *See* Gowri J. Krishna, *Worker Cooperative Creation as Progressive Lawyering? Moving Beyond the One-Person, One-Vote Floor*, 34 BERKELEY J. EMP. & LAB. L. 101 (2013). A cooperative, for instance, may adopt a legal structure associated with collective ownership yet operate in ways that replicate exclusionary or exploitative dynamics. *See* KAWANO, *supra* note 2, at 25 (acknowledging that some cooperatives may operate in ways that undermine solidarity economy values and replicate oppressive dynamics around race, gender, or sexuality); *see also What Do We Mean by Solidarity Economy?*, SOLIDARITY ECON. PRINCIPLES PROJECT, https://solidarityeconomyprinciples.org/what-do-we-mean-by-solidarity-economy/ [https://perma.cc/88CJ-KAHK] (last visited Oct. 14, 2025) ("Too often we see our organizations—from individual co-ops on up to international federations—replicate colonial and capitalist relationships and values.").

7. *See What Is a Worker Cooperative?*, U S. FED. OF WORKER COOPERATIVES, DEMOCRACY AT WORK INSTITUTE, https://www.usworker.coop/what-is-a-worker-cooperative/ [https://perma.cc/88CJ-KAHK] (last visited July 25, 2025).

8. *See id.*

9. *About*, COOPERATIVE HOME CARE ASSOCS., https://www.chcany.org/about [https://perma.cc/NK4D-ESQC] (last visited July 28, 2025); *see* SANJAY PINTO, CASE STUDIES OF WORKER COOPS HEALTH: COOPERATIVE HOME CARE ASSOCIATES 1 (2022).

10. *Celebrating Worker Ownership at CHCA!*, COOP. HOME CARE ASSOCS.: CHCANY BLOG (May 18, 2023), https://www.chcany.org/blog/celebrating-worker-ownership-at-chca [https://perma.cc/Q24R-AA4D]; *see also* PINTO, *supra* note 9, at 4-5.

11. *See* Gordon Nembhard, *supra* note 3, at 109; *see also* Geoffrey M. Gusoff, Miguel A. Cuevas, Catherine Sarkisian, Madeline R. Sterling, Ariel C. Avgar, & Gery W. Ryan, *Perceived Contributors to Job Quality and Retention at Home Care Cooperatives*, 8 JAMA NETWORK. OPEN, no. 4, 2025, at 4–6, https://jamanetwork.com/journals/jamanetworkopen/fullarticle/2832228/ [https://perma.cc/QZX9-D6KE] (reporting findings from interviews with 32 participants—including 23 home care workers and 9 staff—from five worker-owned cooperatives across diverse racial and age demographics).

Economists have also found that cooperatives help address systemic barriers linked to market failure and exclusion.[12] These findings are particularly significant given that most new worker cooperatives today are founded by women, people of color, and recent immigrants—communities that continue to face persistent barriers to ownership, including discriminatory lending, exclusion from capital markets, exploitative labor practices, and restrictive immigration laws.[13]

Despite its transformative vision, the solidarity economy faces persistent obstacles to scale. Many enterprises operate with limited resources and must navigate legal, financial, and cultural systems designed for conventional firms, not democratic or community-based organizations. These challenges are compounded by dominant economic narratives that dismiss or overlook alternative models, leaving solidarity economy initiatives with limited access to institutional support, policy recognition, political education, and cultural legitimacy. As a result, efforts to grow often struggle to build the durable infrastructure needed to sustain interlinked, values-aligned systems at scale without compromising horizontal governance or local accountability.

This Article advances a novel legal design: the worker cooperative franchise ("WCF"), a hybrid structure that retools conventional franchising mechanisms to scale democratic enterprises. In this model, individual businesses are worker-owned cooperatives operating under a shared brand and system, supported by a nonprofit or cooperative franchisor. The WCF model offers a way to expand cooperatives without sacrificing worker governance or community accountability. Before turning to the legal and organizational contours of the model, however, it is essential to understand how traditional franchising works and why it has

12. *See* JESSICA GORDON NEMBHARD, COLLECTIVE COURAGE 13–14 (1st ed. 2014). Historically, cooperative ownership has served as a strategy for survival and collective prosperity among marginalized communities, particularly Black, immigrant, Indigenous, and working-class groups. *See id.* at 14; *see also* Rijpens & Hermanson, *supra* note 1, at 6 (noting that indigenous communities in North America, with histories spanning over 40,000 years, have long practiced values such as sovereignty, transparent consensus-building, and environmental stewardship that align with contemporary solidarity economy principles); *see also* U.S. DEP'T AGRIC. RURAL BUS.–COOP. SERV., BLACK FARMERS IN AMERICA, 1865-2000: THE PURSUIT OF INDEPENDENT FARMING AND THE ROLE OF COOPERATIVES 13 (ed., 2003).

13. *See* Julian McKinley, *Brightly Cleaning: Lessons from the First U.S. Worker Cooperative Franchise*, FIFTY BY FIFTY (Jan. 16, 2020), https://www.fiftybyfifty.org/2020/01/brightly-cleaning-lessons-from-the-first-u-s-worker-cooperative-franchise/ [https://perma.cc/47U8-VNLT]; *see also* Lynnise E. Pantin, *The Wealth Gap and the Racial Disparities in the Startup Ecosystem*, 62 ST. LOUIS U. L.J. 419, 434–38 (2018) (documenting how structural racism in the startup ecosystem, including disparities in personal wealth, credit access, and investor networks, limits opportunities for entrepreneurs of color, and arguing that these systemic barriers restrict business ownership and wealth-building in marginalized communities); *see also* Carrie Hempel & Gowri J. Krishna, *Within the Law, Beyond Exploitation: The Evolution of Immigrant Worker Cooperatives*, 52 FORDHAM URB. L.J. 931, 985–90 (2025) (describing how federal immigration law excludes undocumented immigrants from formal employment, pushing them into exploitative conditions and legal precarity, and analyzing worker cooperatives as a grassroots response to these systemic barriers).

simultaneously opened and constrained economic opportunity for marginalized entrepreneurs.

Franchising is a widely used business model across the U.S. economy, offering a pathway to entrepreneurship for those excluded from conventional capital networks.[14] In a typical franchise system, the franchisor licenses its brand, systems, and operations to franchisees, who bear financial risk while adhering to strict operational guidelines. Franchisees pay substantial fees and ongoing royalties, while retaining limited control over key business decisions. Although this model has created opportunities for some, it often perpetuates extractive relationships, concentrating profits and control at the top while insulating franchisors from accountability for labor and operational conditions.[15] Unlike worker cooperatives, where operational control rests with the worker-owners themselves, conventional franchisees operate under tightly constrained systems, with limited autonomy over key decisions despite bearing the financial risk.

Legally, the franchise relationship is governed primarily by contract and trademark law, reinforced by disclosure obligations under the Federal Trade Commission's Franchise Rule.[16] These rules emphasize information transparency but leave significant room for asymmetrical terms and limited franchisee protections.[17] The franchise model thus enables rapid market expansion while preserving a high degree of centralized control, often at the expense of franchisee autonomy and equity. In fact, a recent study analyzing franchisee autonomy found that

---

14. *See* Bárbara Zamora-Appel & Nidaal Jubran, *Franchising Is More Than Just Fast Food*, U.S. CENSUS BUREAU (Dec. 1, 2021), https://www.census.gov/library/stories/2021/12/franchising-is-more-than-just-fast-food.html [https://perma.cc/47U8-VNLT] (reporting that 11.4% of businesses in select industries were franchises in 2017, with franchise operations present in 15 of the 18 sectors covered by the Economic Census); *see also* U.S. Chamber of Commerce, Comments on the Franchise Rule Regulatory Review at 4 (June 5, 2023), https://www.uschamber.com/assets/documents/230605_Comments_Franchises_FTC.pdf [https://perma.cc/NDB9-V89Z] (asserting that nearly 30% of franchises are minority-owned compared to just 18% of non-franchised businesses and highlighting franchising as a key avenue for expanding entrepreneurship among underrepresented groups).

15. *See* U.S. GOV'T ACCOUNTABILITY OFF., GAO-23-105338, FEDERAL TRADE COMMISSION: ACTIONS NEEDED TO IMPROVE EDUCATION EFFORTS AND AWARENESS OF COMPLAINT PROCESS FOR FRANCHISE OWNERS 1–2 (2023), https://www.gao.gov/assets/gao-23-105338.pdf [https://perma.cc/H8NM-YYQ3].

16. FTC Disclosure Requirements and Prohibitions Concerning Franchising, 16 C.F.R. pt. 436 (2024).

17. *See* Robert W. Emerson, *Transparency in Franchising*, 2021 COLUM. BUS. L. REV. 172, 175–76 (2021) (observing that while the FTC's Franchise Rule aims to promote disclosure, it often fails to provide franchisees with a clear view of the franchise relationship's most vital components and leaves significant information asymmetries and limited substantive protections).

it has decreased since 2009, as franchisors have expanded control over pricing, sourcing, and territorial rights, often as a precursor to private equity acquisition.[18]

The WCF model reimagines traditional franchising in service of a different set of goals. In this structure, the franchisee businesses are worker-owned cooperatives, and the franchisor may be a nonprofit developer or itself a cooperative owned by the franchisee cooperatives, known as a secondary cooperative.[19] The franchisor provides branding, technical assistance, and operational support, while each cooperative retains democratic governance and collective ownership. This structure can enable more rapid and replicable cooperative development without undermining worker control.

In this way, the WCF model operates as a scaling strategy oriented toward building shared capacity rather than expanding a single firm. Rather than concentrating growth within one enterprise, the model extends cooperative development through common tools, services, and systems that support multiple worker-owned businesses. By adapting franchising to this purpose, the WCF structure enables more efficient and replicable cooperative development: a nonprofit developer that might otherwise help incubate a single cooperative can instead support multiple cooperatives through a shared system, leveraging economies of scale and brand infrastructure while preserving democratic values.

This Article positions the WCF model as a tool for advancing community economic development grounded in democracy, equity, and collective self-determination, particularly for marginalized workers. It contributes to a growing body of legal scholarship on prefigurative strategies that deploy law to help construct institutions aligned with the values of a just economy. The analysis also surfaces

18. *See* ULRICH ATZ, BLAKE ELIASON, PETER NORLANDER, SÉRGIO PINTO, & MARSHALL STEINBAUM, THE BALANCE OF POWER IN FRANCHISING 1 (Apr. 16, 2025), https://marshallsteinbaum.org/wp-content/uploads/2025/10/balance_of_power_in_franchising_10-19-25.pdf [https://perma.cc/9AXM-L2YB] (surveying 350 franchisees and reviewing franchise disclosure documents to detect the presence of contractual clauses that shape the balance of power in franchising relationships).

19. A "secondary cooperative" (sometimes referred to as a federated or apex cooperative) is a cooperative whose members are themselves primary cooperatives, formed to coordinate shared functions such as purchasing, branding, training, financing, or technical assistance while preserving the autonomy and democratic governance of member enterprises. *See, e.g.*, Noel G. Asiones, *Placemaking Cooperation among Co-operatives: The Case of the Union of Church-Based Co-operatives in the Philippines*, 15 J. RURAL & CMTY. DEV. 65, 66–67 (2020) (describing secondary cooperatives as unions of primary cooperatives); *Cooperative Identity, Values and Principles*, INT'L COOP. ALL., https://ica.coop/en/cooperatives/cooperative-identity [https://perma.cc/TZ26-QYE8] (last visited Apr. 19, 2026) (articulating the Sixth Cooperative Principle of cooperation among cooperatives). Cooperative scholars may reasonably view the WCF as a contemporary variation on this long-standing strategy of horizontal integration. This Article adopts the language of franchising not to deny that lineage, but to foreground how coordination among cooperatives operates differently when structured through franchising's legal and institutional architecture—including trademark licensing, standardized contractual controls, and federal and state franchise disclosure and relationship regimes—rather than through cooperative governance and member-driven private ordering alone.

tensions around autonomy, standardization, and control that cooperative franchises must navigate.

The Article proceeds in three parts. Part I situates worker cooperatives within the solidarity economy framework, tracing their legal foundations, historical development in the United States, their role in advancing community economic development, and the barriers that have limited their growth. Part II turns to the conventional franchise model, examining its legal structure, historical growth as a tool of capitalist expansion, and the challenges it presents to equitable business ownership and labor standards. Part III brings these facets together by analyzing the WCF model in depth—how it works, its potential to support values-aligned scaling, and the role of nonprofit intermediaries in its implementation. The Article concludes by reflecting on the broader theoretical and practical significance of hybrid models like this one for building a more just and democratic economy.

I.
WORKER COOPERATIVES AND THE PROMISE OF ECONOMIC DEMOCRACY

Worker cooperatives are not just a legal form of business; they are a core vehicle through which the solidarity economy takes root in practice.[20] As discussed in the Introduction, the solidarity economy is a global movement to build a values-aligned economy grounded in democracy, mutual aid, ecological sustainability, and social justice.[21] Its framework reflects a broader paradigm shift from an "inequality paradigm," grounded in hierarchy, extraction, and exclusion, toward a "solidarity paradigm" rooted in cooperation, collective care, and shared prosperity.[22]

It emerged in response to the failures of both capitalism and state socialism to meet the needs of marginalized communities.[23] The concept of the *social economy* has a much longer genealogy, originating in nineteenth-century France and other francophone contexts and reemerging in the 1970s as a framework for collectively oriented, non-capitalist enterprise.[24] The term "economía solidaria" gained traction in the 1980s and 1990s, particularly in Latin America, where grassroots movements used it to describe networks of economic activity grounded in solidarity rather than competition or profit maximization.[25] Together, these

20. *See The Solidarity Economy*, NEW ECON. COAL., https://neweconomy.net/solidarity-economy/ [https://perma.cc/SB5X-GX9Q] (last visited Oct. 9, 2025).

21. *See What Do We Mean by Solidarity Economy?* SOLIDARITY ECON. PRINCIPLES PROJECT, https://solidarityeconomyprinciples.org/what-do-we-mean-by-solidarity-economy/ [https://perma.cc/AR7Y-TJ93] (last visited Mar. 12, 2026).

22. *See* Matthaei and Slaats, *supra* note 1, at 25.

23. *See* Miller, *supra* note 1, at 1; *see also* Matthaei and Slaats, *supra* note 1, at 36.

24. *See* Jason Spicer, *What's in a Name? Conceptual Frameworks for a Cooperative World, in* HUMANITY @ WORK & LIFE 41, 52 (Christina A. Clamp & Michael A. Peck eds., 2023) (tracing the intellectual and institutional development of the social economy).

25. *See* Miller, *supra* note 1, at 2; *see also* Matthaei and Slaats, *supra* note 1, at 27.

strands came to be referred to as the *social and solidarity economy* (SSE or *économie sociale et solidaire*), a formulation now widely used across Europe, Latin America, and international policy spaces.[26]

In the United States, the term began circulating in the early 2000s, as organizers, scholars, and practitioners named and connected long-standing community survival strategies within a broader political and economic framework.[27] The United Nations formed a Task Force on Social and Solidarity Economy in 2013 in response to the 2008 financial crisis, and later adopted a resolution promoting the social and solidarity economy for sustainable development, marking a significant step in legitimizing solidarity-based alternatives to dominant economic models.[28]

The solidarity economy can be understood as a strand of community economic development ("CED"), which encompasses a wide range of approaches to revitalizing under-resourced communities through locally grounded, justice-oriented strategies.[29] While conventional CED often relies on nonprofit intermediaries and market-oriented tools—such as affordable housing development or small business incubators—to deliver services or foster small-scale development, it has

26. *See* Spicer, *supra* note 24 (discussing the emergence and international use of the social and solidarity economy framework).

27. *See* Miller, *supra* note 1, at 2. The U.S. Solidarity Economy Network was started at the first U.S. Social Forum, held in 2007 in Atlanta, Georgia. *See id.*

28. *See About the Task Force*, U.N. INTER-AGENCY TASK FORCE ON SOC. & SOLIDARITY ECON., https://unsse.org/about/ [https://perma.cc/SB5X-GX9Q] (last visited July 25, 2025); *see also* Matthaei and Slaats, *supra* note 1, at 37; G.A. Res. 77/281, Promoting the Social and Solidarity Economy for Sustainable Development (Apr. 18, 2023) (recognizing the social and solidarity economy as a vehicle for inclusive and sustainable development; affirming its contributions to decent work, gender equity, environmental sustainability, and community resilience; and encouraging Member States to adopt enabling legal frameworks, financial tools, and participatory governance to support social and solidarity economy initiatives). Demonstrating the solidarity economy's global scale and organizational coherence, the Intercontinental Network for the Promotion of the Social Solidarity Economy [RIPESS], founded in 1997, connects national, regional, and continental networks across the globe, articulating shared principles, mapping practices, and coordinating international advocacy and education efforts. *See* KAWANO, *supra* note 2, at 2. In the United States, the U.S. Solidarity Economy Network, a founding member of RIPESS-North America, was established in 2007 to identify, connect, and strengthen solidarity-based economic practices. *Id.*

29. *See* Jason S. Spicer & Evan Casper-Futterman, *Conceptualizing U.S. Community Economic Development: Evidence from New York City*, 43 J. PLAN. EDUC. & RES. 940, 949 (2023) (identifying a "transformative/democratic" strand of community economic development centered on worker cooperatives and economic democracy); ALICIA ALVAREZ & PAUL R. TREMBLAY, ALVAREZ AND TREMBLAY'S INTRODUCTION TO TRANSACTIONAL LAWYERING PRACTICE 357 (2nd ed. 2022) (describing the solidarity economy as an alternative vision of community economic development); Hatcher, *supra* note 2, at 23 (noting that the solidarity economy provides a useful framework for progressive transactional lawyers and transformative community economic development efforts); *see also* William H. Simon, *The Community Economic Development Movement*, 2002 WIS. L. REV. 377, 378-79 (2002) (defining CED as embracing "(1) efforts to develop housing, jobs, or business opportunities for low income people, (2) in which a leading role is played by nonprofit, nongovernmental organizations and (3) that are accountable to residentially defined communities").

been critiqued for reinforcing the very systems it seeks to reform, frequently privileging organizational survival over structural change.[30] Solidarity economy initiatives reject these limitations by adopting a more explicitly transformative approach, emphasizing democratic ownership, collective governance, and structural change rather than service delivery or firm-level survival.[31]

In this respect, solidarity economy efforts align with politicized approaches to CED that Scott Cummings identifies as "progressive," those that use legal and institutional tools to contest structural inequality and redistribute power.[32] They also resonate with what Michael Haber terms "prefigurative CED," a practice that builds institutions and relationships that embody the values of a just economy in the present, rather than deferring transformation to the future.[33] This "building" orientation positions solidarity economy work as part of what movement organizers have called a "resist and build" or "build and fight" strategy: not only opposing extractive systems, but actively creating alternatives.[34] Whereas conventional CED efforts often operate within prevailing capitalist logics, solidarity economy initiatives seek to construct counter-institutions that model a fundamentally different way of organizing economic life.

