

Worker Cooperatives in an Alien World

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Background

I have worked at the Open University for a number of years. First with a small research unit which has been involved in doing research on cooperatives particularly worker cooperatives. A few years ago I moved faculties within the University to the School of Management where I have been involved in setting up a management programme for people working in what we call voluntary and non-profit organisations, or what is sometimes called the social economy. So my interests have broadened out slightly but I still think that the ideas I have been working with are very much relevant to cooperatives.

The title of my presentation is about cooperatives in an alien world and I think that perhaps the world is even more alien for worker cooperatives. It is actually a more difficult world to survive in. What I want to argue is, because of this there are various barriers both to the formation of worker cooperatives and to their development. If you are hoping to be successful at developing cooperatives then I think you need to understand what those barriers are. So I will talk about some of the barriers both to formation and development and then go on to say briefly what are some of the things that can be done to overcome them. Certainly I don't pretend to have all the answers but I can at least suggest a broad framework.

To start with, I will briefly introduce the worker cooperative sector in the United Kingdom. Worker cooperatives historically have tended to come in waves. The most recent wave in the United

Kingdom really started to take off in the late 1960's and early 1970's. We need not dwell too much on this but we have mapped this sort of growth in the formation of cooperatives over that kind of time frame. By the mid 1970's there were about a 100 worker cooperatives. The number then peaked by about 1988 to 1400 worker cooperatives. This number has now declined slightly and I might suggest later on why it has declined.

Cooperative Types

The worker cooperative sector is not a homogeneous one. People have set them up for a variety of reasons and it is possible to distinguish a number of different types. There is one type which we have called 'endowed' cooperatives - cooperatives which were handed over by their owners. These were viable enterprises whose owner, for their own kind of value reasons, decided to give the firm to the work force. We had a number of successful cooperatives of this type of which Scott Bader in the United Kingdom is one of the longest established, and one of the most successful. During the 1960's and 1970's we also had a number of cooperatives that came out of what you might call the youth movement. Young people were motivated to try to find a better way of working. They were also motivated by issues like the environment and they tended to go into sectors providing alternative goods and services such as foods, or perhaps into alternative technology like solar panels and similar things. We have called these 'alternative' cooperatives.

Particularly during the early 1980's, we also had very large scale unemployment, a rapid increase in unemployment, and we had a number of local authorities - local governments - who were concerned with these problems. They tried to encourage the formation of cooperatives to create or to save jobs and it was partly through those initiatives that we got local cooperative

support organisations formed to help people set up cooperatives. So during the 1980's there was a growth of 'job creation' cooperatives in these areas. Often they were in areas like clothing and engineering which had been very badly hit by the recession with thousands of workers made redundant.

There were also some cooperatives that were set up which we have called 'rescues', where you had a firm that ran into trouble and a cooperative was formed to save the firm. In the United Kingdom we had a number of well publicised rescue cooperatives which eventually failed and actually got rather a bad name. If a small business fails, nobody notices but if a cooperative fails everybody notices, it hits the media, so quite often you get a kind of distorted image about the viability and the failure rates of cooperatives. Certainly if you look at the Italian experience there have been many viable cooperatives set up in similar rescue situations. Also increasingly in the United Kingdom, where people learned the lessons, we have also had some successful rescues, but you hear less about the successes and more about the failures.

Recently we have also had a number of - for want of a better name - I will call 'social' cooperatives. These are not always worker cooperatives but they are cooperatives that are formed as a response to some particular kind of social problem or need. For example, you might have some people that have suffered mental illness and you have groups coming together to try and form jobs to help that particular group of people. We have had one or two notable success stories in this area. Cooperatives are also being formed where the state is not providing a service or is withdrawing from a service. Hence, nursery education has been one area where there has been a growth of cooperatives. That has been particularly true in Canada or Sweden, but also you can begin to see some examples in the United Kingdom. They are not always worker

cooperatives, they are sometimes parents and workers getting together to form a hybrid type of cooperative. Also with the contracting out of Government services or privatisation one can begin to see cooperatives, forming to take on those services. This is not widespread in the United Kingdom yet but there have been some examples, and it is a potential area of growth in the future. One area is bus transport where bus companies have been privatised - and there have been some examples of cooperatives being set up. These have not always been set up as pure cooperatives but sometimes as employee share ownership type enterprises. The kind of structure you adopt needs to be sensitive to the particular problems or issues that the cooperative faces. And so, I would not say that you should only have pure worker cooperatives, but I think you need different forms of employee ownership depending upon the particular problems and circumstances that the organisations face. But at the same time I think that there also have to be safeguards so that these organisations do not just degenerate back into capitalist firms.

