

THE ECONOMIC PERFORMANCE OF SELF-MANAGED FIRMS

A comparative perspective

Introduction

by

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1. The New Wave of Workers' Cooperatives

In the last ten years most European and North American countries have seen a remarkable development in enterprises whose ownership and management are either completely or partially in the hands of their workers. Usually these firms are cooperatives, and although in certain countries many of these initiatives take other legal forms they remain, in general, descendants of the Rochdalian tradition. ()

It seems certain that unfavorable economic conditions play a determinant role in the present cooperative wave, just as they were preponderant during the first one hundred years of cooperation, when cooperative distribution development was most active. Effectively, during the 19th and early 20th centuries, it was the exploitation of the working class and the weakness of its purchasing power which mandated, as instruments in the struggle for subsistence, the development of a multitude of consumer cooperatives.

Today, the current economic recession has an effect on purchasing power, but its greatest impact is the loss of millions of jobs. Thus it seems logical that the cooperative movement has gained a new vitality in one of the branches which has long been considered as secondary: workers' cooperatives. By creating new firms, saving failing enterprises from bankruptcy, or buying healthy firms without a successor, workers aim at, above all, creating or saving their jobs.

() In certain countries such as Italy, France and Spain, a special legal status has been established for workers' cooperatives. Elsewhere, for example in Germany, Holland, and Belgium, the only legal structure is a very general one, established primarily for consumer cooperatives. This structure is not very suitable for workers' cooperatives, which then may prefer other legal forms. Finally, it is sometimes possible for capitalist enterprises to transform themselves into workers' enterprises without changing their legal status, by using certain legal dispositions which favor this mutation.

Although it is difficult to isolate this phenomenon with precision, notably because the legal contexts are so varied, a general idea may be formed, especially for those countries in which organizations group workers' cooperatives. Although using approximate data, the following table shows that in 1985 those federations which are members of the European Committee of Workers' Cooperative Productive Societies (CECOP) made up around 11.700 firms, employing around 352 000 workers. If we add those cooperatives, particularly numerous in Italy, belonging to no federal organization, as well as those which are affiliated with non-CECOP organizations, we reach a probable figure of more than 32 000 firms and over 800 000 jobs.

2. Workers' Cooperatives and Capitalist Firms

The development of workers' cooperatives can be seen as an experiment in new forms of work organization and a step towards economic democracy. Another point of view is that entrepreneurial spirit is being rediscovered and these new-born cooperatives are simply the collective expression of new entrepreneurs. Finally, some posit that this is a very temporary interim solution, resulting from the throes of economic crisis in capitalist society, and which will disappear as soon as the crisis has passed.

Although very divergent, these interpretations are not mutually exclusive. On the contrary, they express the dynamics found, obviously to different degrees, in the multiple realities of the neo-cooperative movement. ⁽²⁾ In other words, the creative originality of these solutions must be recognized, but at the same time the question of their survival in a capitalist environment that might eliminate them as foreign bodies must be posed. Are workers' enterprises capable of mobilizing financial resources and investing at the same rhythm as their competitors? Must the workers then exploit themselves and receive salaries at much lower levels than the industry standard? To what extent can business risks be assumed by the labor factor, since workers can not diversify their jobs as can a stockholder his investment portfolio?

Identifying these challenges highlights a fundamental question: what can be the economic performance of workers' cooperatives compared with capitalist enterprises? The six articles which constitute this volume each attempt to address facets of this question, both from theoretical and empirical viewpoints.

3. Theoretical Contributions

To a large extent, the economic theory of self-management developed in the last fifteen years consists of building models of the

⁽²⁾ On this subject, see, for example, Defourny (1983 a and 1983 b).