Worker cooperatives are a leading expression of the solidarity economy, offering not just technical fixes to market failures but structural alternatives rooted

---

30. *See* Scott L. Cummings, *Community Economic Development as Progressive Politics: Toward a Grassroots Movement for Economic Justice*, 54 STAN. L. REV. 399, 447–58 (2001) (critiquing market-based CED for privileging organizational survival and local incrementalism over structural reform and political transformation); Michael Haber, *CED After #OWS: From Community Economic Development to Anti-Authoritarian Community Counter-Institutions*, 43 FORDHAM URB. L.J. 295, 311–12 (2016) (critiquing the CED model for relying on relationships with banks, government agencies, and foundations uninterested in social change, leading to co-optation of community groups and depoliticization of their work).

31. *See* Jason S. Spicer & Evan Casper-Futterman, *Conceptualizing U.S. Community Economic Development: Evidence from New York City*, 43 J. PLAN. EDUC. & RES. 940, 949 (2023).

32. Cummings, *Community Economic Development*, *supra* note 30, at 451-91 (elaborating a progressive model of CED that fuses legal advocacy and grassroots organizing to build cross-neighborhood coalitions, challenge market-based approaches, and advance redistributive reforms such as living wage ordinances, worker cooperatives, and community hiring programs).

33. Haber, *supra* note 30, at 360 (drawing on anti-authoritarian and horizontalist traditions to describe "prefigurative" CED as the creation of grassroots institutions that embody the values of a just economy in the present); *see also* Sameer M. Ashar, *Pedagogy of Prefiguration*, 132 YALE L.J.F. 869, 871 n.8 (2023) (quoting Harsha Walia's definition of prefiguration as an "organizing ethic" grounded in "feminist and trans and disability justice communities of care," which calls for constructing political relationships and institutions that prefigure the communal, non-extractive world movements aim to build); *see also* Miller, *supra* note 1, at 1 (urging that "[w]e do not need to wait for a revolution or for 'capitalism to hit the fan.' We can begin here and now…to construct and strengthen institutions and relationships of economic solidarity").

34. *See* Matthaei and Slaats, *supra* note 1, at 25 (describing how the U.S. Solidarity Economy Network uses the term "resist and build," and Cooperation Jackson refers to a similar approach as "build and fight"); *see also* KAWANO, *supra* note 2, at 21 (describing solidarity economy organizing as the dual work of opposing injustice and building interconnected, viable alternatives to create a critical mass for systemic change).

in democratic control, equitable distribution, and local accountability.[35] While not all cooperatives explicitly identify with the solidarity economy, many embody its core commitments in practice. This Part examines the legal foundations, historical development, community impact, and structural barriers facing worker cooperatives, situating them as a key site for advancing economic democracy and exposing the limitations that make scaling difficult.

A. Definition and Legal Landscape of Worker Cooperatives

The International Cooperative Alliance (ICA) defines cooperatives as autonomous associations of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.[36] Cooperatives are owned and governed by their members rather than by a set of investors trading shares on the market.[37] This structure embodies a vision of economic democracy where workers exercise meaningful control over the decisions that affect their working lives, in contrast to traditional corporate structures where power is concentrated among shareholders and executives. They exist in nearly every country under an array of legal structures and industries.[38] Many cooperatives are small and local in scope, though the model is widespread in agriculture and consumer finance with global brands such as the Associated Press and Visa.[39]

The ICA developed the following seven cooperative principles to guide the operations of cooperatives: (1) voluntary and open membership; (2) democratic member control; (3) member economic participation; (4) autonomy and independence; (5) education, training, and information; (6) cooperation among cooperatives; and (7) concern for community.[40] Cooperatives are not required to abide by these principles to call themselves cooperatives, but in general, the values undergirding these principles signal a contrast from extractive, capitalist business structures.[41]

Cooperatives can be owned and governed by consumers, producers, workers, or some combination of the same. Consumer cooperatives reduce costs and increase access to affordable quality goods and services such as housing, energy,

35. *See* KAWANO, *supra* note 2, at 24–25.

36. *See Cooperative Identity, Values & Principles*, *supra* note 19.

37. *See* Júlia Martins Rodrigues & Nathan Schneider, *Scaling Co-operatives Through a Multi-Stakeholder Network: A Case Study in the Colorado Solar Energy Industry*, 10 J. ENTREPRENEURIAL AND ORG. DIVERSITY 29, 30 (2022).

38. *See id.*

39. *See id.*

40. *See Cooperative Identity, Values & Principles*, *supra* note 19.

41. Note that some states with cooperative corporation statutes only permit entities formed under those statutes to use the word “cooperative” in their legal names.

and food.[42] Energy and utility cooperatives, cooperative grocery stores, credit unions, and housing cooperatives serve these functions.[43] Producer cooperatives are owned by people who produce similar types of goods or services and use the cooperative to more effectively negotiate prices and gain access to larger markets.[44] Some examples include Ocean Spray and Organic Valley.[45] Worker cooperatives are businesses where the workers own the business and have representation on and vote for the board of directors on a one worker, one vote basis.[46] The worker-owners of a cooperative may collectively manage the daily operations or there may be a traditional management structure led by a general manager or chief executive officer.[47]

In investor-owned businesses, profits get distributed based on the number of shares an investor owns. In a cooperative, any net income goes back to members based on some equitable system set by the cooperative.[48] This system is often called "patronage," and the redistributed profits are known as "patronage rebates," "patronage refunds," or "patronage dividends."[49] In a worker cooperative, patronage dividends might be based on the hours worked such that at the end of the year, if the cooperative decided to distribute profits to members, worker-owners who worked more hours that year would get a greater percentage of profits than those who worked fewer hours. A worker cooperative might also consider pay level, seniority, or some combination of those two factors and hours worked to

---

42. *See* Gordon Nembhard*, supra* note 3, at 107.

43. *See id.*

44. *See Types of Co-Ops*, UW CTR. FOR COOPS., https://uwcc.wisc.edu/about-co-ops/types-of-co-ops/#:~:text=Producer%20cooperatives%20are%20owned%20by,value%20and%20increase%20producer%20returns [https://perma.cc/A4FQ-FFQ6] (last visited Oct. 6, 2025).

45. *See About Us*, OCEAN SPRAY, https://www.oceanspray.com/about-us [https://perma.cc/CV66-CLTL] (last visited July 27, 2025) (stating that the company is an agricultural cooperative of around 700 family farmers); *see also About Organic Valley*, ORGANIC VALLEY, https://www.organicvalley.coop/about-us/organic-food-co-op/ [https://perma.cc/Y3VN-PE7E] (last visited July 27, 2025) (noting that the cooperative is made up of over 1,600 family farms across the country).

46. *See What Is a Worker Cooperative?*, *supra* note 7.

47. *See* HILARY ABELL, E. KIM COONTZ, & RICARDO S. NUÑEZ, CALIFORNIA WORKER COOPERATIVES 4 (Karen Khan ed., 2021), https://project-equity.org/wp-content/uploads/2023/07/CaliforniaWorkerCooperatives_October2021_FINAL.pdf [https://perma.cc/YGU7-SDZW].

48. See NORTHCOUNTRY COOP. FOUND., WORKER COOPERATIVE TOOLBOX 4 (2006), https://institute.coop/sites/default/files/resources/372%202006_NCDF_worker_coop_toolbox_0.pdf [https://perma.cc/B3WV-FDHD].

49. ICA GROUP, INTERNAL CAPITAL ACCOUNTS: AN ILLUSTRATED GUIDE TO THE INTERNAL CAPITAL ACCOUNT SYSTEM FOR WORKER COOPERATIVES 3 (2025), https://cdn.prod.website-files.com/65eeda808cdb3e4c9603cbb0/682ce71bd6b0c5e7e844b8ce_ICA-Internal-Capital-Accounts.pdf [https://perma.cc/CL99-SLHH].

determine an equitable formula.[50] Labor input, rather than capital input, determines how the business provides returns.

Worker cooperatives can exist as almost any type of legal entity. Organizing and operating as a worker cooperative is a matter of incorporating cooperative principles into governance documents and practices. Some states have cooperative statutes whereby only entities formed under those statutes may use the word "co-operative" in their legal name, though even with this restriction, cooperatives still use other entity types and informally refer to themselves as cooperatives.[51] The federal tax code relating to tax treatment of cooperatives applies to any corporation operating on a cooperative basis, suggesting that Congress intended it to apply to a wide variety of entities.[52] It allows for cooperatives to enjoy the benefits of single taxation.[53] By default, any profits that the cooperative keeps as retained earnings are taxed at the corporate level, and earnings that it passes to members are taxed only once at the individual level.[54]

B. Brief History of Worker Cooperatives in the United States

Understanding the history of worker cooperatives is essential to recognizing both their potential and the persistent challenges that have shaped their development. Societies around the world have practiced cooperative economics throughout history.[55] The modern worker cooperative model, however, emerged during the early 19th century in Europe, as industrialization spurred technological change, mass production, falling wages, and longer work hours.[56] Urban poverty surged, and workers began organizing in response.[57] Trade unions fought for improved wages and working conditions, but some workers sought deeper economic

---

50. *See* NORTHCOUNTRY COOP. FOUND., *supra* note 48.

51. For example, New York Cooperative Corporation law allows only for entities organized under that statute to use cooperative in the name. *See* N.Y. COOP. CORP. LAW § 3(j) (McKinney 2025) (prohibiting use of the terms "cooperative" or "cooperation" (and variants) in an entity name except by a corporation defined in the chapter; authorizing injunctive relief; making violation a misdemeanor punishable by a fine up to $500).

52. *See* 26 U.S.C. § 1381; *see also* Bruce Mayer, *Worker Co-ops Operating Under Subchapter T and the New Tax Law*, WEGNER CPAS, https://www.wegnercpas.com/worker-co-ops-operating-under-subchapter-t-and-the-new-tax-law/ [https://perma.cc/ASG3-SBPS] (last visited Oct. 11, 2025); CFAES CTR. FOR COOPS., OHIO STATE UNIV., CO-OP MASTERY 22–23 (2019), https://bpb-us-w2.wpmucdn.com/u.osu.edu/dist/7/53284/files/2025/01/Co-op-Mastery-Beyond-Cooperatives-101-Workbook-LoRes.pdf [https://perma.cc/QR9A-JNN9].

53. *See* NORTHCOUNTRY COOP. FOUND., *supra* note 48.

54. *See id.* Note that this taxation applies to entities taxed as corporations. A worker cooperative that organizes as an LLC and is taxed as a partnership would already benefit from single taxation, though there might be tax reasons why an LLC would choose to be taxed as a Subchapter T cooperative. *See* Mayer, *supra* note 52.

55. *See* GORDON NEMBHARD, *supra* note 12; JASON SPICER, CO-OPERATIVE ENTERPRISE IN COMPARATIVE PERSPECTIVE: EXCEPTIONALLY UN-AMERICAN? 183–84 (2024).

56. *See id.*

57. *See id.*

democracy, demanding collective control over their workplaces and communities.[58]

In the United States, worker cooperatives gained traction in the 1860s as a response to industrial disruption.[59] The Knights of Labor, then the largest labor organization in the world, embraced cooperative enterprise as part of their vision of economic democracy, viewing worker ownership as a means of challenging both wage labor and concentrated capital.[60] Cooperative organizing was central to the Knights' strategy, including ambitious efforts to organize Black workers in the post–Civil War South around plans for cooperative ownership of land and enterprises.[61] These efforts provoked fierce resistance. Alongside opposition from industrial employers and financiers, the Knights' cooperative initiatives, particularly those aimed at Black economic self-determination, were met with violent backlash from southern former slaveholders and political elites seeking to preserve the racial and economic order of the postbellum South.[62] The collapse of the Knights in the late 1880s not only dismantled many cooperative experiments but also contributed to the marginalization of worker cooperatives within the national labor movement for decades thereafter.[63]

In the early 20th century, Black leaders recognized the power of cooperatives as a strategy for racial and economic justice.[64] African American cooperative activity peaked during the Great Depression, as communities turned to collective economic strategies in the face of joblessness, poverty, and exclusion from public services.[65]

Worker cooperatives surged again during the social justice movements of the 1960s and 70s, as people challenged the individualism and materialism of

58. *See* Immanuel Ness, *Worker Cooperatives in the United States: A Historical Perspective and Contemporary Assessment*, WORKERSCONTROL.NET: ARCHIVE OF WORKERS STRUGGLE (Mar. 16, 2012), https://www.workerscontrol.net/authors/worker-cooperatives-united-states-historical-perspective-and-contemporary-assessment [https://perma.cc/2L6J-CTJG].

59. *See* ABELL, COONTZ, & NUÑEZ, *supra* note 47, at 9.

60. *See* Kim Voss, *Disposition Is Not Action: The Rise and Demise of the Knights of Labor*, 6 STUD. AM. POL. DEV. 278–79 (1992); SPICER, *supra* note 55, at 183–84; GORDON NEMBHARD, *supra* note 12, at 49–50.

61. *See* Voss, *supra* note 60, at 272, 278, 281 (explaining that the Knights sought to organize workers through cooperative effort as an alternative to the wage system and that local assemblies established cooperative stores and factories); JOHN CURL, FOR ALL THE PEOPLE: UNCOVERING THE HIDDEN HISTORY OF COOPERATION, COOPERATIVE MOVEMENTS, AND COMMUNALISM IN AMERICA 87–88 (2d ed. 2012).

62. *See* SPICER, *supra* note 55, at 10 (explaining that the Knights of Labor pursued cooperative enterprise as an alternative to "wage slavery," including multiracial cooperative organizing that incorporated formerly enslaved Black workers as member-owners and provoked backlash from southern elites seeking to preserve the postbellum racial and economic order).

63. *See id.*

64. GORDON NEMBHARD, *supra* note 12, at 15.

65. *Id.* at 25.

mainstream American capitalism.[66] However, the neoliberal wave ushered in by Ronald Reagan's administration in the 1980s led many cooperatives to be abandoned or bankrupted.[67] By the late 1980s and into the 1990s, new cooperative models began to form, particularly in the domestic work sector.[68] By the mid-1990s, worker cooperatives increasingly served immigrant communities, including undocumented workers who faced systemic exclusion from legal and economic protections.[69] For these workers, cooperatives offered a rare path to stability and dignity, enabling legal ownership and participation in businesses that they collectively controlled.[70]

According to 2023 census data from the Democracy at Work Institute (DAWI), there are over 750 worker cooperatives operating in the United States, though DAWI estimates the actual number to be closer to 1,300.[71] These cooperatives collectively generate more than $480 million in gross annual revenue and include nearly 15,000 worker-owners.[72] Among the cooperatives surveyed, 74% of workers identified as women and over 46% as people of color, including 28% Black or African American and 52% Hispanic/Latinx.[73] The median cooperative has six workers, and pay equity is a defining feature: surveyed cooperatives reported an average bottom-to-top pay ratio of 1:1.45, a sharp contrast to the 1:344 ratio between typical workers and chief executive officers of U.S. corporations.[74] 31% originated as conversions from conventional businesses to worker ownership, while 69% were founded as cooperatives.[75] The top five industries represented were food and beverage, business support services, agriculture, cleaning services, and engineering and manufacturing.[76]

---

66. *See* CURL, *supra* note 61, at 6.

67. *See id.* at 242.

68. *See Care Solutions*, COOP. HOME CARE ASSOCS., https://www.chcany.org/home-care-services-bronx-ny [https://perma.cc/NBW6-4N79] (last visited Apr. 19, 2026); *see also* WAGES: WOMEN'S ACTION TO GAIN ECONOMIC SECURITY, https://na.eventscloud.com/file_uploads/f6cbed7b654e3788ab333faab400a5fb_CS1_InnovationsEship_Armenta.pdf [https://perma.cc/L39Y-A7JJ] (last visited Apr. 19, 2026).

69. *See* Hempel & Krishna, *supra* note 13, at 949–74.

70. *See id.* at 954; *see also* John F. Perea, *The Echoes of Slavery: Recognizing the Racist Origins of the Agricultural and Domestic Worker Exclusion from the National Labor Relations Act*, 72 OHIO ST. L.J. 95, 97 (2011); Jennifer J. Lee, *Legalizing Undocumented Work*, 42 CARDOZO L. REV. 1893, 1894 (2021); McKinley, *supra* note 13.

71. *See* DEMOCRACY AT WORK INST., US FED'N OF WORKER COOPS., 2023 STATE OF THE SECTOR REPORT 2 (2023), https://drive.google.com/file/d/1TDUPYqjfnz3Gx3u7dfjN6HbORi-flGUx8/view [https://perma.cc/5R5J-TCSZ].

72. *See id*. at 2, 4.

73. *See id*. at 3.

74. *See id.*

75. *See id.*

76. *See id.*

C. Worker Cooperatives and Community Economic Development

"We do not aspire to community development as an end but as a means."[77]

This insight, attributed to José María Arizmendiarrieta, a priest who inspired and helped found the Mondragon Cooperatives, captures how worker cooperatives embed democratic values directly into their structure. The cooperative is not simply a tool for development; it can become a site of transformation.