As the economic and political climate changes, the conditions change and this does have an impact on cooperatives. As we saw the numbers of worker cooperatives are beginning to decrease in the United Kingdom and I think that is partly because there has been a withdrawal of support for local cooperative support organisations. And also the cultural climate has changed so that the alternative cooperatives that we saw being formed in the 1970s and 1980s are not being formed so often now. That is the sort of negative side but there are also perhaps more positive reasons. Cooperative support organisations now are often targeting rescues or existing cooperative organisations where there may be greater potential to create more job than when starting cooperatives from scratch. So although the number of cooperatives has declined in the U.K. the number of jobs has still continued to grow. I think

that is because you have got some cooperatives growing and you have larger cooperatives being created.

Evaluating Cooperative Performance

Somebody mentioned that the performance of worker cooperatives was not encouraging. I would actually disagree on this. We have actually done research looking at the failure rate of worker cooperatives in the United Kingdom and comparing this with small businesses. Although it is difficult to make the comparison, our research suggested that the failure rate of most worker cooperatives was no worse than that for small business. In fact there is even some evidence to suggest that it may be better.

Barriers to Formation

So why are there not many worker cooperatives? A lot of people used to argue that it was because they performed badly. I do not agree with them. I think you have to look for other reasons if you want to understand why we do not have so many worker cooperatives. I think there are various barriers both to formation and to growth and it is those barriers that limit or constrain the number of worker cooperatives. The first thing I want to look at is barriers to formation because I would argue that the main reason why we do not have lots and lots of cooperatives is not because they failed but because they are just not set up in the first place. Various people have put forward arguments about why so few cooperatives have been set up. One argument is just lack of knowledge, people do not know about cooperatives. A lot of people have also talked about finance and financial constraints. Now I would agree that this is a problem, and I want to talk more about it later on, but equally I do not think you can just blame financial constraints because many small businesses start off on a

shoe string. They find it very difficult persuading the bank to give them money - so yes, finance is a problem but it certainly is not the only reason, you cannot just blame finance. We also have a problem of lack of legitimacy and discrimination. I think that this is a problem because many people have not heard about cooperatives or have only heard about the failures. The banks may be a bit more suspicious because they do not know what the organisation is like, or they do not know who is in charge. So there is some discrimination, some lack of legitimacy; but again I think there is a danger of overstating it. For me the key issue is what I call the entrepreneurial problem: Not enough people want to form cooperatives in comparison to other forms of business. In order to understand this we have to look at what motivates people to form a business.

Now in our culture the main driving force in setting up a business is very much material incentives. If you think about incentives you can divide them up very broadly into three types. There are material incentives like money and psychological ones such as being in control and doing your own thing. Traditionally these are the incentives that have driven business people. It is not necessarily money. A lot of small business people just want to be independent, they want to do their own thing but the only trouble with that is that they do not necessarily want to share control with other people. But of course there are different sources of motivation. There are what we might call purposive incentives, a belief in doing something different, a belief in doing something for society. There are also social motivations to do with solidarity, working together, group motives if you like. I think that in order to set up cooperatives you need to have people who give high priorities to these purposive incentives and values of solidarity. I think that what you have to do is look in places where you might find these people; perhaps look for links with other kinds of groups or movements that share those sorts of values.

To summarise, this analysis begins to explain why the formation rate of cooperatives is relatively low and why it tends to rise at certain times. Cooperatives are more likely to be formed when there is a particular pressing social need that people are responding to such as unemployment or something similar.

I referred earlier to barriers to formation. If you look at worker cooperative sectors in other countries, apart from perhaps possibly Mondragon, you find very few, very large worker cooperatives and the largest are what you normally call medium sized firms. You could argue on statistical grounds that because there are so few cooperatives this is what you would expect. But I tend to think that there are still other barriers which make the growth and development of cooperatives somewhat more difficult than that experienced by private firms. One set of barriers, as we have mentioned already, are the financial problems, the financial constraints. Many private firms grow by raising money through issuing shares, whereas that option is not open to worker cooperatives and so a vital source of finance is not there unless some other kind of arrangement is put into place.