TABLEAU 1
Workers' cooperatives of E.E.C. countries in 1985⁽¹⁾

| | National totals | | CECOP Members | | Federations ⁽²⁾ |
|----------------|-----------------|-----------|---------------|-----------------------------------|----------------------------|
| | Cooperatives | Workers | Cooperatives | Workers | |
| Belgium | 250 | 2,000 | 60 | 800 | SAW |
| Denmark | 1,100 | 48,000 | 300 | 1,500 | SAPA |
| France | 1,400 | 38,000 | 1,300 | 37,000 | CGSCOP |
| Ireland | 100 | (500) | 60 | 300 | ICOS |
| Italy | 19,000 | (450,000) | 2,800 | 137,000 | Legga ANCPPL |
| | | | 2,800 | 112,000 | FEDERLAVORO |
| Netherlands | | | 1,000 | | AGCI |
| Portugal | 250 | 4,500 | 460 | -- | FNCSTI |
| | 400 | 20,000 | 60 | 2,000 | ABC |
| Spain | 8,800 | 243,000 | 270 | 10,500 | FINCOOP |
| United Kingdom | 1,200 | 7,000 | 100 | 8,000 | FECOOPSERV |
| | | | 320 | 9,200 | FCTAC |
| | | | 1,090 | 28,000 | FVCTA |
| | | | 1,000 | 5,500 | ICOM |
| | | | 80 | 600 | SCDC |
| Total | 32,500 | 813,000 | 11,700 | 352,400 (without AGCI and FNCSTI) | |

⁽¹⁾ This table was constructed with the help of R. Schluter and the CECOP. All figures are approximations, sometimes quite rough, especially for those in parentheses. No estimations were made for Germany or Greece.

⁽²⁾ SAW: Solidarité des Alternatives Wallonnes

SAPA: Sammenslutningen af Produktionskollektiver og Arbejdstælleflkaber

FCTCA: Federació de Cooperatives de Treball Associat de Catalunya

FVCTA: Federació Valenciana de Cooperatives de Treball Associat

CGSCOP: Confédération Générale des Sociétés Coopératives Ouvrières de Production

ICOS: Irish Cooperative Organisation Society Ltd

ANCPPL: Associazione Nazionale delle Cooperative di Produzione e Lavoro

FEDERLAVORO: Federazione Nazionale delle Cooperative di Produzione e Lavoro

AGCI: Associazione Generale Cooperative Italiane

FNCSTI: Federazione Nazionale delle Cooperative dei Servizi e Trasporti

ABC: Associatie van Bedrijven op Coöperatieve Grondslag

FINCOOP: Federação Nacional das Cooperativas de Produção Operaria

FECOOPSERV: Federação Nacional das Cooperativas de Serviços

ICOM: Industrial Common Ownership Movement

SCDC: Scottish Cooperatives Development Committee.

self-managed enterprise and to examine its functioning in comparison with a capitalist firm. Two issues which have received the most attention are the «perverse behavior» of this self-managed enterprise in the short run, as demonstrated by Ward (1958), and its tendency to under-invest as first shown by Pejovich (1969), and further elaborated by Furubotn and Pejovich (e.g. 1970), as well as by Vanek (1971) in his theory of financing. ⁽⁵⁾

M. Uvalic develops here the second issue with a critical analysis of the assumptions and methodology of these last authors. Among other things, she notes that several subjects central to the theories of under-investment are treated simplistically by transposing in the analysis of a labor-managed firm a number of typically capitalist criteria. For instance, collective property is seen only as the negation of individual property rights, without any positive specificity. By allying a solid theoretical examination and multiple insights on production cooperative practices, Uvalic proposes an alternative analysis and concludes that under-investment is far from being an ineluctable result of the labor-managed enterprise compared with its capitalist counterpart.

D.M. Nuti, on the other hand, concentrates on a macroeconomic level. He starts with one of the «perverse» results obtained by Ward (1958) for an economy or a sector where a large part of the firms would be labor-managed and would maximize their net average income per worker: contrary to a capitalist economy, such a group of enterprises would, according to neo-classical economic theory, show a short-run disequilibrium in labor deployment. Each production unit would tend to increase employment until the marginal labor productivity equals the net average income per worker which, in the short run, may vary from one enterprise to another. This is why Nuti tries to assess the maximum order of magnitude of this inefficiency through wage differentials across firms, which are due to poor allocation of labor.