Worker cooperatives have been recognized as a powerful strategy for community economic development, generating wide-ranging benefits for individual workers, communities, and the broader economy.[78] By aggregating the market power of people who, on their own, have little leverage, worker cooperatives enable communities to confront economic exclusion and reclaim control over local resources.[79] They have proven successful in both urban and rural settings, often emerging where markets fail and traditional development strategies overlook community needs.[80] Cooperatives pool resources in capital-starved areas, increase productivity in sectors marked by poor working conditions, and enable democratic control even in the face of growing corporate consolidation.[81]

Cooperatives tend to create jobs that are more stable, fulfilling, and secure than those in conventional businesses.[82] Worker-owners frequently report higher take-home pay, more meaningful work, and greater voice in decisions that affect their livelihoods.[83] Their democratic structures reduce workplace hierarchies and foster dignity. Many also prioritize sustainability and long-term ecological well-being, aligning enterprise operations with community and environmental health.

---

77. *See* Elle Griffin, *The Cooperatist Manifesto that Inspired Mondragon*, THE ELYSIAN (Oct. 14, 2024), https://www.elysian.press/p/the-cooperatist-manifesto-of-mondragon [https://perma.cc/W2QA-5QPT] (quoting José María Arizmendiarrieta).

78. *See* Scott Cummings, *Creating Cooperatives as a Job-Creation Strategy for Low-Income Workers,* 25 N.Y.U. REV. L. & SOC. CHANGE 181, 186–90 (1999); *see also* Carmen Huertas-Noble, *Promoting Worker-Owned Cooperatives as a CED Empowerment Strategy: A Case Study Of Colors and Lawyering in Support of Participatory Decision-Making and Meaningful Social Change*, 17 CLINICAL L. REV. 255, 257–61 (2010); *see also* Alicia Alvarez, *Lawyers, Organizers, and Workers: Collaboration and Conflict in Worker Cooperative Development*, 24 GEO. J. POVERTY LAW & POL'Y 353, 353–55 (2017).

79. GORDON NEMBHARD, *supra* note 12, at 13.

80. *Id.* at 12.

81. *Id.* at 12–13.

82. *See* LAURA HANSON SCHLACHTER & OLGA PRUSHINSKAYA, DEMOCRACY AT WORK INST., US FED'N OF WORKER COOPS., HOW ECONOMIC DEMOCRACY IMPACTS WORKERS, FIRMS, AND COMMUNITIES (2022), https://results4america.org/wp-content/uploads/2019/12/Impacts-of-Economic-Democracy.pdf [https://perma.cc/M3SF-LYKV]; *see also* HILARY ABELL, PROJECT EQUITY, THE CASE FOR EMPLOYEE OWNERSHIP 12–16 (2020), https://project-equity.org/wp-content/uploads/2023/06/The-Case-for-Employee-Ownership_Project-Equity_May-2020-2.pdf [https://perma.cc/U6QC-HE6Q].

83. *See* Katrina Vanden Heuvel, *Is This a Form of Capitalism Progressives Can Embrace*?, THE NATION, (Aug. 15, 2023), https://www.thenation.com/article/economy/working-class-jobs-capitalism/ [https://perma.cc/SPR8-MDRZ]; *See* ABELL, COONTZ, & NUÑEZ, *supra* note 47, at 9.

Importantly, cooperatives have demonstrated resilience in times of economic crisis. During the COVID-19 pandemic, while many small businesses suffered steep revenue losses, workers adapted more successfully by prioritizing worker welfare and collective decision-making.[84] Only 20% of worker cooperatives surveyed reported losing more than half of their revenue in 2021, compared to 28% of all small businesses.[85] Their governance structures and long-term orientation enabled them to weather economic shocks while maintaining stability for members.

These benefits are especially pronounced in industries known for precarious or exploitative labor. One in six workers in the United States is an immigrant, and immigrants are disproportionally represented in low-wage service jobs.[86] In industries like home cleaning and other gig-based sectors, cooperatives allow workers to reclaim power over their labor by setting their own schedules and rates, pooling earnings, and implementing benefits such as paid time off, features rarely available through mainstream platforms.[87] Whereas gig economy platforms often take 20% or more in fees from workers' earnings, cooperatives' profits go back to workers.[88] Moreover, by offering higher wages, better conditions, and more stable jobs, they compel conventional employers to compete for workers on more equitable terms, exerting upward pressure on labor conditions across entire industries.

Governments and institutions are increasingly recognizing these advantages. The United Nations declared 2025 the second International Year of Cooperatives, noting their role in advancing gender equity, environmental sustainability, and inclusive development.[89] At the local level, a growing number of cities are embedding cooperative strategies into broader economic justice frameworks. Since 2014, New York City has steadily expanded its investment in worker cooperatives, now allocating over $3 million annually to support their development as part of a strategy to create quality jobs and support underserved communities. The City of

84. *See The 2021 State of the Sector Report Is Now Available*, U.S. FED'N OF WORKER COOPS. (Apr. 18, 2022) https://www.usworker.coop/blog/2021-state-of-the-sector-is-available-now/ [https://perma.cc/7KRW-H973].

85. *See id.*

86. *See* Nathalie Jimenez, *New York Cleaners Create New Path to Entrepreneurship*, BBC NEWS (Oct. 25, 2022), https://www.bbc.com/news/business-63221411 [https://perma.cc/PL44-RQ4E].

87. *See* Gordon Nembhard, *supra* note 3, at 108; *see also* Courtney Duchene, *Worker-Owned Cleaning Co-op Brightly Comes to Philadelphia*, PHILA. CITIZEN (June 21, 2022), https://thephiladelphiacitizen.org/brightly-cleaning-philly/ [https://perma.cc/6P48-4J43].

88. *See* Eillie Anzilotti, *Worker-Owned Domestic Cleaning Businesses Are Gearing Up for a Massive Expansion*, FAST CO. (July 1, 2019), https://www.fastcompany.com/90370579/worker-owned-domestic-cleaning-businesses-are-gearing-up-for-a-massive-expansion [https://perma.cc/7AJL-FNQY].

89. *See 2025 Designated as the UN International Year of Cooperatives*, U.N. DEP'T ECON. & SOC. AFFS. (Feb. 23, 2024), https://social.desa.un.org/issues/cooperatives/news/2025-designated-as-the-un-international-year-of-cooperatives [https://perma.cc/TW2U-K6PQ].

Chicago's Community Wealth Building Initiative likewise prioritizes community ownership and democratic control as tools to address long-standing racial and economic disparities.[90] At the same time, scholars note that public support for worker cooperatives is often framed through market-oriented economic development logics, which can expand cooperative activity while also constraining its transformative potential.[91] Across the country, municipalities, philanthropic foundations, and economic development agencies are beginning to treat worker cooperatives not as niche alternatives but as viable instruments of equity-driven economic development.

Scaling worker cooperatives could produce transformative benefits, not just for individual workers, but for entire communities and regional economies. Widespread cooperative ownership could help anchor capital locally, reduce income inequality, and create dignified jobs in sectors long defined by precarity and exploitation. As cooperatives grow in number and size, they can coordinate supply chains, circulate capital within communities, and build shared infrastructure that democratizes both ownership and control.[92] In this way, scaling worker cooperatives is not simply a strategy for enterprise growth, but a pathway toward broader systems change grounded in the principles of the solidarity economy.

D. Barriers to Scale

Despite their transformative potential, cooperatives, especially worker cooperatives, remain a small share of the economy.[93] Worker cooperatives encounter well-documented challenges. These include limited public awareness, capital constraints, higher costs of organizing and maintaining collective governance structures compared to conventional firms, and inadequate legal and policy support.[94]

---

90. *See* OFF. OF EQUITY & RACIAL JUST. & CWB ADVISORY COUNCIL, CITY OF CHI., COMMUNITY WEALTH BUILDING INITIATIVE 6 (2023), https://www.chicago.gov/content/dam/city/sites/community-wealth-building/pdfs/OERJ_CWB_Report.pdf [https://perma.cc/3C28-UVED].

91. See Jason S. Spicer & Evan Casper-Futterman, *Conceptualizing U.S. Community Economic Development: Evidence from New York City*, 43 J. PLAN. EDUC. & RES. 940, 950–52 (2023) (discussing the instrumental framing of worker cooperatives within municipal economic development policy).

92. *See* JESSICA GORDON NEMBHARD, NEXT SYS. PROJECT, BUILDING A COOPERATIVE SOLIDARITY COMMONWEALTH 8 (2020), https://base.socioeco.org/docs/jessicagordonnembhard.pdf [https://perma.cc/QN42-GCVP]; Melissa Hoover & Hilary Abell, Project Equity & Democracy at Work Inst., The Cooperative Growth Ecosystem: Inclusive Economic Development in Action 38 (2016), https://institute.coop/sites/default/files/resources/Ecosystem%20Report.pdf [https://perma.cc/MAZ9-X3Q3].

93. *See* Jason Spicer, *Cooperative Enterprise at Scale: Comparative Capitalisms and the Political Economy of Ownership*, 20 SOCIO-ECON. REV. 1173, 1173–74 (2022); *see also* Martins Rodrigues & Schneider, *supra* note 37, at 30.

94. *See* Martins Rodrigues & Schneider, *supra* note 37, at 30; *see also* Peter Molk, *The Puzzling Lack of Cooperatives*, 88 TUL. L. REV. 899, 946 (2014).

Cooperatives are often dismissed as marginal or "sleepy," even by influential economists.[95] At a 2019 conference, former U.S. Treasury Secretary Larry Summers disparaged worker cooperatives as short-sighted and stagnant: "When you put workers in charge of firms and you give them substantial control over the firms," he said, "the one thing you do not get is expansion. You get more for the people who are already there."[96] Such views reinforce the idea that cooperatives are incapable of scaling and obscure the systemic barriers they face in doing so.

Perhaps most critically, they face deep and persistent capital constraints.[97] Financial capital is more readily available to profit-maximizing firms, which benefit from access to venture capital and private equity—sources that favor extractive rapid growth and maximum profit, and impose governance structures incompatible with cooperative values.[98] Because cooperatives prioritize member control and equitable surplus distribution, they "often cannot deliver the returns that investors expect from speculative investments," limiting their ability to attract mainstream financing and pushing them to rely on internal capital or mission-aligned funders.[99] These constraints are especially acute in the kinds of capital-poor or structurally excluded environments where worker cooperatives most often emerge, further limiting their capacity to grow.[100]

These capital challenges are compounded by what legal scholars identify as higher governance and coordination costs.[101] Cooperatives typically raise equity only from their members, not from the broader investing public, resulting in smaller, more interdependent capital pools and elevated financial risk.[102] At the same time, collective decision-making can be slower and more complex, as members often have divergent interests based on their roles as workers, consumers, or producers, compared to investor-owned firms, where shareholders are more likely to share the singular goal of maximizing financial returns.[103] Scholars challenges the dominant "evolutionary" theory of ownership, which treats the scarcity of cooperatives as evidence of inefficiency, arguing instead that cooperatives function like organizational public goods: they generate broad social value but require

95. Nick Romeo, *How Mondragon Became the World's Largest Co-op*, NEW YORKER, August 27, 2022, https://www.newyorker.com/business/currency/how-mondragon-became-the-worlds-largest-co-op [https://perma.cc/K4LB-EGYN].

96. *Id*.

97. *See* Martins Rodrigues & Schneider, *supra* note 37, at 30.

98. BRETT FAIRBAIRN, THE MEANING OF ROCHDALE: THE ROCHDALE PIONEERS AND THE CO-OPERATIVE PRINCIPLES 4 (1994), https://www.columbia.edu/~hauben/amalgamated/history/35/Meaning_of_Rochdale.pdf [https://perma.cc/QK9P-W2VP].

99. *See* Martins Rodrigues & Schneider, *supra* note 37, at 30.

100. *See id.*

101. *See* HENRY HANSMANN, THE OWNERSHIP OF ENTERPRISE 21 (1996); Molk, *supra* note 94, at 926–28.

102. *See* Molk*, supra* note 94, at 926–28.

103. *See* Hansmann, *supra* note 101, at 89–91; Molk, *supra* note 94, at 926–28.

substantial upfront coordination and governance costs that markets fail to subsidize.[104] Their absence, then, reflects structural exclusion rather than economic failure.

For low-wage and under-resourced workers, those most often drawn to the cooperative model, these challenges are magnified. Starting a business, let alone a cooperative, requires time, specialized skills, and access to legal and technical infrastructure that may be out of reach for people already working long hours or facing economic insecurity.[105] These barriers are further exacerbated by racial and economic inequality, which restricts access to capital and institutional legitimacy for the very communities most drawn to cooperative models.

Legal and policy frameworks are inconsistent and often insufficient.[106] Though nearly every state has some form of cooperative statute, the laws vary widely in their applicability to worker co-ops. Many lack clear provisions on governance, capitalization, patronage-dividend eligibility, or incorporation procedures, forcing cooperatives to rely on statutes designed for consumer or agricultural co-ops, or on alternative forms like limited liability companies or general partnerships.[107]

The legal architecture of U.S. markets is built around the investor-owned firm and a presumption of atomized competition among formally independent enterprises. Historically, this framework has treated coordination among firms as legally suspect under antitrust law.[108] As a result, cooperatives have long faced a structural mismatch: scaling often requires sustained inter-firm collaboration, such as shared infrastructure, joint marketing, and standardized systems, yet U.S. competition policy has repeatedly policed such coordination as a potential restraint of trade.[109] Although agricultural cooperatives ultimately secured protection through federal legislation, those protections emerged as narrow, defensive exemptions from antitrust liability rather than as comprehensive enabling frameworks for

104. Molk, *supra* note 94, at 928–29.

105. *See* COOPS. UNIT, INT'L LAB. ORG. [ILO], COOPERATING OUT OF ISOLATION: DOMESTIC WORKERS' COOPERATIVES 3 (2014), https://researchrepository.ilo.org/esploro/outputs/encyclopediaEntry/Cooperating-out-of-isolation-domestic-workers/995270589502676/filesAndLinks?index=1 [https://perma.cc/955Y-4GTM].

106. *See* Spicer, *supra* note 93, at 1173–74; *State Cooperative Statute Library*, NAT'L COOP. BUS. ASS'N, https://ncbaclusa.coop/resources/state-cooperative-statute-library/ [https://perma.cc/4JWD-4TK8].

107. *See, e.g.*, Hempel & Krishna, *supra* note 13, at 984.

108. See SPICER, *supra* note 55, at 205–07 (explaining that U.S. antitrust law developed early alongside the rise of large investor-owned firms and came to privilege atomized firm behavior while restricting informal or cooperative coordination among independent enterprises).

109. *See id.* (noting that antitrust law, though intended to limit concentrated corporate power, was used to challenge or threaten the legal status and inter-firm coordination practices of cooperatives).

cooperative coordination.[110] This history helps explain why worker cooperatives have struggled to develop shared infrastructure at scale within the U.S. legal environment, while investor-owned firms have long relied on franchising as a normalized form of coordination among legally independent enterprises.

Still, examples like Cooperative Home Care Associates (CHCA), as described in the Introduction, show that scale is possible under different conditions.[111] Founded in 1985 in the South Bronx, CHCA grew from a dozen workers to more than 1,600 employees and over $57 million in revenue by 2021.[112] As of 2014, it was owned almost entirely by women of color.[113] Its success rests in part on the creation of an intentional and multi-layered ecosystem: a workforce training institute, wraparound support services, a nonprofit managed care partner, and a long-standing alliance with 1199SEIU, a healthcare workers' union.[114] CHCA has since been replicated in Philadelphia and Boston.[115] Most recently, it joined a Bronx-based pilot connecting union-affiliated housing cooperative residents with CHCA's values-aligned homecare services, demonstrating how cross-sector collaboration can expand access.[116]

Although its model remains exceptional, CHCA demonstrates that scale is possible when cooperatives are embedded in supportive institutional ecosystems and aligned financing structures. A growing body of practice and research suggests that cooperative growth need not replicate the centralization of capitalist

---

110. *See* John Hanna, *Antitrust Immunities of Cooperative Associations*, 13 L. & CONTEMP. PROBS. 488, 493–95 (1948) (describing early state and federal antitrust actions against cooperative arrangements and the resulting push for legislative exemptions); Note, *Cooperatives and the Antitrust Laws*, 27 IND. L.J. 430, 432–35 (1952) (describing federal cooperative exemptions as limited protections against antitrust liability, not comprehensive authorizations for coordinated market activity). These efforts culminated in the Capper-Volstead Act of 1922, often described as the "Magna Carta" of agricultural cooperatives. *See* SPICER, *supra* note 55, at 206. Capper-Volstead, however, functioned primarily as a defensive response to the Sherman Act: it exempted qualifying agricultural cooperatives from antitrust prosecution by exception, without establishing a broader affirmative right for cooperatives across sectors to engage in shared market activity or inter-firm coordination. *Id.* at 206; Hanna, *supra*, at 499–501.

111. COOP. HOME CARE ASSOCS., supra note 68.

112. *See* PINTO, *supra* note 9, at 2–4; *see also* E-mail from Katrina Kazda, Vice President, Home Care Innovations, to Gowri Krishna, author (Feb. 24, 2025, at 09:42 ET) (on file with author).

113. *See* Laura Flanders, *How America's Largest Worker Owned Co-Op Lifts People Out of Poverty*, YES! MAGAZINE (Aug. 15, 2014), https://www.yesmagazine.org/issue/poverty/2014/08/15/how-america-s-largest-worker-owned-co-op-lifts-people-out-of-poverty [https://perma.cc/WM5T-VFKC] ("CHCA is over 90 percent owned by women of color . . . .").

114. *See* PINTO, *supra* note 9, at 3.

115. *See id.* at 6–7.