There is also a problem of recruiting and retaining appropriate managerial and specialist staff. If the cooperative sector is small then you have not got a cooperative labour market where people can move around between cooperatives. Cooperatives often have to recruit people from the private sector and these people may come along and say "I really want to work in a cooperative, I really believe in these things". However, when they get there they seem to bring with them the old routines, the old ways of working. So even though in principle they might want to work cooperatively they often find it quite difficult because they are not used to working in a cooperative environment.

There are also problems related to the status of cooperatives in the economy. The capitalist economy is well established now and so any kind of small cooperative is going to have to work within a system that is already established. If you look at many small businesses they are either in a niche markets or they are in markets where they are dependent on other larger firms. There are some private firms that remain independent grow very well, but often the way that firms grow is by being taken over by other large and already established firms who then inject capital into those organisations. And of course if you do not have a well established cooperative sector it is also much more difficult for cooperatives to take over those firms. Also there are the problems of absorbing a private firm into a cooperative. Cooperatives may also remain small because there are weaker incentives to grow: If you want to maintain your democracy then it is perhaps easier to be democratic if you are not too large. Also the profit motive is less powerful and that may reduce the incentive to grow. Finally, there are problems of legitimacy and discrimination.

I am not sure how important each of these factors are, but together I think they do help to explain why we get very few large worker cooperatives. It also suggests to me that if you want a large cooperative sector you have got to have alternative strategies for growth. You cannot just rely on the traditional strategies.

Because of problems of motivation I think it is important to try to forge links with movements or organisations that share similar values. I do not know too much about the Italian experience but it seems to be relevant to note that there you have a strong integrated cooperative sector, with a good relationship between the different parts of the cooperative movement; whereas in the United Kingdom agricultural cooperatives, consumer cooperatives, and worker cooperatives tend to be rather independent and suspicious

of each other. So it is advisable to create an environment where there is more interdependence and more support.

If you take the Mondragon example, again you have a set of common values and goals that help unite the cooperatives and promote the idea. You also have a common support structure. I have already talked about the need to develop some kind of support structure for cooperatives and these are some of the different sort of functions that you can have: advice, technical support, training and management courses for people working in cooperatives, financial support and then also advocacy, trying to make sure that the legislation that the government passes is conducive and favourable.

Of course, one practical outcome of the more successful cooperatives and one which can help reproduce a climate conducive to cooperation is to spin-off new cooperative ventures. Scott Bader for instance has certainly helped set up and has spun off new cooperatives. Another thing that might be thought about in the longer term is whether it is possible to institutionalise the entrepreneurial process. In Mondragon, the cooperative members do not set up hundreds of little cooperatives; but what they do is they get an entrepreneurial group and then they have the support from the bank to really develop the idea. They do not just go into small scale labour intensive industries, they have the support and backing of research and development to look for significant enterprises. So in Mondragon they have actually institutionalised the entrepreneurial process; but of course to do that you need a very developed support structure. So the difficulty when you are starting from scratch, is how to develop a support structure capable of doing these things.

Finally we have perhaps the need for new financial structures. Maybe we need to establish cooperative loan funds for collateral purposes or perhaps even a cooperative bank as has been established in Mondragon. The other option, of course, is the employee share ownership model, mentioned earlier, which perhaps is not a full cooperative; nevertheless, you have some employee shareholding which generates precious funding from within the organisation.

However I think employee share ownership plans are not a panacea. I think that particularly in the United States they have often been used for other purposes. But on the other hand, I think that one has to recognise that there are financial problems and financial constraints on cooperatives so I do not think that one should completely discount employee share ownership. I do think one ought to look for safeguards which try to safeguard the workers' interests and perhaps put constraints on the ability to sell shares and other things. A situation may arise where the ESOP owns the shares of the workers in trust so they are not tradable like other shares. So I think that with imaginative thinking there may be ways of making sure that one has some very democratic ESOPs.

On the Fringe

Are cooperatives doomed to remain on the fringe? That is a difficult question to answer. I think I have suggested various strategies or support structures that could help to avoid that but obviously to do so you need resources and an environment that is conducive. So I think perhaps you have to look to political parties and governments that share some of the values or interests. You have to look at the stronger parts of the cooperative movement, trade unions or other people to try to support those kinds of initiatives. But this is not easy; the probability of such a development is perhaps very remote indeed.