Another source of difficulties for the labor-managed firm resides, as we have seen, in risk-bearing. In particular, N. Zafiris points out the need to insure its creditors against business risks. But labor, as the entrepreneurial factor, can not be mortgaged as can capital in a traditional firm, although workers, he argues, already bear a part of the risk in any enterprise: they may lose their jobs as a result of adjustment of the firm to a smaller, more viable, size. However, this is very insufficient in a labor-managed enterprise, especially if the workers contribute no capital. In this case, according to Zafiris, the workers can only attract capital and convince their creditors by accentuating the residual nature of their own revenues and by renouncing the usual wage practice of cooperatives, i.e. the establishment of a fixed minimum salary, to which a variable surplus share is added.

⁽⁵⁾ On this first subject, see the excellent survey by Bonin and Puterman (1985): the second subject is covered, for example, by Defourny (1983 c).

4. Empirical Contributions

The economic performance of labor-managed enterprises has, as yet, not been widely analyzed from an empirical point of view. Econometric techniques have been used to test the putative links between productivity and worker participation in management, ownership, and profits. ⁽⁵⁾ But from a truly comparative perspective, the work accomplished until now is still in an embryonic stage. The reasons for this are diverse: the low number of enterprises studied and/or variables considered, high sectoral aggregation, and the lack of homogeneity between the data concerning labor-managed and capitalist firms. ⁽⁷⁾

These difficulties can also be found in the following comparisons provided by K. Jefferis and A. Thomas as well as by S. Jansson. Nevertheless, these two articles contribute numerous elements toward an estimation of survival chances for young labor-managed enterprises in comparison with their capitalist counterparts. The article by Jefferis and Thomas, moreover, proposes some criteria for evaluating the performance of a cooperative enterprise in comparison with a traditional one.

These two last authors demonstrate a wide knowledge in the field, and base their analysis on very detailed case studies carried out by the Cooperative Research Unit for a score of new workers' cooperatives in the United Kingdom. They can thus draw a number of very distinct profiles to which correspond different survival probabilities. On the basis of their experience, they also criticize the application of neo-classical economic theory to labor-managed firms, and reach the same conclusion as Uvalic concerning the theory of self-financing developed by Vanek (1971).

The Swedish experiences in worker ownership through «wage earners' funds» are well known. But there are also in this country firms directly owned by the workers, and S. Jansson looks at around a hundred functioning in industry. Generally of small size and created by the transformation of classical enterprises plagued by bankruptcy, succession or restructuration problems, many of them have proved viable and profitable. Jansson compares their return on capital with the average return of other enterprises in the same sectors, and globally he does not find significant differences.

⁽⁵⁾ See the survey by Estrin, Jones, and Svejnar (1984).

⁽⁷⁾ We can cite Thomas and Logan (1980) for Mondragon in Spain; Zevi (1982) for Italian producer cooperatives; Melman (1975) for kibbutzim in Israel; Espinosa and Zimbalist (1978) for social-property enterprises in Argentina; Jones and Backus (1977) for English producer cooperatives of the first wave; Bellas (1972), Jones (1979), Conte and Tannenbaum (1978), Rosen and Klein (1983) for the different types of workers' enterprises in the United States. Levin (1982) reviews the problems posed by these comparative studies.

The comparative perspective is reinforced by J. Defourny who draws the parallel between cooperative and traditional enterprises through a financial analysis in the building and printing sectors of France. The utility of this analysis resides above all in the quality and quantity of data gathered both on the cooperative and traditional sides. Among other things, the author demonstrates a sort of threshold, related to a minimum dimension of the enterprise, above which cooperatives reveal higher performances than their capitalist counterparts. He tends also to confirm the findings of Jefferis and Thomas, who underline the difficulties that small cooperatives undergo in the first years of their existence.

Notwithstanding, many more theoretical and empirical developments are necessary to fully appreciate the relative performance of labor-managed firms. For this future research, multiple orientations have been suggested during the Fourth International Conference on the Economics of Self-Management held in Liège in July 1985. At the end of the volume, J. Defourny and H. Thomas report about this conference during which preliminary versions of the papers contained herein were presented.

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