116. *New Economy Roundup: Practicing Abolition, Organized Labor & Housing Co-ops, Black Solidarity Economy Fund*, NEW ECON. COAL. (Feb. 23, 2024), https://neweconomy.net/practicing-abolition-organized-labor-housing-co-ops-black-solidarity-economy-fund/ [https://perma.cc/PAF6-YDZR] (announcing a pilot initiative to expand CHCA's client base and promote cooperative economics by connecting CHCA members to owners of cooperative housing units).

firms.[117] Some co-ops achieve scale through federated systems, where cooperatives form a secondary cooperative made up of smaller cooperative businesses and together share backend functions like accounting, branding, or technology.[118] Others build multi-stakeholder networks involving worker-owned, purchasing, and consumer-owned cooperatives as well as nonprofits, community groups, and anchor institutions.[119] In regions where cooperatives become more common, existing co-ops increasingly provide technical assistance, capital, and mentorship to new ventures—creating self-reinforcing cycles where cooperative development accelerates over time.[120] This approach allows small, locally rooted co-ops to scale their social impact without maximizing organizational growth, creating support ecosystems that strengthen cooperative principles rather than undermining them.[121] Indeed, it embodies principle six of the seven cooperative principles: cooperation among cooperatives.[122]

Worker cooperatives, then, are not constrained by their model but by the ecosystem in which they operate. To move from small, stand-alone projects to structures that can last and grow, they require an enabling environment, one that includes access to finance, legal support, training, and networks.[123] The absence of this support leaves cooperatives struggling to scale, especially in contrast to other models, like traditional franchising, which have long benefited from consolidated capital, established legal frameworks, and institutional legitimacy. As the next Part explores, however, the very structures that enable franchises to scale also

117. *See* Martins Rodrigues & Schneider, *supra* note 37, at 47–49; Hoover & Abell, *supra* note 92; *see* Spicer, *supra* note 93, at 1178.

118. *See* Martins Rodrigues & Schneider, *supra* note 37, at 31–33.

119. *See id.* at 33 (describing a multi-stakeholder cooperative network in Colorado's solar industry composed of a worker cooperative (Namasté Solar), a purchasing co-op (Amicus Solar), a shared-services co-op (Amicus O&M), a consumer-owned credit union (Clean Energy Credit Union), and an investor co-op (Kachuwa Impact Fund), which together coordinate backend functions and advance shared social and environmental goals while maintaining independent governance structures).

120. *See* Hoover & Abell, *supra* note 92, at 18.

121. Enekoitz Etxezarreta, Unai Villalba-Eguiluz, Pablo Arrillaga, and Ricard Mendieta, *How to Grow Without Getting Bigger: Inter-Cooperation as a Scaling Strategy for Social and Solidarity Economy Organizations*, 65 Bus. & Soc'y 1249, 1250–52 (2025).

122. *Cooperative Identity, Values & Principles, supra* note 19; *see also* Spicer, *supra* note 93, at 1178.

123. *See* Jason Spicer & Michelle Zhong, *Multiple Entrepreneurial Ecosystems? Worker Cooperative Development in Toronto and Montréal*, 54 EPA: ECON. & SPACE 611, 628–29 (2022). Spicer and Zhong conceptualize a "worker cooperative ecosystem" as analytically distinct from dominant entrepreneurial ecosystems centered on investor-owned firms, offering a taxonomy of ecosystem elements necessary to support worker-owned enterprises. *See id.* Their analysis highlights the importance of cooperative-specific finance, legal infrastructure, training, policy supports, and networks, and demonstrates how gaps in these areas, rather than the cooperative form itself, limit worker cooperatives' ability to grow and endure. *Id.*

generate deep tensions, particularly around ownership, control, and community impact.

II.
FRANCHISING AS A TOOL OF CAPITALIST EXPANSION

> Amin Abdelkarim immigrated from Egypt to Dallas and worked two jobs at DFW to save in search of his American Dream. He purchased a Dickey's Barbecue franchise. He was given a disclosure document and a spreadsheet showing estimated startup costs. The estimates were grossly incorrect, and his startup capital was spent getting open. He opened his business in August of 2018, and he contacted me 1 month later. He was already broke and could not make the payment to a [federal] 7(a) loan. His message to me was: "In a few weeks, I will find myself, my disabled wife, and my 89-year-old mother-in-law in the street, with no house, no car, and no money."[124]

> You have to remember that it is these local franchisees that are the employers of the masses, not the franchise company. Most of us employers would like to pay higher wages to attract and retain employees, but simply, we have to make the business model work for us, which is a real challenge. I just don't think the industry has realized that its sustainability long-term, is the more balanced distribution of the monies in the business, from the franchise company, to the franchise owners, to the employees.[125]

These stories, given as testimony during a July 2019 Congressional Hearing on Exploring the Barriers to Economic Mobility and Making the American Dream Attainable for All Americans, reveal common problems related to franchise businesses.[126] An imbalance of power between a franchise system owner and its individual franchisee business owners creates conditions for abuse of the franchisees. Franchisee advocacy groups emphasize that because of little transparency and oversight, it is "an industry with far too many examples of predatory franchise companies that take advantage of prospective entrepreneurs."[127] Franchises further have a reputation for producing low-paying, low-quality jobs, with high

124. *Economic Mobility: Is the American Dream in Crisis?: Hearing Before the Subcomm. on Econ. Pol'y of the S. Comm. on Banking, Hous. & Urb. Affs.*, 116th Cong. 13 (2019) [hereinafter *Economic Mobility Hearing*] (statement of Keith R. Miller, Principal, Franchisee Advoc. Consulting).

125. *Id.* at 84.

126. *Economic Mobility Hearing*, *supra* note 124.

127. *Id.* at 12.

employee turnover, extensive use of part-time and temporary employees, and minimal benefits.[128]

Yet despite these concerns, franchisee advocacy groups ultimately support the franchise business model itself, deeming it a "brilliant model" for expanding entrepreneurship.[129] Franchising has historically been promoted as a tool of opportunity, particularly for those with limited capital or access to traditional business networks.[130] A Small Business Administration study credited franchising with enabling thousands of small business owners to enter the market, emphasizing its replicable structure, defined support systems, and lower barriers to entry.[131] The model's appeal lies in its promise of business ownership through association with a successful brand and a proven format.[132]

Indeed, franchising is frequently heralded as a vehicle for entrepreneurship, allowing individuals, particularly immigrants and aspiring small business owners with limited capital, to achieve a version of the American Dream.[133] But this celebratory narrative obscures the underlying structure of the franchise model and how it concentrates power and diverts value from local operators. At its core, franchising represents a strategy of expansion that transfers operational and financial risk downward to individual franchisees while channeling profits and control upward to centralized corporate franchisors. It allows franchisors to scale their

---

128. *See* Peter Cappelli and Monika Hamori, *Are Franchises Bad Employers?* 61 IND. & LAB. RELS. REV. 147, 148 (2008). The New York City Department of Consumer and Worker Protection secured $2.7 million in relief for workers from businesses that included Taco Bell and Domino's Pizza franchises. The Department's investigation found that Taco Bell violated workplace laws in 10 locations across New York City by failing to provide workers with paid safe and sick leave, pay premiums for schedule changes, give current workers opportunities to work regular hours before hiring new workers, obtain workers' consent when adding hours to schedules, and failing to give workers work schedules 14 days in advance of the start of their schedule. *Protecting Workers: DCWP Settles Six Major Companies' Workplace Violations*, N.Y.C. DEP'T CONSUMER & WORKER PROT. (Jan. 26, 2024), https://www.nyc.gov/site/dca/news/006-24/protecting-workers-dcwp-settles-six-major-companies-workplace-violations [https://perma.cc/DF5W-SLBP].

129. Testimony of Keith R. Miller, *supra* note 124, at 12.

130. *See* URBAN B. OZANNE & SHELBY D. HUNT, THE ECONOMIC EFFECTS OF FRANCHISING 63 (1971) (concluding that without franchising, thousands of small businessmen would never have owned their own businesses and that franchising allows entrepreneurs with little capital to build multi-unit organizations).

131. *Id.*

132. *See* Steven R. Beck, *Foreword* to WOUTER DEELDER & ROBIN A. MILLER, DALBERG GLOB. DEV. ADVISORS, FRANCHISING IN FRONTIER MARKETS, at vii (Sid Seamans & Timothy Ogden eds., 2009).

133. *See* Heather McLeod, *How Franchising is Making the American Dream Possible for Immigrant Entrepreneurs*, FRANCHISING MAG. USA, https://franchisingmagazineusa.com/special-feature/how-franchising-is-making-the-american-dream-possible-for-immigrant-entrepreneurs/ [https://perma.cc/MV8C-89BJ] (last visited Oct. 11, 2025); *see also Immigrants Redefining the American Dream through Franchising*, INT'L FRANCHISING ASSOC. (June 16, 2015), https://www.franchise.org/2015/06/immigrants-redefining-the-american-dream-through-franchising/ [https://perma.cc/5VQX-7ZP4].

businesses rapidly without the costs or liabilities associated with direct ownership. Franchisees, meanwhile, take on the burdens of day-to-day management, employee oversight, and regulatory compliance, often under tightly controlled contractual terms that leave little room for genuine autonomy. The franchise relationship thus embodies a fundamental tension: decentralization of risk and responsibility alongside centralization of control and profit extraction. Stories like Amin Abdelkarim's illustrate how these structural tensions play out in individual lives, transforming dreams of entrepreneurship into cycles of debt and dependency.[134] In contrast, worker cooperatives internalize both risk and control, aligning accountability with decision-making and prioritizing collective benefit over brand expansion.

This Part provides a foundational overview of the traditional franchise model, including its legal structure, historical development, and its evolving role in the U.S. economy. It begins by outlining the legal definition and governance of franchises under federal and state law, then traces the historical emergence of franchising as a business strategy. Subsequent sections examine how franchising has functioned as an avenue for entrepreneurship, particularly among immigrants and marginalized groups, while also engaging critiques of the model's structural inequities, risks for exploitation, and labor precarity. By highlighting the core strengths of franchising alongside its deep limitations, this Part lays the groundwork for understanding why the worker cooperative franchise model is both promising and possible.

A. Definition and Legal Landscape of Franchises

The Federal Franchise Rule defines a franchise as any continuing commercial relationship or agreement in which a franchise seller promises that (1) a franchisee has the right to operate a business or to sell or distribute goods or services using a franchisor's trademark; (2) the franchisor maintains the right to exert a significant amount of authority and control over the franchisee's methods of business operation or assist in the franchisee's methods of business operations; and (3) as a condition of opening the franchise, the franchisee remits payment to the franchisor.[135] Essentially, a franchise is a contractual relationship between a franchisor and a franchisee whereby the franchisor grants a franchisee a license to duplicate the franchisor's business model, use trademarks, and benefit from training, business systems, and ongoing support.[136] The franchisee pays the franchisor an initial

134. *Economic Mobility Hearing*, *supra* note 124.

135. FTC Disclosure Requirements and Prohibitions Concerning Franchising, 16 C.F.R. § 436.1(h) (2026).

136. *The Ultimate Guide to Franchising Your Business*, INTERNICOLA L. FIRM, https://www.franchiselawsolutions.com/learn/how-to-franchise [https://perma.cc/M8NB-SX54] (last visited Oct. 11, 2025).

franchise fee and ongoing fees (royalties) to use the business' brands, methods, and reputation.[137]

A franchise agreement between the franchisor and the franchisee spells out the terms of the franchising relationship.[138] It typically includes provisions related to the use of trademarks, territory, duration of the agreement, training and support, fees and royalties, and conditions for termination or renewal. A key supplement to that agreement is the operations manual, which is often where the franchisor's detailed requirements and procedures are laid out.[139] It governs day-to-day operations, branding, staffing, customer service, compliance, and other elements critical to maintaining consistency across franchise units.[140] The manual thus serves as both a training resource and a tool of operational control, reinforcing the franchisor's ability to oversee and standardize the business system.

For the franchisor, franchising the business is "a means to distribute widely and rapidly a product, service, or method of doing business without the significant capital investment and risk attendant to owning all levels of distribution."[141] For the franchisee, the franchise arrangement is "an opportunity to make money by joining an established system of doing business—a system that features multiple locations, a recognized brand, and uniform products, services, or business methods."[142] Franchisees also gain access to a peer group of franchisees.[143]

Economists describe franchises as permitting transactors "to achieve whatever benefits of large scale may be available in, for example, brand name development and organization design, while harnessing the profit incentive and retailing effort of local owners."[144] Economies of scale tend to center around collective purchasing agreements, marketing campaigns, and operational protocols.[145] Achieving economies of scale is primarily how profitability increases in a

137. *See id.*

138. *See id.*

139. *See id.*

140. *See Field Guide to the FDD* § 2.24, SPADEA LIGNANA FRANCHISE ATT'YS, https://www.spadealaw.com/field-guide/2-what-is-an-fdd/2-24operations-manual/ [https://perma.cc/CP98-BAYM] (last visited Oct. 11, 2025).

141. William L. Killion, *The History of Franchising*, *in* FRANCHISING: CASES, MATERIALS, AND PROBLEMS 1, 2 (Alexander M. Meiklejohn ed., 2013), https://www.americanbar.org/content/dam/aba-cms-dotorg/products/inv/book/215742/Chapter%201.pdf [https://perma.cc/2CHL-RHGR].

142. *Id*.

143. Kerry Pipes, *What Kinds of Opportunities Does Franchising Offer? (Part 2)*, FRANCHISING.COM, https://www.franchising.com/guides/brand_awareness_and_economies_of_scale.html [https://perma.cc/99C4-CMDS] (last visited Jan. 30, 2024).

144. Benjamin Klein, *The Economics of Franchise Contracts*, 2 J. CORP. FIN. 9, 10 (1995).

145. *See* Emma Yorra, Social Franchise Cooperatives – A Tool for Scaling Social Justice: Detailing Systems and Structures 18 (Jan. 22, 2018) (M.A. thesis, Mondragon University) (on file with author).

franchise system.[146] Having higher volumes of goods and services to purchase from vendors gives franchisors who purchase products and services for their franchise network the power to negotiate significant discounts.[147] Because economies of scale rely on the "power of numbers," franchise proponents argue that franchisees gain access to cost advantages they wouldn't have when starting independent businesses—advantages that can lead to higher operating margins.[148]

Federal and state laws govern the registration, offer, and sale of franchises as well as the legal relationship between franchisors and franchisees.[149] The Federal Franchise Rule, enforced by the Federal Trade Commission, applies to franchise transactions in all fifty states.[150] The Federal Franchise Rule requires franchisors to provide a franchise disclosure document (FDD) with minimum standards for what a franchisor must disclose.[151] The purpose of the FDD is to provide prospective franchisees with information about the franchise system so that they can make an informed decision about whether to become a franchisee.[152] The information a franchisor must provide to a prospective franchisee in an FDD includes background information on the franchisor, the costs of entering the business, the legal obligations of the franchisor and the franchisee, statistics on franchised and company-owned outlets, and audited financial information.[153]

Each state also has its own approach to regulating franchises.[154] Some states require franchisors to register their franchise disclosure document before offering or selling a franchise and to update that registration at least annually.[155] Other

146. *See* Steve Beck, Wouter Deelder, & Robin Miller, *Franchising in Frontier Markets: What's Working, What's Not, and Why*, 5 INNOVATIONS: TECH., GOVERNANCE, GLOBALIZATION 153, 156 (2010). Economies of scale are cost advantages companies experience when production becomes more efficient and costs are spread over a larger amount of goods. *See also* Will Kenton, *Economies of Scale: What Are They and How Are They Used?*, INVESTOPEDIA (Mar. 16, 2026), https://www.investopedia.com/terms/e/economiesofscale.asp [https://perma.cc/RX64-JPSA].

147. *See* Martins Rodrigues & Schneider, *supra* note 37, at 30.

148. *See id.*

149. *What Are the Franchise Laws?*, FRANCHISE L. SOLS., https://www.franchiselawsolutions.com/franchising/franchise-laws [https://perma.cc/3QVR-YVWT] (last visited Jan. 27, 2024).

150. *Id.*

151. 16 C.F.R. pt. 436 (2025).

152. *See* Disclosure Requirements and Prohibitions Concerning Franchising and Business Opportunities, 72 Fed. Reg. 15444, 15445–49 (Mar. 30, 2007) (codified at 16 C.F.R. pt. 436).

153. 16 C.F.R. § 436.5 (2026).

154. *See State Franchise Laws*, INTERNICOLA L. FIRM, https://www.franchiselawsolutions.com/franchising/state-specific-laws [https://perma.cc/C2KQ-LS63] (last visited Oct. 7, 2025).

155. *Id.* (listing California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, Virginia, Washington, and Wisconsin).

states require franchisors to file a notice but do not require full registration.[156] Several states require neither registration nor notice filing.[157]

Separately, some states have enacted franchise relationship laws, which govern the ongoing contractual relationship between franchisors and franchisees, regardless of whether the state requires registration.[158] These laws may include provisions on termination, renewal, noncompete clauses, or transfer rights, and in some cases provide franchisees with protections that go beyond the terms of the franchise agreement.[159]

Some business arrangements may inadvertently meet the legal definition of a franchise, even when the parties did not intend to form one—commonly referred to as an "accidental franchise."[160] Noncompliance with franchise disclosure and registration requirements can expose a business to serious consequences, including rescission of contracts, civil penalties, and regulatory enforcement.[161] Navigating federal and state franchise laws is thus complicated and necessitates businesses having legal counsel to offer, purchase, and maintain franchises.

B. Brief History of Franchises in the United States

This brief history of franchising highlights how the model has achieved rapid and widespread replication, an attribute that offers important strategic insights for efforts to scale cooperative enterprises. Similar to cooperative practices, franchising is a centuries-old phenomenon seen in various forms throughout the world.[162] Earlier than 200 B.C. in China, rickshaw drivers were granted specific routes.[163] In the Middle Ages, European royalty granted land rights to individuals (noblemen/franchisees) who were then required to protect the monarch's (franchisor's)

156. *Id.* (listing Connecticut, Florida, Kentucky, Nebraska, North Carolina, South Carolina, South Dakota, Texas, and Utah).

157. *Id.* (listing Alabama, Alaska, Arizona, Arkansas, Colorado, Delaware, D.C., Georgia, Idaho, Kansas, Louisiana, Maine, Massachusetts, Mississippi, Missouri, Montana, Nevada, New Hampshire, New Jersey, New Mexico, Ohio, Oklahoma, Oregon, Pennsylvania, Tennessee, Vermont, West Virginia, Wyoming).

158. *Id.*

159. *See* Robert W. Emerson & Uri Benoliel, *Are Franchisees Well-Informed? Revisiting the Debate Over Franchise Relationship Laws*, 76 ALB. L. REV. 193, 196–97 (2013).

160. *See* Paul R. Fransway, *Traversing the Minefield: Recent Developments Relating to Accidental Franchises*, 37 FRANCHISE L.J. 217, 218 (2017).

161. *See* 15 U.S.C. § 45(m)(1)(A) (authorizing the Federal Trade Commission to seek civil penalties for violations of trade regulation rules, including the Franchise Rule); 15 U.S.C. § 53(b) (authorizing the FTC to seek injunctive relief to halt ongoing or imminent law violations); *see also* N.Y. GEN. BUS. LAW § 691(1), (3) (2014) (authorizing civil liability, including rescission, for violations of the New York Franchise Sales Act).

162. *See* Beck, Deelder, & Miller, *supra* note 146, at 155.

163. *See id.*

territory by establishing an army.[164] The nobleman could charge tolls and collect taxes, remitting a portion to the monarch.[165]

The franchise model took off in the United States after World War II.[166] People returning from the war were looking for jobs and were ready to start families and spend money, creating ideal market conditions.[167] The expansion of service and retail sectors, along with an increase in people's abilities to buy franchised goods and franchised businesses helped create a boom during this period.[168] The initial surge consisted primarily of soft-serve ice cream stores. These establishments grew from approximately 100 stands before WWII to 18,000 by 1960.[169] The franchisors sold large territories "without retaining meaningful controls over the nature and quality of the goods sold under their trademarks."[170] The systems utilized patented soft-serve machines, as opposed to trademarks, as the symbol of uniform products and services.[171] This approach contrasted with the type of franchising prevalent today, known as "business format franchising."[172]

Business format franchising traces its history back to the start of McDonald's in the mid-1950s. In this format, the franchisor licenses its trademark and entire business format—a marketing strategy and plan, operating manuals and standards, quality control and continuing process of assistance—so that each franchise location is indistinguishable to the consumer from all others displaying the franchisor's brand.[173] McDonald's pioneered this approach by building "a central organization to develop standards of operation, train franchisees, and enforce compliance with standards through supplier relationships and field inspections."[174] In this way, McDonald's is thought to have invented the concept of quality assurance that every fast-food franchisor now pursues.[175] The "Great Franchise Explosion" occurred with the March 1966 public offering of Kentucky Fried Chicken.[176] Franchising grew from 50,000 franchisees in 1955 grossing $2.5 billion annually to 670,000 franchisees with a volume of $900 billion a year by 1970.[177]

164. *See id.*
165. *See id.*
166. *See* Killion, *supra* note 141, at 9.
167. *See id.*
168. *Id.*
169. *See id.*
170. *See id.*
171. *Id.*
172. *See id.* at 3–4, 10.
173. *See id.*
174. *See id.*
175. *See id.*
176. *Id.* at 12.
177. *Id.* at 13.

This period of boom occurred in a largely unregulated environment. As franchising expanded, so did instances of fraud and abuse, particularly involving misrepresentations made by franchisors and lack of transparency around franchise fees, earnings, and ongoing obligations.[178] In response, in the early 1970s, several states began to enact franchise-specific laws to protect franchisees.[179] California passed the first franchise investment law in 1971,[180] followed by other states like Illinois, Maryland, and New York.[181]

In 1970, the Small Business Administration commissioned a comprehensive study of franchising that encouraged protective legislation and regulatory reforms while recognizing franchising's positive economic contributions.[182] The study, conducted by the University of Wisconsin, examined franchising's potential to lower barriers to small business formation by providing economies of scale and proven business models to aspiring entrepreneurs.[183] The researchers concluded that "any system which opens up economic opportunities for the 'little guy' should be carefully nourished and protected. Franchising represents a viable alternative to large, completely integrated corporate chains. Since the net economic effects of franchising are positive, any legislation which would cripple this very important segment of our economy should be avoided."[184] However, the study also identified significant problems including misleading profit projections by franchisors, heavily imbalanced franchise agreements, and the need for franchisee protection from arbitrary termination.[185] The researchers recommended a balanced approach of targeted reforms—including full disclosure requirements, contract cooling-off periods, and termination protections—that would address these inequities without undermining franchising's fundamental role in democratizing business ownership and providing alternatives to large corporate monopolization.[186]

Today, the economic output of the U.S. franchise industry is approximately $900 billion, roughly three percent of the country's total economic output.[187] There are about 831,000 franchise establishments across the country, employing close to nine million workers.[188] One in 10 mainstream businesses in the U.S. is

---

178. *See id.* at 4.

179. *See id.* at 23.

180. Franchise Investment Law, ch. 1706, 1970 Cal. Stat. 3601 (codified as amended at CAL. CORP. CODE §§ 31000–31516); *see also* Killion, *supra* note 141, at 21.

181. *See* Killion, *supra* note 141, at 21.

182. OZANNE & HUNT, *supra* note 130.

183. *Id.*

184. *Id.*

185. *Id.*

186. *Id.*

187. *See A Small Part in a Big Company: Examining the Power of Franchising in the American Economy: Hearing Before the H. Comm. on Small Bus.*, 119th Cong. 1–2 (2025) (statement of Rep. Roger Williams, Chairman, H. Comm. On Small Bus.).

188. *Id.*

a franchise.[189] Limited-service (quick-service/fast-food) restaurants constitute the single largest category of franchise establishments in the U.S.[190] The leading franchise by revenue in the world is McDonald's.[191] The cost of opening a McDonald's franchise ranges from $1.4 million to $2.3 million, with owners making an annual profit of roughly $150,000.[192] Opening a Subway franchise, another large food chain, requires a total initial investment of approximately $199,000 to $536,000,[193] and single-unit owners may take home an estimated $58,800 to $73,500 per year.[194]

Franchises have served as a common entry point for recent immigrants seeking business ownership.[195] In general, immigrants are 80 percent more likely to

---

189. *See* Bárbara Zamora-Appel & Nidaal Jubran, *Franchising is More than Just Fast Food*, U.S CENSUS BUREAU (Dec. 1, 2021), https://www.census.gov/library/stories/2021/12/franchising-is-more-than-just-fast-food.html [https://perma.cc/5NY2-YGT4].

190. *See id.* (noting that limited-service restaurants were the most numerous franchise establishments of any sector).

191. Caroline Price, *Most Profitable Fast Food Chains in 2025: Revenue and Profit Analysis*, TOAST (Sep. 22, 2025), https://pos.toasttab.com/blog/on-the-line/most-profitable-fast-food-chains?srsltid=AfmBOorAbc8U9ohIY3ZIvVgR-409ZkZPKlkxVruUTLUaXxrjd0Ctv1ER [https://perma.cc/5GRL-Q5XT].

192. Hayley Peterson & Nancy Luna, M*cDonald's is Opening 1,900 Restaurants in 2023. Here's What It Costs to Open a McDonald's Restaurant*, BUS. INSIDER (Feb. 7, 2023), https://www.businessinsider.com/what-it-costs-to-open-a-mcdonalds-2016-8 [https://perma.cc/HEU8-DEEZ]; Joel Stice, *How Much McDonald's Franchise Owners Really Make Per Year*, MASHED (Feb. 3, 2023, 12:43 EST), https://www.mashed.com/178309/how-much-mcdonalds-franchise-owners-really-make-per-year/ [https://perma.cc/KC8W-FA3G].

193. DR.'S ASSOCS. LLC, SUBWAY FRANCHISE DISCLOSURE DOCUMENT 45 (Apr. 25, 2025), https://storage.googleapis.com/franchiseindx_fdds/Food-Beverage/Subway_2025_WwzFoj6P [https://perma.cc/9Z3E-SU6G]; *see also Frequently Asked Questions*, SUBWAY FRANCHISE, https://www.subwayfranchise.com/en-us/faqs [https://perma.cc/ZG5B-9FJG] (last visited May 23, 2026).

194. *Subway Franchise*, VETTED BIZ, https://www.vettedbiz.com/franchises/subway [https://perma.cc/TA7M-HF7B] (last visited May 23, 2026) (estimating owner-operator earnings of $58,800 to $73,500 per year based on yearly gross sales of approximately $490,000). Subway does not disclose franchisee financial performance data in its FDD Item 19. *See* DR.'S ASSOCS. LLC, *supra* note 193, at 87; *see also Subway*, FRANCHISE INV. DATA, https://franchiseinvestordata.com/franchise/subway [https://perma.cc/LUE9-YEYD] (last visited May 23, 2026) (noting the absence of Item 19 disclosure); *Subway Franchise Income Statement Insights*, QMK CONSULTING (Apr. 18, 2025), https://qmkconsulting.com/blogs/subway-franchise-income-statement/ [https://perma.cc/5UN3-SLS3] (providing sample income statement showing approximately $75,000 in annual net profit).

195. Eillie Anzilotti, *Worker-Owned Domestic Cleaning Businesses Are Gearing Up for a Massive Expansion*, FAST CO. (July 1, 2019), https://www.fastcompany.com/90370579/worker-owned-domestic-cleaning-businesses-are-gearing-up-for-a-massive-expansion [https://perma.cc/MX7Q-Y9DN].

start businesses in the United States than native-born citizens.[196] They own about 18 percent of businesses with employees and 23 percent of businesses without employees.[197] In the context of franchises, immigrants own 20 percent of Subway restaurants, 58 percent of Dunkin', and 67 percent of 7-Eleven franchises.[198] Franchises are attractive to immigrants because they offer a tried-and-tested business model, brand recognition, and a support network of fellow franchisees.[199] Further, several visa programs provide a pathway for immigrants to sponsor extended family members who can invest in a commercial enterprise that creates or preserves ten permanent full-time jobs for qualified U.S. workers[200] or make a substantial commitment of funds to a new or existing U.S. business.[201]

C. Franchising and the Community Economic Development Paradox

Franchising has long been promoted as a pathway to economic prosperity, particularly for entrepreneurs of color and immigrants excluded from traditional business ownership opportunities. Yet this promise exists in tension with the structural realities of the franchise model. The paradox lies in the fact that while franchising provides entry into business ownership, it does so through relationships that often undermine local autonomy and community wealth-building. Franchisees operate under tightly controlled contracts, send fees and royalties upward, and bear the financial risk without corresponding control. In this way, franchising functions less as a tool of grassroots development and more as a mechanism for expanding corporate reach into new markets, often in marginalized communities, while retaining significant corporate control.

---

196. *See* Yasmin Amer, *Immigrants Are 80% More Likely to Start Businesses in the U.S. than Native-Born Citizens, Study Finds*, WBUR (May 9, 2022), https://www.wbur.org/news/2022/05/09/immigrants-are-80-more-likely-to-start-businesses-in-the-u-s-than-native-born-citizens-study-finds [https://perma.cc/24QK-SSUJ]; *see generally* Pierre Azoulay, Benjamin F. Jones, J. Daniel Kim, Javier Miranda, *Immigration and Entrepreneurship in the United States*, 4 AM. ECON. REV. 71 (2022).

197. IRA GOTLIBOYM, U.S. SMALL BUS. ADMIN. OFF. ADVOC., SMALL BUSINESS FACTS: AN OVERVIEW OF IMMIGRANT BUSINESS OWNERSHIP (2022), https://advocacy.sba.gov/wp-content/uploads/2022/10/Small-Business-Facts_Immigrant-Business-Ownership_508c_V2.pdf [https://perma.cc/GJ98-3B9U].

198. Dave Lu, *Chasing the American Dream: The Rise of Asian Immigrant Entrepreneurs in the Franchise Industry*, EXPO (February 25, 2025), https://www.getexpo.ai/post/chasing-the-american-dream-the-rise-of-asian-immigrant-entrepreneurs-in-the-franchise-industry [https://perma.cc/3FC8-3L22].

199. *Id.*

200. *See id.* (describing the EB-5 Program).

201. *See id.* (describing the E2 visa).

Franchising can aid in mastering the complexities of a small business.[202] Successful franchise products and services are ones that have been closely developed and improved by the franchisor, potentially reducing the risk to an entrepreneur who would otherwise have to develop and test out products and services from scratch.[203] Franchisors typically offer a clearly defined operating system, along with training and management assistance designed to reduce common risks faced by small business owners. In these ways, franchising can offer entrepreneurs tools that increase their likelihood of success.[204]

Yet the use of franchising as a tool for community economic development also reveals its ideological dimensions, particularly in the context of Black capitalism. In *Franchise, The Golden Arches in Black America*, Dr. Marcia Chatelain traces the intertwined relationship between the civil rights movement and the expansion of the fast food-food industry, specifically the rise of McDonald's in Black urban communities.[205] After major legislative victories including the Civil Rights Act of 1964 and the Voting Rights Act of 1965, activists saw few gains in Black economic security and sought other avenues of advocacy.[206] In the wake of uprisings sparked by Dr. Martin Luther King Jr.'s assassination, efforts to keep Black dollars within Black communities took center stage, spurring new federal initiatives aimed at Black business ownership.[207]

This turn toward "Black capitalism," the notion that Black liberation can come through Black control of the means of production and access to consumption, thus saw a revival in interest from its emergence in the late nineteenth century.[208] It was heavily shaped by state actors. President Richard Nixon, as Chatelain notes, embraced Black capitalism as a way to suppress Black political mobilization without addressing structural inequality.[209] As Chatelain observes, "Black capitalism united seemingly incongruent organizations and people," offering a politically expedient, market-based response to calls for Black self-determination.[210] Franchising, then, became a federally backed strategy for reviving neighborhoods devastated by disinvestment and state neglect, particularly in the

202. Carl J. Kosnar & Andi Kosnar, *Nonprofit-Owned Business Entities: An Innovative Approach to Structuring a Social Enterprise*, LINKEDIN (Aug. 3, 2018), https://www.linkedin.com/pulse/nonprofit-owned-business-entities-innovative-approach-carl-j-kosnar/ [https://perma.cc/ED9Y-WHWT].

203. *Id.*

204. *Id.*

205. MARCIA CHATELAIN, FRANCHISE: THE GOLDEN ARCHES IN BLACK AMERICA 3 (2020).

206. *Id.* at 13.

207. *Id.* at 14.

208. *Id.* at 13 (referencing how African-American business clubs, churches, and mutual aid societies preached that Blacks were wise to establish their own economic centers as a way of proving their suitability to vote and participate in the larger democracy as well as avoid the indignities of Jim Crow).

209. *Id.* at 15.

210. *Id.*

aftermath of 1960s rebellions that destroyed parts of Watts, Chicago, and Newark.[211] With government loans and personal commitments to urban economic development, many Black franchise pioneers believed businesses could "save the day and the days to come for their people."[212]

The extent to which fast-food franchising contributed to positive change in Black urban communities is complex. Chatelain's research documents how, for those who profited from franchise ownership, there were real opportunities to reinvest in community well-being, creating youth jobs in the absence of public programs, employing Black women, and filling gaps left by a retreating welfare state.[213] Franchisees "carr[ied] the mantle to make sure communities had what they needed."[214] But by the 1980s, the limitations of this model became more apparent. Critiques grew around low wages, exploitative labor practices, and the question of whether a franchise operating under corporate control could truly be considered Black-owned.[215] What began as a strategy of economic inclusion increasingly came to be seen as a mechanism of constraint.

Despite these critiques, the fundamental appeal of franchising for marginalized entrepreneurs has persisted and expanded beyond its original civil rights context. The same structural barriers that made franchising attractive to Black entrepreneurs in the 1960s—limited access to capital, business networks, and proven business models—continue to drive contemporary patterns of franchise ownership. Recent data reveal how franchising continues to function as Dr. Chatelain's pioneers envisioned, albeit with the same underlying tensions between empowerment and corporate control. A U.S. Census Bureau analysis found that Black-owned franchises earn 2.4 more times more than other Black-owned businesses, while Hispanic and Asian-owned franchises earn 1.7 and 1.1 times more, respectively.[216] As discussed above, immigrants already represent a significant share of franchisees in brands like 7-Eleven, Dunkin', and Subway, demonstrating both their entrepreneurial capacity and deep entrenchment in franchise systems.[217] Overall, immigrants own 29 percent of all restaurants and hotels, more than twice the 14-percent rate for all businesses, according to U.S. census data.[218] These figures underscore the degree to which franchising has become an important avenue for business ownership.

---

211. *Id.*

212. *Id.*

213. *Id.* at 64–65.

214. MIDTOWN SCHOLAR BOOKSTORE AUTHOR READING SERIES: *Franchise: The Golden Arches in Black America* (Apple Podcasts, Feb. 11, 2020).

215. *Id.* at 217.

216. *See* Lu, *supra* note 198.

217. *See supra* note 196 and accompanying text.

218. *See* Lu, *supra* note 198.

Although franchising is most commonly associated with the expansion of for-profit businesses, the model has been adapted for noncommercial and mission-driven purposes. Scholars have demonstrated how the franchising structure has mitigated organizational and economic problems nonprofits and social enterprises face.[219] Many large nonprofit organizations function in practice as franchise systems, relying on legally independent local affiliates that operate under shared brands, standards, and contractual obligations.[220] In parallel, international development practitioners have deployed "social franchising," particularly in health and social services, to organize small, resource-constrained providers into networks supported by centralized training, branding, monitoring, and technical assistance.[221] These nonprofit and social franchise models demonstrate that franchising can operate as a capacity-building infrastructure rather than a purely profit-extractive arrangement, while also revealing enduring tensions around control, standardization, and accountability that accompany efforts to scale mission-oriented enterprise.[222]

The same structural and institutional exclusions that drive marginalized entrepreneurs toward franchising in the United States have inspired international development practitioners to adapt the model through "microfranchising," a development approach that explicitly adapts the franchise model for economically marginalized populations in developing countries.[223] Deborah Burand and David Koch describe microfranchising as involving "businesses that are affordable enough to be owned and operated by the people living at the base of the economic pyramid."[224] Microfranchising differs from conventional franchising in its goals and structure. While commercial franchising is designed primarily to generate profit for the franchisor, microfranchising is typically oriented around the financial sustainability of the franchisee.[225] The franchisees themselves are often drawn

---

219. *See* Sharon M. Oster, *Nonprofit Organizations as Franchise Operations*, 2 NONPROFIT MGMT. & LEADERSHIP 223, 223 (1992).

220. *Id.* at 225–26 (describing Goodwill Industries and Planned Parenthood as franchise operations in which each affiliate "has the right to use the [national] name" after agreeing to standards set by the central organization, is assigned an exclusive territory, and pays a percentage fee to the national organization while retaining residual revenues and operational autonomy).

221. *See* Karen Schlein, Anna York De La Cruz, Tisha Gopalakrishnan, & Dominic Montagu, *Private Sector Delivery of Health Services in Developing Countries: A Mixed-Methods Study on Quality Assurance in Social Franchises*, 13 BMC HEALTH SERVS. RSCH. no. 4, 2013, at 1–2.

222. *See* Oster, *supra* note 219, at 230.

223. *See* Deborah Burand and David W. Koch, *Microfranchising: A Business Approach to Fighting Poverty*, 30 FRANCHISE L. J. 24, 25 (2010).

224. *See id.* Microfranchising has been compared to microfinancing as an international development tool for economically excluded populations, but scholars have argued that it holds greater potential for scalable and sustainable enterprise growth. *See* Burand & Koch, *supra* note 223, at 24; *see also What is Microfinance?* WOMEN'S MICROFINANCE INITIATIVE, https://wmionline.org/microfinance.php [https://perma.cc/6XD3-TG97] (last visited Nov. 3, 2025).

225. *See* Burand & Koch, *supra* note 223, at 24; *see also What is Microfinance?*, *supra* note 224.

from highly marginalized populations, those with little or no formal education, capital, or business experience, and often living in remote areas without consistent access to transportation, electricity, or technology.[226] These characteristics, while discussed in an international context, mirror barriers faced by many low-income communities in the United States. These varied applications of franchising reveal both the persistent appeal and inherent limitations of market-based approaches to economic inclusion. Franchising's strength lies in providing structure, training, and proven business models to entrepreneurs who might otherwise lack access to these resources. Yet as the historical experience demonstrates, the model's effectiveness as a tool for community economic development depends heavily on who controls the franchise system and how power is distributed within it. This tension between franchising's promise and its practice reflects deeper structural problems embedded in the traditional franchise relationship itself.

D. Structural Limitations

Despite franchising's appeal as a pathway to business ownership for marginalized entrepreneurs, the traditional franchise model contains structural features that often undermine its promise as a tool for genuine economic empowerment. At the core of the franchise relationship lies a fundamental contradiction: franchisors and franchisees are legally independent businesses, yet their deep interdependence creates asymmetrical power dynamics that favor corporate control over entrepreneurial autonomy. As one franchise scholar notes, "[o]ne side cannot succeed without the other, yet their interests seemingly collide as frequently as they mesh."[227]

Control functions as the central mechanism through which franchisors maintain dominance in the franchise relationship. Although franchisees bear the financial risks of business ownership, franchisors retain decision-making authority through standardized contracts, operational restrictions, and employment directives, without assuming parallel obligations or accountability. The concentration of control in the hands of franchisors produces structural harms in three key areas: contractual power imbalances that limit franchisee autonomy, misaligned economic incentives that prioritize franchisor profits over franchisee success, and labor practices that perpetuate low wages and poor working conditions.[228] These dynamics help explain why franchising, despite its accessibility, often fails to deliver meaningful economic liberation for the communities it claims to serve.

Power imbalances begin before a franchise agreement is ever signed. Particularly for first-time franchisees, the franchisor holds significant advantages:

---

226. *See* Burand & Koch, *supra* note 223, at 26; *see also What is Microfinance?*, *supra* note 224.

227. *See* Killion, *supra*, note 141, at 2.

228. WOUTER DEELDER & ROBIN A. MILLER, DALBERG GLOB. DEV. ADVISORS, FRANCHISING IN FRONTIER MARKETS 10 (Sid Seamans & Timothy Ogden eds., 2009).

business experience, legal resources, and market knowledge. Prospective franchisees must first navigate the franchise disclosure document, which is lengthy and filled with complex legal and technical language that can be difficult for non-lawyers to fully understand. Many aspiring owners, especially those from marginalized communities with limited access to professional networks, may lack the resources or connections to obtain adequate legal counsel, further exacerbating the information asymmetry that defines the franchise relationship from the outset.

This disadvantage deepens during the negotiation of the franchise agreement itself. Typically presented as a non-negotiable contract, the franchise agreement offers prospective franchisees a "take it or leave it" proposition, with little room to modify terms, even when they are ill-suited to the franchisee's local context or financial position.[229] This lack of bargaining power, combined with the complexity of franchise law and the pressure prospective franchisees may feel to secure business opportunities, creates conditions ripe for abuse.

Common franchisor abuses include unjust termination of franchise contracts without adequate notice or reasonable cause, leaving franchisees with unrecoverable sunk costs.[230] Territorial encroachment, where franchisors authorize new outlets that usurp an existing franchisee's customer base, is another tactic that undermines the franchisee's viability.[231] Many agreements also impose mandatory arbitration clauses, requiring disputes to be resolved in distant jurisdictions, increasing legal costs and deterring claims.[232] Finally, some contracts restrict franchisees' ability to associate or organize collectively, further isolating them and weakening their ability to advocate for fairer terms.[233] Taken together, these practices magnify the control franchisors exert beyond operation.

Another structural tension arises from the conflicting incentives between franchisees and franchisors. While franchisees seek to maximize the profitability of their individual outlets, franchisors focus on the growth and consistency of the brand across the system.[234] This misalignment can produce strain on both sides of the relationship. It gives rise to concerns about "free-riding," in which franchisees benefit from the strength of the brand while underinvesting in activities that maintain it, such as marketing, product quality, or customer service.[235] For example, franchisees might cut corners by using inferior ingredients, offering minimal

229. *Id.*
230. *Id.*
231. *Id.*
232. *Id.*
233. *See* Emerson & Benoliel, *supra* note 159, at 196–97.
234. DEELDER & MILLER, *supra* note 228, at 6, 10.
235. *Id.* at 10.

service, or declining to engage in local promotions, thereby threatening the brand's reputation.[236]

Franchisors, in turn, often adopt strategies that protect the brand at the franchisee's expense. To preserve uniformity, franchisors may restrict franchisees from adapting menu items or services to suit local market conditions, even when those adaptations would increase both profits and royalties.[237] Similarly, franchisors have strong incentives to authorize new outlets in already saturated territories, a practice known as territorial encroachment.[238] In one widely reported example, a Subway franchisee lost over half of his sales after the company approved a new location just blocks away, despite prior assurances that the territory would be protected.[239] While many franchise systems allow franchisees some limited tactical discretion, such as setting store hours or running local promotions, they tightly control innovation at the product or concept level.[240] Even franchisors may be constrained from implementing system-wide changes that benefit only certain outlets, reinforcing the rigidity of a structure built to preserve central control rather than enable local responsiveness or shared growth.[241]

Beyond territorial and operational constraints, franchisors also structure financial relationships in ways that extract value from franchisees regardless of their profitability. Most franchise systems collect royalties based on a percentage of gross revenue rather than net profit, meaning the franchisor is paid regardless of whether the franchisee turns a profit.[242] This structure incentivizes franchisors to expand the system and drive top-line sales, even when individual outlets operate at a loss.[243] Franchisees, by contrast, must absorb labor costs, rent, supply expenses, and local economic fluctuations without corresponding flexibility or support.[244] Compounding this imbalance, many franchisors require franchisees to purchase supplies and ingredients from designated vendors, often at prices above market rates, allowing the franchisor to profit through markups, rebates, or vertically integrated supply chains.[245] Even marketing and technology fees, often mandatory, are typically collected and managed by the franchisor with limited input

236. *Id.* (noting that chances of this conflict occurring are especially strong if the franchise has a large group of one-off consumers such as in airports or train stations). As *Last Week Tonight with John Oliver* illustrated in the case of Subway, franchisees are often operating on small margins and may resort to such cost-cutting measures in order to survive, particularly when promotional pricing like the infamous $5 footlong is imposed from above without regard to unit-level profitability. LAST WEEK TONIGHT WITH JOHN OLIVER (HBO, aired May 22, 2022).

237. DEELDER & MILLER, *supra* note 228.

238. *Id.*

239. LAST WEEK TONIGHT, *supra* note 236.

240. DEELDER & MILLER, *supra* note 228.

241. *Id.*

242. *Id.*; *see also* U.S. GOV'T ACCOUNTABILITY OFF., *supra* note 15, at 9–10.

243. DEELDER & MILLER, *supra* note 228.

244. *Id.*; *see also* U.S. GOV'T ACCOUNTABILITY OFF., *supra* note 15, at 9–11.

245. DEELDER & MILLER, *supra* note 228.

from franchisees about how those funds are spent or whether they benefit local operations.[246] These financial arrangements create a one-way flow of value upward, positioning franchisees as revenue-generating nodes in a system designed to prioritize brand growth over shared economic sustainability.

While franchising is often portrayed as a decentralized business model, franchisors frequently exercise significant influence over employment conditions at the franchisee level, without assuming corresponding legal responsibility. From mandated uniforms and customer service scripts to proprietary scheduling and payroll systems, franchisors routinely set the parameters of low-wage work.[247] Yet they disclaim liability for employment law violations by invoking the legal independence of franchisees.[248] The result is a misalignment between control and accountability that leaves workers vulnerable to wage theft, unstable scheduling, and other labor abuses.[249] Recent attempts to address this dynamic, such as the National Labor Relations Board's 2023 joint employer rule, seek to hold franchisors liable when they exert direct or indirect control over essential terms of employment.[250] Still, legal ambiguity persists, and the franchise structure continues to insulate parent corporations from responsibility while shaping the conditions of frontline work.

---

246. *Id.*

247. *Id.*

248. *Id.*

249. *See* DAVID WEIL, EXAMINING THE UNDERPINNINGS OF LABOR STANDARDS COMPLIANCE IN LOW WAGE INDUSTRIES 15 (2012), https://www.russellsage.org/sites/all/files/Weil.Final%20Report%202012.pdf [https://perma.cc/N8UA-5KYK].

250. In October 2023, the National Labor Relations Board (NLRB) under President Biden issued a final rule expanding the definition of joint employer under the National Labor Relations Act (NLRA) to include entities that have authority to control, either directly or indirectly, one or more essential terms and conditions of employment—even if that control is never exercised. *See* Standard for Determining Joint-Employer Status, 88 Fed. Reg. 73,946, 73,955 (Oct. 27, 2023) (to be codified at 29 C.F.R. pt. 103). The rule reinstated a broader standard previously used in *Browning-Ferris Industries of California, Inc.*, 362 N.L.R.B. 1599 (2015), and reversed the narrower 2020 rule, which required "substantial direct and immediate control." *See id.*; *see also* Joint Employer Status Under the National Labor Relations Act, 85 Fed. Reg. 11,184 (Feb. 26, 2020) (rescinded). Supporters argue that the broader rule reflects modern employment structures, particularly in franchising and subcontracting, and ensures that entities exerting real power over working conditions share responsibility for labor rights. *See* Daniel Weissner, *Judge Blocks US Labor Board Rule on Contract and Franchise Workers*, REUTERS (Mar. 11, 2024, 12:01 EST), https://www.reuters.com/legal/us-judge-blocks-us-labor-boards-rule-involving-contract-franchise-workers-2024-03-09/ [https://perma.cc/4QCY-NXHV]. Critics, including franchise associations and business groups, argue that the rule creates legal uncertainty and burdens businesses that do not directly employ workers. *See id.* In March 2024, the U.S. District Court for the Eastern District of Texas vacated the rule, holding that it was "unlawfully broad" and inconsistent with the NLRA. See Chamber of Comm. of the U.S. v. NLRB, 723 F. Supp. 3d 498 (E.D. Tex. 2024). Although the NLRB initially filed an appeal, it withdrew the appeal in May 2024, leaving the narrower Trump-era standard in place. *See* Robert Iafolla, *Labor Board Abandons Bid to Revive Joint Employer Regulation*, BLOOMBERG L. (July 19, 2024, 18:21 EDT), https://news.bloomberglaw.com/daily-labor-report/labor-board-abandons-bid-to-revive-joint-employer-regulation [https://perma.cc/JH3M-E6VE].

Even when franchisees are inclined to improve labor standards, they often lack the financial flexibility to do so. With royalty payments owed on gross revenue regardless of profitability and required spending on branded supplies and national marketing campaigns, many franchisees operate with razor-thin margins.[251] These structural constraints limit their ability to raise wages, offer consistent hours, or invest in compliance infrastructure. The consequences are reflected in widespread labor violations.[252] Franchisees are significantly more likely to be out of compliance with the Fair Labor Standards Act (FLSA), which governs minimum wage, overtime, recordkeeping, and child labor, than corporate-managed locations: one study found 75% of franchise outlets in violation of one or more standards, compared to just 41% of company-run stores.[253] In a 2023 investigation, the U.S. Department of Labor found a McDonald's franchise operator had violated child labor hours and safety regulations at seven locations in northwestern Pennsylvania.[254] These gaps in compliance are not simply individual lapses, but systemic outcomes of a model that combines economic strain with operational oversight from a distance. The resulting disparities are stark. In 2023, McDonald's CEO earned more than 1,000 times the median pay of its workers, an illustration of how franchising allows wealth and control to accumulate at the top, even as working conditions remain precarious at the base of the system.[255]

These labor challenges are further compounded by no-poach clauses, which prevent employees from moving between franchise locations within the same chain.[256] Though often framed as a way to protect training investments and reduce intra-brand competition, these provisions function to suppress labor mobility and "potentially keep[ ] tens of thousands of employees around the country stuck in low-wage positions."[257] One recent federal court decision held that no-poach

---

251. *See* Andrew Seid, *Franchise Fees - The Basics*, MSA WORLDWIDE, https://www.msaworldwide.com/basics-of-franchising/franchise-fees-the-basics/ [https://perma.cc/9XWE-XQRE] (last visited Apr. 20, 2026); *see also* Joel Libava, *Franchise Fees: Why Do You Pay Them and How Much Are They?*, U.S. SMALL BUS. ADMIN. (Apr. 18, 2017), https://www.sba.gov/blog/franchise-fees-why-do-you-pay-them-how-much-are-they [https://perma.cc/45SE-2S3B] (last visited July 31, 2025).

252. *See* WEIL, *supra* note 249.

253. *See id.*

254. *US Department of Labor Recovers $250K in Back Wages, Damages for 154 Restaurant Workers in Arizona, New Mexico*, U.S. DEP'T OF LAB., WAGE & HOUR DIV. (Feb. 22, 2023), https://www.dol.gov/newsroom/releases/whd/whd20230222-2 [https://perma.cc/TM3J-P3CN].

255. *See* Aneurin Canham-Clyne, *Here's What 7 Major Restaurants Pay Their CEOs — And Their Store-Level Workers*, REST. DIVE (Apr. 15, 2025), https://www.restaurantdive.com/news/starbucks-mcdonalds-ceo-pay-worker-wages/745064/ [https://perma.cc/MA6D-ZBNE].

256. *See* Alan Krueger & Orley Ashenfelter, *Theory and Evidence on Employer Collusion in the Franchise Sector* (Nat'l Bureau Econ. Rsch., Working Paper No. 24831, 2018); *see also* Gene Johnson, *7 Fast-Food Chains Agree to End 'No-Poaching' Policies*, ASSOCIATED PRESS (July 12, 2018, 20:41 EDT), https://apnews.com/general-news-dbe43bf5d8144982b5989f6d46eb4de7 [https://perma.cc/D3CD-K56N].

257. Johnson, *supra* note 256.

agreements between ostensibly separate franchisees may violate antitrust law by operating as horizontal restraints on worker movement.[258] While franchisors argue that these provisions promote operational stability, courts are increasingly rejecting the idea that consumer benefit can justify harm to workers.[259]

Together, these labor dynamics reveal how franchising replicates the vulnerabilities of gig and informal work, while masking them behind a façade of entrepreneurial independence. The model concentrates power at the top while externalizing risk and responsibility onto franchisees and their employees, often in ways that reinforce racial and economic inequity. Yet even as the traditional franchise model reinforces extractive dynamics, its underlying architecture—distributed ownership, shared branding, and scaled systems—holds untapped potential. The next Part turns to a model that reimagines franchising from the ground up: a hybrid structure that combines the scale and systems of franchising with the democratic ownership and equity goals of worker cooperatives.

III. REIMAGINING FRANCHISE: THE WORKER COOPERATIVE FRANCHISE MODEL

The worker cooperative and franchise models, while rooted in distinct traditions, share core features that make them especially conducive for hybridization. Both are centuries-old global approaches to organizing economic activity as an alternative to vertically integrated corporate ownership. Despite their differences, these models are not inherently oppositional. In fact, they can be complementary, each addressing some of the most persistent challenges of the other. Worker cooperatives are grounded in democratic control and equitable distribution and are often deeply embedded in their communities. Franchises, by contrast, offer a replicable and scalable infrastructure that can help overcome some of the barriers cooperatives face, particularly the challenges of starting and sustaining worker-owned businesses with limited capital, minimal back-office infrastructure, and few institutional support systems.

As discussed in Part I, worker cooperatives face structural barriers to scale that stem not only from capital constraints and governance costs, but also from a legal environment shaped by antitrust assumptions favoring atomized, market-based coordination among firms.[260] U.S. competition policy developed alongside the rise of the investor-owned firm and has long treated sustained coordination among independent enterprises—particularly coordination grounded in collective economic interests—as potentially suspect. While agricultural cooperatives eventually secured limited protection through sector-specific legislation, most

258. *See* Deslandes v McDonald's USA, LLC, 81 F.4th 699, 703 (7th Cir. 2023).

259. *See id.*

260. *See supra* Part I.

cooperatives have operated without a comparable enabling framework for inter-firm coordination.

The worker cooperative franchise model engages this constraint directly. Rather than relying on informal or horizontal coordination among peer cooperatives, the WCF adopts franchising as a legally legible mechanism for coordination within a liberal market economy. Franchising provides an established architecture through which legally independent enterprises may share branding, operational systems, training, and support through a centralized franchisor, while remaining distinct firms for purposes of ownership, governance, and liability.

By structuring cooperation through vertical contractual relationships rather than horizontal agreements among worker-owned firms, the WCF model enables coordination at scale in a manner that fits within prevailing antitrust frameworks. The model does not claim exemption from antitrust law or rely on special statutory carve-outs. Instead, it repurposes a coordination mechanism long used by investor-owned enterprises and adapts it to support democratic ownership and collective governance.

This Part analyzes how the WCF model brings together key features of both franchises and cooperatives to create a new approach to building democratic economic institutions rooted in solidarity and collective ownership. The discussion draws from the author's experience providing legal support to Brightly, a network of immigrant-owned commercial and residential cleaning cooperatives developed by the Center for Family Life in Brooklyn, which offers one of the first practical implementations of the WCF model in the United States.

A. Design and Legal Framework

This section unpacks the key design and legal features of the WCF model, examining how conventional franchise components are adapted to support democratic ownership and collective governance.

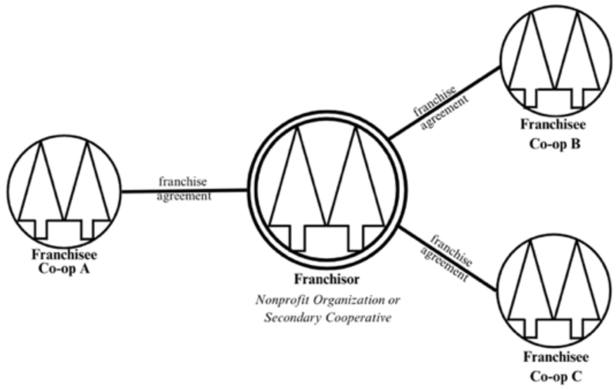
1. Franchisor Entity Form

A WCF system begins with a crucial structural decision: what form the franchisor entity will take. The franchisor may take the form of a nonprofit entity, or a cooperative owned by the franchisee cooperatives themselves, called a secondary cooperative (see Figure 1 below).[261] This structural choice carries significant implications, both legal and strategic.

---

261. In the case of the franchisor being made up of the worker-cooperative franchisees, it is possible that the entire system could fall outside the realm of franchisor-franchisee relationship, and instead, the worker-cooperatives at the base level would all be part of a company-owned outlet, not a franchise.

Figure 1.
Worker Cooperative Franchise Model Structure[262]

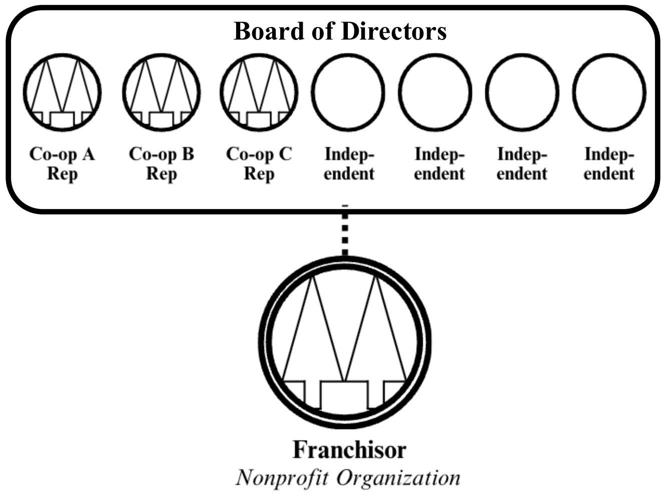


A nonprofit franchisor can leverage tax-exempt status to raise philanthropic capital and explicitly align the franchise system's mission with a charitable purpose, such as promoting economic opportunity for low-income workers or supporting businesses in economically distressed communities.[263] Its board of directors could include board seats for representatives of the franchisee cooperatives as well as independent directors (see Figure 2 below). In practice, the Brightly franchise system used a nonprofit franchisor governed by an external board that includes both members of the franchisee cooperatives and non-cooperative members, a structure designed to mitigate conflicts of interest related to its tax-exempt status and nonprofit corporate form. The board seeks input from an industry committee composed of representatives from the franchisee cooperatives, which serves as a key channel for cooperative input into system-wide governance.

262. Credit to Maru Bautista for the original design on which these figures are based. The twin pines symbol reflects the cooperative movement's commitment to longevity, resilience, and mutual support, evoking how cooperatives, like pine trees, thrive when growing together. *See* Kate Latour, *The Meaning Behind the Twin Pines Voter Project: Have You Ever Seen a Pine Tree Growing Alone?*, NAT'L COOP. BUS. ASS'N CLUSA INT'L (Mar. 8, 2022), https://ncbaclusa.coop/blog/the-meaning-behind-the-twin-pines-voter-project-have-you-ever-seen-a-pine-tree-growing-alone/ [https://perma.cc/2NUF-DXPQ].

263. *See* SUSTAINABLE ECONS. L. CTR. & EAST BAY CMTY. L. CTR. GREEN COLLAR CMTYS. CLINIC, THINK OUTSIDE THE BOSS 82–83 (3d ed. 2023) (explaining that nonprofit organizations supporting cooperatives or small businesses may qualify for 501(c)(3) status when their activities are directed toward charitable purposes—such as economic empowerment of low-income individuals, job training for disadvantaged workers, or improving conditions in economically distressed communities).

Figure 2.
Nonprofit Franchisor Governance Structure



A secondary cooperative model, by contrast, would place formal ownership and ultimate control of the franchisor entity directly in the hands of the worker cooperative franchisees (see Figure 3 below). One related example of this, though not in a worker-owned cooperative context, is Ace Hardware. Ace Hardware is a retailer-owned cooperative where the individual businesses are independently operated and collectively own the Ace Hardware corporation, which acts as a franchisor.[264] The retailer-franchisees receive distributions of year-end profits based on their patronage, and there are no royalty or ongoing franchise fees.[265]

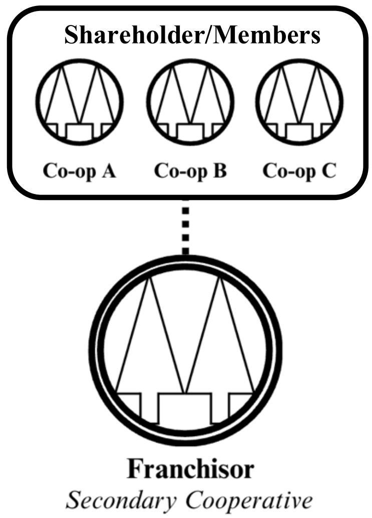
However, the secondary cooperative model may require more internal capacity and shared infrastructure to manage system-wide responsibilities and growth. It also raises fiduciary considerations, as board members drawn from franchisee cooperatives must balance their duties to the franchisor entity with their roles in their home cooperatives. Addressing these tensions may require robust conflict-

264. *See Ace Hardware Ranks #5 on Franchise Times Top 400 List for Third Year in a Row*, ACE HARDWARE: NEWSROOM (Sep. 30, 2024), https://newsroom.acehardware.com/ace-hardware-ranks-5-on-franchise-times-top-400-list-for-third-year-in-a-row/ [https://perma.cc/P9PS-Q4WP]. The distinction between the Ace Hardware model and the WCF model is that the individual retail outlets are not worker cooperatives and do not operate under democratic worker control.

265. *See id.* Though being recognized in Entrepreneur Magazine's Franchise 500 list, the company does not consider itself as a "true franchise." *See Cooperative Growth,* RETAIL & REST. FACILITY BUS. (Apr. 8, 2024), https://retailrestaurantfb.com/cooperative-growth/ [https://perma.cc/BSJ5-BQ5H] (quoting a company Vice President as stating, "we are a cooperative and not a true franchise"). However, the company is registered as a franchise and complies with state and federal franchise laws. *See Open an Ace Store*, MYACE.COM, https://myace.com/open-a-store/ [https://perma.cc/5HAN-AWFZ] (last visited July 28, 2025) (noting steps for becoming a retailer owner including a franchise disclosure document where applicable).

of-interest policies, inclusion of disinterested directors, and clear delineation of board responsibilities.

Figure 3.
Secondary Cooperative Franchisor Governance Structure[266]



2. Negotiating Control, Autonomy, and Standardization

A central challenge in the WCF model is balancing worker cooperative autonomy with the franchisor's need for system-wide consistency. While cooperatives emphasize democratic participation and local control, franchise systems are legally defined, in part, by the franchisor's right to exert significant control over the franchisee's method of operation or to provide significant assistance.[267] These structural tensions raise key design questions for WCF developers.

At the franchisee level, each worker cooperative is owned by its workers and aspires to operate according to the seven cooperative principles discussed in Part I. The third cooperative principle, democratic worker control, is critical. Worker-owners actively participate in setting policies and making decisions for the business, either directly or through elected representatives. The fourth principal of

266. The illustration references shareholders or members because if the entity is a cooperative corporation, then the cooperative franchisees are shareholders. If it is a limited liability company, then the cooperative franchisees would be referred to as members. Also, as part of the governance structure in a corporation, there would be a board of directors elected by the shareholder franchisees. In an LLC, the franchisor entity could be member-managed by the franchisee members or be manager-managed, and there may or may not be a separate board of directors.

267. *See* C.F.R. § 436.1(h)(2) (stating that a "franchisor will exert or has authority to exert a significant degree of control over the franchisee's method of operation, or provide significant assistance in the franchisee's method of operation").

autonomy and independence can be particularly challenging in a worker cooperative franchise context. It provides that "[c]ooperatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations…they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy."[268] In practice, this commitment can be in tension with the standardization typically required of franchisees.

In a WCF system, the franchisor typically establishes some degree of control over brand standards, service delivery, and shared systems in order to maintain consistency across locations. As a result, worker-owners do not exercise full self-determination in every area of business operations. However, this kind of standardization can serve important purposes, such as protecting name recognition, ensuring service quality, and building customer trust. For example, mainstream franchises like McDonald's are built around the expectation that each location offers a predictable customer experience, even when localized adaptations are made.[269] Similarly, cooperative franchises may aim for a balance between brand consistency and responsiveness to local context, preserving core identity without undermining democratic values.

Navigating these dynamics requires attention to three interrelated factors: the need for system-wide uniformity, the importance of responsiveness to local markets, and the autonomy of each worker-owned franchisee business. While some standardization is necessary to protect brand integrity, ensure quality, and build customer trust, early introduction of shared processes, and clear communication about why they are needed, can help mitigate potential tensions. Developers working on the Brightly system observed that these tensions can be further reduced when the rationale and scope of standardization are introduced early in the process, and when cooperative members have a meaningful role in collectively shaping those standards.[270]

Just as important is the development of democratic processes that allow worker-owners across the system to participate in defining and revisiting these

268. *See Cooperative Identity, Values & Principles, supra* note 19.

269. McDonald's states that it tries to adapt its menu to reflect different tastes and local traditions for every country in which it has restaurants, so as to "respect cultural differences." *See Why is the McDonald's menu different in different countries?*, MCDONALD'S (May 21, 2018), https://www.mcdonalds.com/gb/en-gb/help/faq/why-is-the-mcdonald-s-menu-different-in-different-countries.html#:~:text=We%20try%20to%20adapt%20our,policy%20of%20developing%20menu%20items [https://perma.cc/Y5CW-YN6W]. India, for example, is the first country where McDonald's does not offer any beef or pork items. *'120 Not Out' at* McDonald's, MCDONALD'S INDIA (Apr. 16, 2009), https://www.mcdonaldsindia.com/McDonald%27s120Notout-pressrelease.pdf [https://perma.cc/3S9G-XN86]. One might instead try a dosa masala burger. *See Menu*, MCDONALD'S INDIA, https://mcdindia.com/#menu [https://perma.cc/552Y-82PQ].

270. *See* MARU BAUTISTA & GOWRI KRISHNA, EXPANDING YOUR WORKER COOPERATIVE BUSINESS: A GUIDE TO LICENSING AND FRANCHISING 27 (2023), https://issuu.com/wearedawi/docs/expanding_worker_cooperatives_guide_bautista_krish [https://perma.cc/9URL-VUPG].

standards collectively. With this approach, each cooperative can maintain internal democratic decision-making while contributing to a cohesive system that expands access to worker ownership. Achieving that balance requires deliberate legal structuring, thoughtful negotiation, and significant customization of standard franchise agreements to provide greater control and voice at the worker-owner level than traditional franchise contracts typically allow. Rather than relying on the "take it or leave it" approach common in commercial franchising, cooperative franchise systems benefit from transparency, flexibility, and power-sharing from the outset, especially when establishing shared operational protocols and system-wide policies. The Brightly developers emphasized the importance of working with legal and operational experts familiar with both franchise law and cooperative governance, and of being willing to question industry norms that are not legal requirements but may undermine democratic principles.[271] Getting the control-autonomy balance right is foundational: without it, a worker cooperative franchise risks becoming either a cooperative in name only or a franchise that cannot hold together.

3. Embedding Cooperative Values in the Franchise Agreement

A central legal tool for operationalizing democratic and cooperative commitments is the franchise agreement itself. Like a traditional franchise system, the franchisor entity owns the intellectual property—such as a business name, logo, and business systems—that it licenses to the franchisees through a franchise agreement. That agreement typically includes rights to a business operating manual and sets out the scope of the franchisor's control over operations. But in WCF systems, this control is exercised with greater intentionality and possibly developed collaboratively. For example, Brightly's franchisor worked with legal consultants to create customized franchise documents that reflect cooperative principles, protect worker voice, and include shared accountability mechanisms rather than one-sided compliance obligations. While it may still define brand standards and operational protocols, it can do so through language that emphasizes mutual responsibilities, supportive remediation paths, and collaborative dispute resolution.

One area of particular importance is the termination clause. In conventional franchise agreements, franchisors often retain broad authority to terminate the relationship, including for criminal convictions of franchisee owners, with little opportunity for internal resolution. These provisions are typically structured to protect the brand from reputational risk or liability, but they often allow for immediate termination upon a felony conviction, regardless of context or the individual's ongoing role in the business.

A WCF model, by contrast, may approach termination differently to reflect its commitments to inclusion and collective governance. The agreement might

271. *See id.*

allow for a period during which the cooperative can internally expel the affected member before termination is triggered. It may also limit the scope of disqualifying offenses, for example, by excluding past convictions, convictions unrelated to the business, and/or ones related to immigration status, which could disproportionately impact the very workers the model is designed to empower.[272] Some agreements may also incorporate mediation or conflict resolution processes as a first step before moving toward termination, providing a structured but non-adversarial way to resolve disputes and preserve cooperative relationships. These changes reflect the model's broader values and the practical realities of immigrant and low-income worker-owners, for whom rigid or sweeping termination clauses could undermine democratic participation and organizational sustainability.

Other standard contract provisions can also be revised to suit cooperative governance. Agreements may omit personal liability requirements for individual worker-owners, especially where that liability might deter participation by low-income individuals. Definitions of ownership, management, and reporting obligations may be rewritten to reflect the reality that no single owner-manager exists, and financial oversight is a collective responsibility.

One particularly important departure from conventional franchise practices involves how both upfront fees and royalties are structured. In traditional systems, franchisees typically pay an initial franchise fee averaging $30,000 to $60,000, with some exceeding $100,000.[273] A WCF may choose to greatly reduce or waive this fee entirely, reflecting a commitment to accessibility and collective ownership. On the royalty side, most conventional franchises charge four to 12 percent of gross revenue, regardless of whether the business is profitable.[274] A cooperative franchise model, by contrast, may assess royalties only when the franchisee is profitable, shifting from a flat revenue-based charge to one that reflects actual financial health. This reconfiguration directly addresses the extractive dynamics critiqued in Part II, where franchisors extract income from struggling franchisees.

Restrictive covenants and non-compete clauses, often used in conventional franchises to protect proprietary systems and prevent competition, may also be restructured. Rather than broadly prohibiting franchisees from engaging in related business activity during and after the franchise relationship, WCF agreements may

272. *See* Hempel & Krishna, *supra* note 13, at 984–87 (arguing that cooperative business structures must remove barriers that exclude workers based on immigration status from economic participation, and highlighting legislative reforms designed to ensure that "undocumented individuals and formerly incarcerated individuals" can "participate in dignified work"); *see also* Priya Baskaran, *Respect the Hustle: Necessity Entrepreneurship, Returning Citizens, and Social Enterprise Strategies*, 78 MD. L. REV. 323, 334–39, 344–46 (2019) (arguing that criminal history disclosures and occupational licensing restrictions operate as overbroad barriers to economic participation for returning citizens, and advocating for social enterprise models that create inclusive employment opportunities for formerly incarcerated individuals).

273. Duchene, *supra* note 87.

274. *Id.*

tailor these provisions to support continued worker ownership. For example, the agreement might prohibit a departing franchisee from establishing a conventional business using franchise know-how but expressly permit them to form or join another worker cooperative. This approach prioritizes the protection of cooperative principles and discourages conversions to extractive business models while still allowing individuals to earn a livelihood in their trade. Ultimately, drafters should scrutinize boilerplate restrictions and ensure they are aligned with the system's goals of promoting cooperative growth, not suppressing it.

4. *The Franchise Disclosure Document and Operations Manual as Foundations for Transparency and Support*

Similarly, the franchise disclosure document can be drafted to reflect cooperative-specific realities. Items relating to franchisee obligations, advertising, dispute resolution, or territorial rights can explain how decisions are made democratically within the cooperative, or how system-wide norms may emerge from member input rather than top-down mandates. For example, disclosures about management expectations or operational involvement can acknowledge that, in worker cooperatives, responsibilities may rotate among members or be collectively shared, in contrast to traditional managerial hierarchies. Language around training, territory, or fees may also incorporate principles of access, support, and long-term development, not just compliance.

The operations manual, often the most detailed and prescriptive document in conventional franchise systems, can instead serve as a collaboratively developed resource, one that supports consistency in core service practices while preserving space for local adaptation and cooperative autonomy. It provides guidance for outward-facing business functions—such as customer service, scheduling protocols, and branding—while intentionally leaving key internal functions under the control of each cooperative. Decisions around worker-owner membership, pay structures, governance procedures, and surplus allocation are typically excluded from the manual, recognizing the autonomy of each worker cooperative. This internal-external distinction is foundational to the model: it ensures brand coherence across locations while upholding the principle of democratic self-management. In some systems, worker-owner committees contribute to drafting or updating sections of the manual, offering a structure for continuous improvement that draws on the lived experience of those operating within it.

5. *Embedding Labor Standards*

Fundamentally, the model also changes who bears responsibility for workplace conditions and how that responsibility is exercised. Unlike conventional franchise systems that often shift labor risks and responsibilities onto individual franchisees, while retaining centralized control over brand and operational standards, a WCF model structurally embeds responsibility for labor conditions within the business itself. In a WCF model where the worker-owners collectively govern both the day-to-day workplace and the overarching franchise system, they are directly accountable for the wages, hours, and working conditions they create. This internal alignment of control and accountability stands in stark contrast to the traditional franchise model, where franchisors benefit from standardized labor practices but evade employer liability. As discussed in Part I, worker cooperatives have consistently demonstrated a commitment to providing living wages, equitable schedules, and dignified working environments, particularly for low-wage and immigrant workers. A franchise system rooted in this model holds the potential to scale those values without abandoning them.

6. *Transition Planning and Nonprofit Intermediary Dependence*

As developers gain experience with WCF systems, additional design considerations have emerged. One important lesson is the need to plan for long-term transitions, particularly in systems where the franchisor is a nonprofit. This may involve setting benchmarks for gradually reducing the nonprofit's operational role, developing pathways to financial self-sufficiency, and identifying where governance and ownership of the system might ultimately reside. Without intentional planning, even well-structured systems can risk stagnation or a worker cooperative franchisee's overdependence on nonprofit intermediaries, as further discussed in the next section.

B. *Role of Nonprofit Intermediaries*

Nonprofit intermediaries already support worker cooperative development in multiple ways, both as incubators of new cooperatives and as potential anchors in WCF systems. First, they can act as cooperative developers, providing marginalized communities with training, technical assistance, financial infrastructure, and connections to legal support. In this role, they help launch and stabilize worker-owned businesses that would otherwise face steep barriers to formation. Second, within a WCF system, nonprofits may serve as the franchisor. In this capacity, they can help access capital, coordinate shared systems, develop training protocols, and establish brand identity across a common industry. Each role carries distinct benefits and tradeoffs, which this section explores in turn.

Worker cooperatives, particularly those founded by low-wage or undocumented immigrants, rarely emerge without substantial support. Nonprofit cooperative developers, organizations that incubate and sustain worker-owned businesses, play a foundational role in making these enterprises possible. They provide business training, cultural and linguistic access, financial infrastructure, and connections to legal support for communities that have historically been excluded from business ownership.[275] In partnership with community economic

275. *See* Krishna, *supra* note 6, at 120; Alvarez, *supra* note 78, at 359.

development lawyers, nonprofits have pioneered legal innovations, such as worker-owned LLCs, that allow immigrant members to participate as owners, avoid misclassification as employees, and reduce vulnerability to immigration enforcement.[276]

The WCF model builds on this history, offering nonprofit developers a means to scale what they have learned through individualized cooperative support and apply it to the WCF model. Rather than providing one-off assistance to cooperatives in disparate industries, the WCF model allows nonprofit developers to focus on a single industry, refining shared systems, training protocols, brand identity, and back-office infrastructure.[277] As one practitioner notes, "supporting a collective of entrepreneurs that share an industry is much easier than to provide one-on-one technical assistance."[278] Nonprofit developers can help co-design with cooperatives the core architecture of the franchise system by drafting handbooks, building governance structures, developing cooperative-aligned compliance tools, and coordinating peer learning. They also serve as connectors to capital, public programs, aligned vendors, and solidarity economy networks, functioning not just as service providers but as ecosystem builders who create the conditions for cooperative franchising to take root and scale.

A 501(c)(3) tax-exempt nonprofit entity may also play a structural role in the franchise system by serving as the franchisor. This structure can help unlock philanthropic capital to cover early-stage formation costs, such as legal fees, disclosure documents, and system-wide trainings, that might otherwise be prohibitive. The nonprofit's involvement thus lowers barriers to entry for low-income and immigrant worker-owners while supporting the infrastructure needed for cooperative growth. To align with cooperative values, the nonprofit's board should include representatives from the franchisee cooperatives, providing a formal channel for worker input. However, because the nonprofit must avoid private inurement and preserve its charitable purpose, the board must also include disinterested directors, individuals who do not have a financial stake in any franchisee entity, to oversee decisions that could affect cooperative members' economic interests. The nonprofit must ensure that transactions between the franchisor and franchisee co-ops are conducted at arm's length, and that its benefits are directed toward a broader charitable class rather than limited to a closed group of insiders. These governance safeguards are critical to maintaining tax-exempt status while embedding democratic accountability within the franchise system.

276. *See generally* Hempel & Krishna, *supra* note 13.

277. *See* Emma Yorra, *Scaling Social Justice: A Latinx Immigrant Worker Co-op Franchise Model*, NONPROFIT Q. (February 14, 2019), https://nonprofitquarterly.org/scaling-social-justice-a-latinx-immigrant-worker-co-op-franchise-model/ [https://perma.cc/7B8V-ZHC5]; Bautista & Krishna, *supra* note 270, at 43–47.

278. Duchene, *supra* note 87 (quoting Nicole Marcote).

As nonprofit intermediaries take on structural roles within cooperative franchise systems, particularly as franchisors, they can also help address a broader market failure that limits cooperative growth. Peter Molk has analyzed why cooperatives remain relatively rare in the U.S. economy, despite their well-documented benefits.[279] He argues that cooperatives generate public goods, such as higher wages, local wealth retention, and democratic governance, that markets tend to underproduce because their benefits are not easily monetized or captured by private investors.[280] From this perspective, nonprofit franchisors function as subsidy vehicles, leveraging philanthropic capital to fill the investment gap and enable cooperative formation at scale. These subsidies are not merely charitable; they reflect the structural supports required to sustain democratically owned enterprises that serve broader social functions but fall outside traditional capital incentives.

Even as nonprofits expand the reach of cooperative models, their involvement can generate political and cultural tensions, especially around power, expertise, and control. The professionalization and institutionalization of cooperative development through nonprofits can reinforce hierarchical dynamics, particularly in the early stages when cooperative members may lack experience in budgeting, compliance, or strategic planning.[281] Nonprofit administrators, funders, and lawyers may dominate decision-making in ways that unintentionally marginalize the very worker-owners the model aims to empower.

These concerns echo broader critiques of the nonprofit industrial complex, in which the influence of external funders, rather than the nonprofit developers themselves, can shape priorities and decision-making.[282] Because nonprofits depend on philanthropic capital to sustain their operations, they may find themselves accountable more to funders than to the worker-owners or communities they support. In the name of capacity-building, compliance, or measurable outcomes, funders may impose expectations that privilege technical efficiency over participatory democracy. These pressures can be particularly acute when nonprofits take on franchisor roles, which inherently involve standardization and control. In such cases, funding requirements may reinforce centralized branding, data-driven performance benchmarks, and other managerial logics that conflict with cooperative values. Grant cycles and reporting frameworks may even dictate which goals, narratives, and strategies are considered fundable, undermining the democratic and emancipatory potential of the model.

279. Molk, *supra* note 94. at 917.

280. *Id.* at 903.

281. *See* Alvarez, *supra* note 78, at 376.

282. *See* Andrea Smith, *Introduction* to THE REVOLUTION WILL NOT BE FUNDED 1, 8–9 (Incite! Women of Color Against Violence ed., 2007); Michael Haber, *When the Executive Accidentally Supported the Movement: Participatory Democracy and the Rise of the Non-Profit Industrial Complex*, 15 COLUM. J. RACE & L. 1285, 1309–13 (2025).

To mitigate these risks, WCF systems must build governance mechanisms that embed worker voices at every level. Co-governance strategies, such as advisory committees composed of franchisee representatives, designated board seats for worker-owners, and participatory system-wide decision-making processes, help rebalance power and ensure that system evolution reflects member input. For example, the Brightly system includes an industry committee of cooperative franchisees that advises the nonprofit franchisor and participates in shaping policy. These structures are essential not only for legitimacy, but for cultivating the leadership and institutional memory necessary for long-term worker control.

Further, the nonprofit franchisor need not be a permanent feature. The long-term goal may be to evolve into a secondary cooperative owned and governed by the network of worker cooperative franchisees.[283] This phased approach echoes broader principles of the solidarity economy, where infrastructure is designed to be ultimately controlled by the people most affected. Transition planning can include shared benchmarks for governance transfer, member education programs, and revenue models that enable financial independence from philanthropic support.

In this sense, nonprofit intermediaries can function as scaffolding: necessary and stabilizing in the early stages but meant to give way as worker capacity and collective infrastructure mature. Their legitimacy depends not just on effectiveness, but on fidelity to the broader political project of worker control, economic justice, and community self-determination. When nonprofit developers act with this long arc in mind, they not only make cooperative franchising possible, but they also help lay the foundation for a solidarity economy rooted in ownership, dignity, and democracy.

C. Scaling Worker Cooperatives to Advance the Solidarity Economy

The WCF model addresses a fundamental challenge within the solidarity economy movement: how to scale democratic enterprises beyond isolated examples without compromising the values of cooperation, mutual aid, and community control that define the movement.[284] Unlike commercial franchise systems designed primarily to maximize returns for corporate franchisors, WCF systems

---

283. Care must be taken in designing this transition, as both IRS regulations and state nonprofit laws impose restrictions on how 501(c)(3) assets may be transferred or repurposed. The nonprofit must ensure compliance with private benefit and private inurement prohibitions under federal tax law and may be required to demonstrate that any transfer of control or assets serves a continuing charitable purpose or occurs at fair market value. *See* Erin Bradrick, *The Sale of Charitable Assets to a For-Profit to Further Exempt Purposes: The Legal Considerations*, 29 TAX'N EXEMPTS, Mar.–Apr. 2018, at 34–41. In many states, additional approval from the attorney general or a state charity regulator may be required for asset transfers or structural changes. *See id.* These constraints make it legally and operationally complex to shift a tax-exempt nonprofit franchisor into a secondary cooperative that does not itself qualify for tax-exempt status.

284. *See* Rodrigues & Schneider, *supra* note 37, at 31.

operate with the fundamentally different objective of subordinating capital to democratic and cooperative aims. This distinction in purpose transforms how franchise relationships function and positions these networks as strategic tools for advancing broader solidarity economy transformation.

The goals of the first worker-cooperative franchise system in the United States exemplify this alternative approach, seeking to upend obstacles to entrepreneurship for workers facing exploitative working conditions while accelerating market access and cooperative development.[285] Rather than relying on firm-level growth or conventional expansion strategies, the model advances scale by extending shared infrastructure and coordinated support across multiple worker-owned enterprises. The franchise model demonstrates how existing business forms can be repurposed to serve solidarity economy objectives, transforming tools typically associated with capital concentration into mechanisms for wealth redistribution and democratic empowerment.

A WCF system generates several distinct advantages while advancing broader solidarity economy goals. It creates a scalable model that enhances the prospects for worker ownership success in low-income communities, reduces the financial risks associated with cooperative start-up, and builds strong networks of cooperatives that gain operational efficiencies while maintaining their character as locally-owned small businesses.[286] The franchise structure addresses the time, cost, and risk barriers that typically constrain cooperative development by providing new cooperative franchisees access to established brands, marketing strategies and materials, training programs, and technological infrastructure such as online scheduling and payment systems that would be prohibitively expensive to develop independently.[287] The model also demonstrates potential for long-term sustainability by creating revenue streams that support ongoing cooperative development without compromising democratic principles.

The economies of scale achievable through cooperative franchise networks enable solidarity economy enterprises to compete with extractive corporate alternatives while directing benefits toward worker-owners rather than external shareholders.[288] Fixed costs spread across multiple cooperative locations enable bulk purchasing arrangements that reduce input costs for individual businesses.[289] Shared back-office services, including customer service, accounting, and technology support, lower operational expenses for each cooperative while creating specialized positions that can provide career advancement opportunities within the network.[290] These efficiencies not only improve performance and sustainability,

285. McKinley, *supra* note 13.
286. Yorra, *supra* note 277.
287. *See* Jimenez, *supra* note 86.
288. Yorra, *supra* note 277.
289. *Id.*
290. *Id.*

they challenge the narrative that democratic enterprises must trade effectiveness for values.

Cooperative franchise networks also serve as organizing platforms for advancing systemic change. Beyond individual business benefits, cooperative franchise networks create platforms for advancing broader solidarity economy transformation through coordinated action and shared infrastructure. Networks of cooperative franchises can leverage their collective presence to advocate for policy changes that support cooperative development, challenge exploitative labor practices in their industries, and demonstrate the viability of democratic enterprise at scale. This collective capacity for movement building distinguishes cooperative franchises from isolated cooperative development efforts and enables them to function as vehicles for broader economic and political change.[291] As one Brightly worker-owner observed, the franchise model offers hope for building something "like a great union, being part of a movement. …I want for us to have a voice."[292] This vision reflects the model's potential to create alternative economic relationships that challenge dominant patterns of wealth concentration and workplace hierarchy.

CONCLUSION

The solidarity economy demands not only new practices but new frameworks for scaling justice. As this Article has argued, conventional approaches to business growth, especially in the franchise sector, have prioritized capital accumulation at the expense of equity, worker voice, and community well-being. Yet the infrastructure of franchising need not be abandoned; it can be transformed. The WCF model reclaims legal and operational tools of expansion and repurposes them toward democratic ends, offering a compelling strategy for building power at the margins without compromising values at the core.

The WCF model addresses a fundamental challenge within the solidarity economy movement: how to scale democratic enterprises beyond isolated examples without compromising the values of cooperation, mutual aid, and community control that define the movement. Unlike commercial franchise systems designed primarily to maximize returns for corporate franchisors, WCF systems operate with fundamentally different objectives where capital serves cooperative mission rather than directing it. This distinction in purpose transforms how franchise relationships function and positions these networks as strategic tools for advancing broader solidarity economy transformation.

This approach is especially timely in sectors like home health care, where the impending "silver tsunami" of aging baby boomers is projected to drive

291. *Id.*
292. *Id.* (quoting Araceli Dominguez).

unprecedented demand for long-term care and support services.[293] Worker cooperatives in this field have already demonstrated their capacity to improve job quality, reduce turnover, and enhance care outcomes by aligning business operations with the needs and values of caregivers.[294] These successes suggest that scaling cooperative franchise models in the care economy is not only feasible but urgently necessary to meet rising demand with a stable, skilled, and respected workforce.

While this Article focuses on worker-owned cooperatives, the franchise approach explored here holds promise beyond the realm of labor. Indeed, closely related institutional architectures already exist within other domains of the solidarity economy. In the community land trust (CLT) context, scholars have documented the emergence of a "central server" or portfolio model, in which a centralized CLT performs key back-end, governance, and technical functions on behalf of multiple local cooperatives or housing entities, enabling replication and scale without sacrificing community control.[295] The worker cooperative franchise model reflects a broader institutional logic within the solidarity economy: that democratic, values-aligned enterprises can scale through shared infrastructure, standardized legal systems, and collective governance without sacrificing local control.

To meet the overlapping crises of inequality, precarity, and extraction, we need economic models capable of growing without replicating the harms of the systems they seek to replace. The WCF model does not offer a universal fix, but it does offer a tangible, tested alternative that honors both scale and self-governance. In doing so, it prefigures an economy rooted in solidarity, equity, and democratic control. Its emergence signals a shift: from asking whether cooperatives can scale to how we design institutions that scale solidarity itself.

---

293. *See* Deborah Wince-Smith, *Bracing for the Silver Tsunami*, FORBES (Feb. 25, 2022), https://www.forbes.com/sites/deborahwince-smith/2022/02/25/bracing-for-the-silver-tsunami/ [https://perma.cc/EHK7-4F8R] (projecting that by 2030, there will be close to one billion people worldwide that are 65 or older and will grow to more than 1.5 billion by 2050); *see also* Julie C. Cortes, *Riding the Silver Tsunami in Pursuit of Economic Democracy: Economic Inequality, Baby Boomers, and Worker Cooperatives*, 32 GEO. J. ON POVERTY L. & POL'Y 205, 242–45 (2025) (describing the projected increase in demand for care labor driven by an aging population).

294. *See supra* notes 11–12 and accompanying text.

295. *See* Jason S. Spicer, Lindsay Stephens, & Anna Kramer, *Oranges Are Not the Only Fruit: The Publicly Owned Variety of Community Land Trust*, 44 J. PLAN. EDUC. & RSCH. 1775, 1780–81 (2022) (explaining how this model allows local, place-based housing cooperatives operating on CLT land to overcome high entry costs, technical complexity, and capacity constraints by relying on a shared institutional infrastructure, while preserving resident participation and long-term affordability).